FORTISALBERTA INC.

Unaudited Condensed Interim Financial Statements
For the three and six months ended June 30, 2018

FORTISALBERTA INC.

CONDENSED INTERIM BALANCE SHEETS (UNAUDITED)

As at (all amounts in thousands of Canadian dollars)	June 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ -	$ 78,802
Restricted cash	3,933	3,933
Accounts receivable	148,863	137,608
Prepaids and deposits	5,418	3,974
Income tax receivable	1,545	-
Regulatory assets (note 3)	37,692	1,054
Total current assets	197,451	225,371
Regulatory assets (note 3)	419,404	391,393
Property, plant and equipment, net	3,627,118	3,535,021
Intangible assets, net	72,506	68,711
Other assets	1,759	1,767
Goodwill	226,968	226,968
Total Assets	$ 4,545,206	$ 4,449,231
Liabilities and Shareholder's Equity		
Current liabilities		
Short-term borrowings	$ 152,461	$ 50,000
Accounts payable and other current liabilities	197,940	272,954
Income tax payable	-	241
Regulatory liabilities (note 3)	30,611	47,871
Total current liabilities	381,012	371,066
Other liabilities	17,046	18,080
Regulatory liabilities (note 3)	411,724	398,113
Deferred income tax	307,633	283,648
Long-term debt	2,018,420	2,018,363
Total Liabilities	3,135,835	3,089,270
Commitments and contingencies (note 9)		
Shareholder's Equity		
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (December 31, 2017 - 63)	173,848	173,848
Additional paid-in capital	744,896	719,896
Accumulated other comprehensive loss	(72)	(190)
Retained earnings	490,699	466,407
Total Shareholder's Equity	1,409,371	1,359,961
Total Liabilities and Shareholder's Equity	$ 4,545,206	$ 4,449,231

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

FORTISALBERTA INC.

CONDENSED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

(all amounts in thousands of Canadian dollars)	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Revenues (note 5)				
Electric rate revenue	$ 150,305	$ 145,235	$ 298,129	$ 288,687
Alternative revenue	20	-	835	-
Other revenue	3,891	3,426	7,342	6,877
Total Revenues	154,216	148,661	306,306	295,564
Expenses				
Cost of sales	49,394	47,758	102,830	99,665
Depreciation	45,105	43,885	89,949	90,290
Amortization	2,486	2,490	4,866	4,937
Total Expenses	96,985	94,133	197,645	194,892
Other income (expense)	(89)	-	159	888
Income before interest expense and income tax	57,142	54,528	108,820	101,560
Interest expense	25,005	23,335	49,648	45,807
Income before income tax	32,137	31,193	59,172	55,753
Income tax				
Current income tax recovery	(867)	(244)	(1,545)	(854)
Deferred income tax expense	760	273	1,425	1,198
	(107)	29	(120)	344
Net Income	$ 32,244	$ 31,164	$ 59,292	$ 55,409
Other comprehensive income				
Reclassification of other post-employment benefit items	59	25	118	49
Comprehensive Income	$ 32,303	$ 31,189	$ 59,410	$ 55,458

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

FORTISALBERTA INC.

CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (UNAUDITED)

(all amounts in thousands of Canadian dollars)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
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	$ 719,896	$ 699,896	$ 719,896	$ 699,896
Equity contributions	25,000	20,000	25,000	20,000
Balance, end of period	$ 744,896	$ 719,896	$ 744,896	$ 719,896
Accumulated Other Comprehensive Income (Loss)				
Balance, beginning of period	$ (131)	$ 1,353	$ (190)	$ 1,329
Reclassification of other post-employment benefit items	59	25	118	49
Balance, end of period	$ (72)	$ 1,378	$ (72)	$ 1,378
Retained Earnings				
Balance, beginning of period	$ 475,955	$ 419,590	$ 466,407	$ 411,595
Net income	32,244	31,164	59,292	55,409
Dividends	(17,500)	(16,250)	(35,000)	(32,500)
Balance, end of period	$ 490,699	$ 434,504	$ 490,699	$ 434,504
Total Shareholder's Equity	$ 1,409,371	$ 1,329,626	$ 1,409,371	$ 1,329,626

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

FORTISALBERTA INC.

