FORTISALBERTA INC.

Unaudited Condensed Interim Financial Statements
For the three months ended March 31, 2018

FORTISALBERTA INC.

CONDENSED INTERIM BALANCE