CONDENSED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

(all amounts in thousands of Canadian dollars)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Operating Activities				
Net income	$ 32,244	$ 31,164	$ 59,292	$ 55,409
Adjustments for non-cash items included in net income:				
Depreciation	45,105	43,885	89,949	90,290
Amortization	2,690	2,666	5,279	5,289
Deferred income tax	760	273	1,425	1,198
Equity component of allowance for funds used during construction	-	-	(599)	(888)
Net gain on sale of property, plant and equipment	(117)	-	(78)	-
Change in long-term regulatory assets and liabilities	(8,725)	(11,757)	1,181	(25,908)
Change in other non-current operating assets and liabilities	(330)	96	(1,035)	(363)
Change in non-cash operating working capital (note 10)	(113)	(12,091)	(118,584)	(7,030)
Cash from operating activities	71,514	54,236	36,830	117,997
Investing Activities				
Additions to property, plant and equipment	(98,781)	(97,890)	(213,229)	(188,438)
Customer contributions for property, plant and equipment	5,827	6,698	13,201	11,912
Additions to intangible assets	(5,228)	(3,973)	(9,498)	(6,824)
Proceeds from the sale of property, plant and equipment	783	546	2,042	1,225
Net change in employee loans	136	107	(338)	(220)
Cash used in investing activities	(97,263)	(94,512)	(207,822)	(182,345)
Financing Activities				
Change in short-term borrowings	10,461	(7,964)	10,461	(2,610)
Proceeds from long-term debt, net of issuance costs	(43)	-	(121)	-
Payment of deferred financing fees	(150)	(45)	(150)	(77)
Borrowings under committed credit facility	439,000	520,000	734,000	332,000
Repayments under committed credit facility	(432,000)	(460,000)	(642,000)	(237,000)
Dividends paid	(17,500)	(16,250)	(35,000)	(32,500)
Equity contributions	25,000	20,000	25,000	20,000
Cash from financing activities	24,768	55,741	92,190	79,813
Change in cash, cash equivalents and restricted cash	(981)	15,465	(78,802)	15,465
Cash, cash equivalents and restricted cash, beginning of period	4,914	3,933	82,735	3,933
Cash, cash equivalents and restricted cash, end of period	$ 3,933	$ 19,398	$ 3,933	$ 19,398

Supplemental cash flow information (note 10)

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

NOTES TO THE CONDENSED INTERIM 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* (the "*HEEA*") 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 regulated electric and gas utility business serving customers in five Canadian provinces, nine US states and three Caribbean countries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These condensed interim 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"). In December 2017, the Ontario Securities Commission approved the extension of the Corporation's exemptive relief to continue reporting under US GAAP rather than International Financial Reporting Standards ("IFRS") until the earlier of January 1, 2024 and the effective date prescribed by the International Accounting Standards Board for the mandatory application of a standard within IFRS specific to entities with activities subject to rate regulation. The preparation of the condensed interim 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 condensed interim 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. Critical 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 regulatory assets and liabilities. 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 critical accounting estimates during the six months ended June 30, 2018 as compared to June 30, 2017 and December 31, 2017.

These unaudited condensed interim financial statements of the Corporation do not include all disclosures required under US GAAP for annual financial statements and should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2017. In management's opinion, the unaudited condensed interim financial statements reflect all normal recurring adjustments that are necessary to fairly present the Corporation's results of operations and financial position. Operating results for the six months ended June 30, 2018 are not necessarily indicative of the results expected for the full year ending December 31, 2018.

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

(b) Regulation

The Corporation is regulated by the AUC, pursuant to the *EUA*, the *Public Utilities Act*, the *HEEA* 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 Corporation recognizes amounts to be recovered from, or refunded to, customers in those periods in which related applications are filed with, or decisions received from, the AUC. 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.

Performance-Based 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 an initial five-year term, from 2013 to 2017. Effective January 1, 2018, the AUC has approved a second PBR term, from 2018 to 2022.

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. For the first PBR term, the 2012 distribution rates were the base rates upon which the formula was 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 capital structure of 41% equity and 59% debt. For the second PBR term, the going-in rates, upon which the 2018 formula is applied, are based on a notional 2017 revenue requirement corresponding to the costs experienced in providing distribution service in the first PBR term, with an 8.50% ROE and a capital structure of 37% equity and 63% debt applied to notional 2017 rate base assets. The components of the notional 2017 revenue requirement are determined using an AUC-prescribed forecast methodology that is primarily based on entity-specific historical experience. The impact of changes to ROE and capital structure during a PBR term apply only to the portion of rate base that is funded by revenue provided by mechanisms separate from the formula.

The first PBR term included 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 were not being recovered through the formula ("K factor" or "capital tracker"). The AUC also approved a Z factor, a PBR re-opener and a ROE efficiency carry-over mechanism. The Z factor permitted an application for recovery of costs related to significant unforeseen events. The PBR re-opener permitted 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 was associated with certain thresholds. The ROE efficiency carry-over mechanism provided 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.

The second PBR term incorporates mechanisms consistent with the first PBR term, except that incremental capital funding to recover costs related to capital expenditures that are not recovered through the formula will be available through two mechanisms. The capital tracker mechanism from the first term will continue for capital expenditures identified as Type 1. Type 1 capital must be extraordinary, not previously included in the utility's rate base, and required by a third party. Type 2 capital will include all capital in the going-in rate base, which will be incrementally funded through a K-Bar mechanism. A K-Bar amount will be established for each year of the term based on a projected amount of rate base for Type 2 capital programs. The projected rate base is determined using an AUC-prescribed forecast methodology that is primarily based on a profile of capital additions derived from entity-specific historical experience.

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

(b) Regulation (cont'd)

2018 Annual Rates Application

In October 2017, the AUC directed the Corporation to use the approved 2017 PBR rates on an interim basis for 2018. In March 2018, the Corporation filed for 2018 PBR rates to be effective April 1, 2018 for application on a prospective basis, which also addressed the retrospective approval of PBR rates for application to the January 1, 2018 to March 31, 2018 period.

The rates and riders, proposed to be effective on an interim basis for April 1, 2018, included an increase of approximately 5.5% 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 1.8%. The increase in the distribution component of rates reflected: (i) a combined inflation and productivity factor (I-X) of negative 0.2%; (ii) a K-Bar placeholder of $24.0 million; (iii) a net collection of Y factor amounts of $6.2 million, which includes $5.8 million for the ROE efficiency carry-over mechanism associated with the first PBR term; and (iv) a net collection of $5.7 million for the difference between the amounts collected from January to March 2018 under interim rates and the amounts that would have been collected through approved annual 2018 PBR rates, as accounted for in the distribution revenue deferral on the Condensed Interim Balance Sheets.

In March 2018, the AUC issued Decision 23355-D01-2018 approving the Corporation's 2018 PBR rates as filed on an interim basis until any required true-up amounts or placeholders are finalized by the AUC.

Capital Tracker Applications

In June 2017, the Corporation filed a 2016 Capital Tracker True-Up Application to update 2016 capital tracker revenue for actual 2016 capital tracker expenditures. In January 2018, the AUC issued Decision 22741-D01-2018 directing the Corporation to provide clarifying information and additional calculations with regard to certain of its 2016 capital tracker programs in a compliance filing in February 2018. Pursuant to the Corporation's compliance filing, capital tracker revenue related to 2016 was reduced by $0.5 million in the first quarter of 2018. The AUC's decision regarding the compliance filing is expected in the third quarter of 2018.

In June 2018, the Corporation filed a 2017 Capital Tracker True-Up Application to update 2017 capital tracker revenue for actual 2017 capital tracker expenditures. Pursuant to the Corporation's 2017 Capital Tracker True-up Application, capital tracker revenue related to 2017 was reduced by $1.3 million in the second quarter of 2018.

Generic Cost of Capital

In July 2017, the AUC established a proceeding to determine the ROE and capital structure for 2018, 2019 and 2020. The proceeding commenced in October 2017 and an oral hearing was held in March 2018. The 2017 ROE of 8.50% and a capital structure of 37% equity and 63% debt remain in effect on an interim basis pending finalization of the 2018 Generic Cost of Capital proceeding. A decision is expected in the third quarter of 2018.

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. The scope of the proceeding, as established by the AUC, would not permit the withdrawal of the approval for the transfer of assets involved in the acquisitions.

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

(b) Regulation (cont'd)

Electric Distribution System Purchases (cont'd)

In October 2017, the AUC issued Decision 21768-D01-2017 in this proceeding, which determined: (i) the Corporation's method to determine the purchase price of both Kingman REA Ltd. and VNM REA Ltd. to be reasonable; (ii) brushing costs associated with facilities' easements for both Kingman REA Ltd. and VNM REA Ltd. be removed from the purchase price; and (iii) the Corporation should apply amortization assumptions that reflect the remaining value of land rights on acquisition in the related compliance filing. Pursuant to this decision, the Corporation decreased net intangible assets and increased cost of sales by $0.5 million in the fourth quarter of 2017 for brushing costs associated with facilities' easements. The Corporation filed a corresponding compliance filing in January 2018.

In June 2018, the AUC issued Decision 23262-D01-2018 in respect of the compliance filing. In the decision, the AUC confirmed the Corporation's compliance with earlier directions and approved the Corporation's amortization assumption for land rights for ratemaking purposes.

In July 2016, the Municipality of Crowsnest Pass ("CNP") decided to cease operation and to transfer the CNP electric distribution system and related assets (the "system") to the Corporation for a proposed purchase price of $3.7 million, plus GST, and the related applications were filed with the AUC. In December 2016, as a result of the AUC decision to review the purchase prices of the Kingman REA Ltd. and VNM REA Ltd. acquisitions, the AUC suspended its consideration of the acquisition of the CNP system until a decision was issued on the purchase prices of those acquisitions. In October 2017, subsequent to the issuance of Decision 21768-D01-2017, the AUC re-commenced the proceeding regarding the proposed sale and transfer of the CNP system to the Corporation.

In June 2018, the AUC issued Decision 21785-D01-2018 in respect of the transfer of the CNP system. The AUC provided approval, with conditions, of the transfer of the CNP system to the Corporation but did not approve a final purchase price for ratemaking purposes. The Corporation will proceed with the transfer of the CNP system once AUC confirmation of approval is received. The Corporation will address the purchase price for rate making purposes in a compliance filing to be filed in the second half of 2018.

(c) Changes in Accounting Policies

These unaudited condensed interim financial statements have been prepared following the same accounting policies as those used in preparing the Corporation's 2017 audited annual financial statements, except as follows.

Revenue from Contracts with Customers

Effective January 1, 2018, the Corporation adopted ASC Topic 606, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and requires additional disclosures. The Corporation adopted the new standard using the modified retrospective approach, under which comparative periods are not restated and the cumulative impact is recognized at the date of adoption supplemented by additional disclosures. Upon adoption, there were no adjustments to the opening balance of retained earnings.

The adoption of this standard did not materially change the Corporation's accounting policy for recognizing revenue. The Corporation's revenue recognition policy, effective January 1, 2018, is as follows.

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. Revenues are recognized in the period services are provided, at AUC-approved rates where applicable, and when collectability is reasonably assured.

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

(c) Changes in Accounting Policies (cont'd)

Revenue from Contracts with Customers (cont'd)

The majority of the Corporation's contracts have a single performance obligation as the promise to transfer individual goods or services is not separately identifiable from other obligations in the contracts and therefore not distinct. Substantially all of the Corporation's performance obligations are satisfied over time as energy is delivered because of the continuous transfer of control to the customer, generally using an output measure of progress being kilowatt hours delivered. The billing of energy sales is based on customer meter readings, which occurs systematically throughout each month.

In accordance with the *EUA*, the Corporation is required to arrange and pay for transmission service with the Alberta Electric System Operator ("AESO") and collect transmission revenue from its customers, which is done by invoicing the customers' retailers through the Corporation's transmission component of its AUC-approved rates. As the Corporation is solely a distribution utility, and as such does not own or operate any transmission facilities, it is largely a conduit for the flow through of transmission costs to end-use customers as the transmission facility owner does not have a direct relationship with the customers. As a result, the Corporation reports revenues and expenses related to transmission services on a net basis in other revenue in the Condensed Interim Statements of Income and Comprehensive Income.

The new guidance requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. See Note 5 for additional disclosure related to the Corporation's revenues.

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

Effective January 1, 2018, the Corporation adopted Accounting Standards Update ("ASU") 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires current service costs to be disaggregated and grouped in the statement of earnings with other employee compensation costs arising from services rendered. The other components of net periodic benefit costs must be presented separately and outside of operating income. The components of net periodic benefit cost other than the current service cost component are included in other income in the Condensed Interim Statements of Income and Comprehensive Income. There is no impact to net income.

Statement of Cash Flows – Restricted Cash

Effective January 1, 2018, the Corporation adopted ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. The Corporation adopted the new guidance retrospectively and the Condensed Interim Statements of Cash Flows for the three and six months ended June 30, 2017 was adjusted to reclassify $3.9 million of restricted cash for both periods. There is no impact to net income.

(d) Future Accounting Pronouncements

The Corporation considers the applicability and impact of all ASUs issued by FASB. The following updates have been issued by FASB but have not yet been adopted by the Corporation. Any ASUs not included below were assessed and determined to be either not applicable to the Corporation or are not expected to have a material impact on the financial statements.

Leases

ASU 2016-02, ASC Topic 842, *Leases,* issued in February 2016, is effective January 1, 2019 with earlier adoption permitted, and will be applied by the Corporation using a modified retrospective approach with practical expedient options. Principally, it requires balance sheet recognition of a right-of-use asset and a lease liability by lessees for those leases that are classified as operating leases along with additional disclosures. The Corporation expects to elect a package of practical expedients that will allow it to not reassess whether any expired or existing contract is a lease or contains a lease, the lease classification of any expired or existing leases and the initial direct costs for any existing leases.

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

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

(d) Future Accounting Pronouncements (cont'd)

Leases (cont'd)

Currently, the Corporation's leasing activities accounted for as operating leases primarily relate to office facilities. The adoption of the new guidance will impact the Corporation's Balance Sheets as the Corporation will be required to record lease assets and lease liabilities related to these operating leases. The Corporation is evaluating the significance of the expected impacts on the Balance Sheets and is preparing the expanded lease disclosures.

Measurement of Credit Losses on Financial Instruments

ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, issued in June 2016, is effective January 1, 2020 and is to be applied on a modified retrospective basis. Principally, it requires entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to estimate credit losses. The Corporation is assessing the impact of adoption.

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	**June 30, 2018**	**December 31, 2017**
Deferred income tax	$ 318,857	$ 296,297
Deferred overhead	96,803	90,662
AESO charges deferral (i)	31,577	-
Distribution revenue deferral (ii)	3,825	-
Regulatory defined benefit pension deferrals	3,641	4,154
Y factor deferral	1,048	394
A1 rider deferral	941	940
PBR rebasing deferral (iii)	404	-
Total regulatory assets	457,096	392,447
Less: current portion	37,692	1,054
Long-term regulatory assets	$ 419,404	$ 391,393

Regulatory liabilities	**June 30, 2018**	**December 31, 2017**
Non-ARO provision	$ 396,212	$ 389,233
AESO charges deferral (i)	26,970	39,566
K factor deferral	17,704	15,658
Y factor deferral	1,106	1,154
A1 rider deferral	343	373
Total regulatory liabilities	442,335	445,984
Less: current portion	30,611	47,871
Long-term regulatory liabilities	$ 411,724	$ 398,113

(i) AESO charges deferral

These balances represent the difference in revenue collected and expenses incurred for various items, such as transmission costs incurred and flowed through to customers, that are expected to be collected or refunded in future customer rates. To the extent that the amount of actual costs incurred is different from revenue collected in rates for these items, the difference is deferred as a regulatory asset to be collected or a regulatory liability to be refunded in future rates. As at June 30, 2018, the regulatory asset primarily represented the under collection of the AESO charges deferral account for 2018 and the regulatory liability primarily represented the over collection of the AESO charges deferral account for 2017 and 2016.

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

3. REGULATORY ASSETS AND LIABILITIES (cont'd)

(ii) Distribution revenue deferral

This balance represents the difference between the amounts collected from January to March 2018 under interim rates and the amounts that would have been collected through approved annual 2018 PBR rates. The AUC has approved the collection from customers of the difference, as discussed in Note 2(b) above. The distribution revenue deferral balance is expected to be collected from customers over the remaining six months of 2018.

(iii) PBR rebasing deferral

This balance represents the under collection of 2018 base distribution revenue from customers as a result of adjustments to components of the notional 2017 revenue requirement.

A detailed description of the nature of the Corporation's other regulatory assets and regulatory liabilities was provided in Note 4 of the Corporation's 2017 audited annual financial statements.

4. DEBT

In June 2018, the Corporation renegotiated and amended its unsecured committed credit facility, extending the maturity date of the facility to August 2023 from August 2022. The amended agreement contains substantially similar terms and conditions as the previous agreement.

5. REVENUES

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Electric rate revenue	$ 150,305	$ 148,179	$ 298,129	$ 292,909
Alternative revenue	20	(2,944)	835	(4,222)
Other revenue	3,891	3,426	7,342	6,877
Total Revenues	$ 154,216	148,661	306,306	295,564

Electric Rate Revenue

The Corporation's 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.

Alternative Revenue

Alternative revenue reflects those portions of the Corporation's revenue associated with regulatory mechanisms within the PBR framework that provide funding that is incremental to base rates and will impact future rates in response to past activities or completed events, if certain criteria are met. The Corporation has identified the portion of K factor revenue associated with the true-up from forecast to actual capital tracker additions and the ROE efficiency carry-over mechanism as alternative revenue. Once billed, alternative revenue will be reported in electric rate revenue and the associated regulatory asset or regulatory liability will be adjusted.

See Note 3 for explanation of the associated regulatory assets and regulatory liabilities.

Other Revenue

Other revenue includes third party services, REA services, joint use revenue, related party revenue and miscellaneous revenue.

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

5. REVENUES (cont'd)

Accounts Receivable

The timing of revenue recognition, billings and cash collections results in accounts receivable. Accounts receivable are summarized below.

	June 30, 2018	December 31, 2017
Trade accounts receivable	$ 13,107	$ 10,420
Unbilled accounts receivable	131,795	121,272
Other [(1)]	3,961	5,916
Total Accounts receivable	$ 148,863	$ 137,608

[(1)] *Includes employee receivables, customer contributions and amounts due from related parties.*

The difference between the opening and closing balances of the Corporation's customers' accounts receivable primarily results from the timing difference between the Corporation's delivery of service and the customer's payment.

Practical Expedients

The Corporation applied a portfolio approach in evaluating whether consideration from customers is probable of collection. The Corporation meets the criteria and has applied a practical expedient to recognize revenue in the amount to which the Corporation has a right to invoice. This is due to the Corporation's right to consideration in an amount that corresponds directly with the value to the customer of the Corporation's performance completed to date.

6. 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 June 30	**2018**	**2017**	**2018**	**2017**
Service cost	$ 157	$ 167	$ 128	$ 96
Interest cost	388	403	86	74
Expected return on plan assets	(236)	(215)	-	-
Amortizations:				
Past service cost	-	-	95	64
Actuarial loss (gain)	147	293	(36)	(39)
Net benefit cost recognized	456	648	273	195
Regulatory adjustments	108	(256)	-	-
Net benefit cost recognized in financial statements	564	392	273	195
Defined contribution cost	2,213	2,124	-	-
Total employee future benefit cost	$ 2,777	$ 2,516	$ 273	$ 195

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

6. EMPLOYEE FUTURE BENEFITS (cont'd)

Components of Net Periodic Costs (cont'd)

	Defined Benefit Pension Plans		OPEB Plan	
Six months ended June 30	**2018**	**2017**	**2018**	**2017**
Service cost	$ 315	$ 334	$ 256	$ 191
Interest cost	776	806	171	149
Expected return on plan assets	(472)	(431)	-	-
Amortizations:				
Past service cost	-	-	190	127
Actuarial loss (gain)	294	587	(72)	(78)
Net benefit cost recognized	913	1,296	545	389
Regulatory adjustments	219	(406)	-	-
Net benefit cost recognized in financial statements	1,132	890	545	389
Defined contribution cost	5,470	5,360	-	-
Total employee future benefit cost	$ 6,602	$ 6,250	$ 545	$ 389

Pension Plan Contributions

The Corporation made total contributions to the defined benefit retirement plan of $0.4 million and $0.9 million for the three and six months ended June 30, 2018, respectively. Minimum funding contributions of approximately $1.1 million will be made towards the defined benefit pension plan and contributions of $0.9 million toward the OPEB plan in 2018.

An actuarial valuation of the defined benefit component of the pension plan for funding purposes, as of December 31, 2017, was filed with Alberta Finance in the second quarter of 2018. See Note 9 for further information.

7. 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.

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

7. FAIR VALUE MEASUREMENTS (cont'd)

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

Long-term debt	**June 30, 2018**	**December 31, 2017**
Fair value [(1)]	$ 2,401,846	$ 2,428,501
Carrying value [(2)]	2,033,640	2,033,624

(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 $15,220 (December 31, 2017 - $15,261).*

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.

8. 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.

For accounts receivable, the Corporation's gross credit risk exposure is equal to the carrying value on the balance sheet. The Corporation monitors its credit exposure in accordance with the Terms and Conditions of Distribution Access Service as approved by the AUC. 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. As at June 30, 2018, the Corporation has reduced its exposure to $0.9 million.

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 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 June 30, 2018, the Corporation's debentures were rated by DBRS at A (low) and by S&P at A-. In March 2018, S&P confirmed the Corporation's credit rating of A- but revised its outlook for the Corporation from Stable to Negative.

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

8. FINANCIAL RISK MANAGEMENT (cont'd)

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, 2017 were summarized in Note 18 of the Corporation's 2017 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 June 30, 2018, the Corporation had $142.0 million drawings on this facility (December 31, 2017 - $50.0 million).

9. 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 2017 audited annual financial statements. There have been no material changes to the nature or amounts of these items, except as follows.

During the second quarter of 2018, the Corporation filed an actuarial valuation of the defined benefit component of the pension plan for funding purposes as at December 31, 2017. The actuarial valuation set the minimum pension contributions for 2018 through 2020 at approximately $1.1 million per year.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Change in Non-Cash Operating Working Capital:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Accounts receivable	$ 14,640	$ (10,377)	$ (7,552)	$ (27,626)
Prepaids and deposits	(1,590)	(2,918)	(1,444)	(3,444)
Income tax receivable and payable	(867)	(244)	(1,786)	(3,020)
Regulatory assets	(24,447)	(693)	(36,638)	(11,118)
Accounts payable and other current liabilities	12,681	(2,868)	(53,905)	30,031
Regulatory liabilities	(530)	5,009	(17,259)	8,147
	$ (113)	$ (12,091)	$ (118,584)	$ (7,030)

Non-Cash Investing Activities:

As at June 30	**2018**	**2017**
Additions to property, plant and equipment and intangible assets included in current liabilities	$ 64,436	$ 71,390
Customer contributions for property, plant and equipment included in current assets	7,820	5,970

Reconciliation of Cash, Cash Equivalents and Restricted Cash:

For the three and six months ended June 30	**2018**	**2017**
Cash and cash equivalents	$ -	$ 15,465
Restricted cash	3,933	3,933
	$ 3,933	$ 19,398

11. SUBSEQUENT EVENTS

In July 2018, the AUC approved the transfer of The Municipality of Crowsnest Pass electric distribution system and related assets to the Corporation. The Corporation paid a purchase price of $3.7 million, plus GST. The sale closed on July 24, 2018.

In July 2018, the AUC issued Decision 23372-D01-2018 approving a new capital tracker program for the Corporation. This decision results in an increase to alternative revenue of approximately $4.7 million that the Corporation will record in the third quarter of 2018.

These financial statements and notes reflect the Corporation's evaluation of events occurring subsequent to the balance sheet date through July 30, 2018, the date the financial statements were available for issuance.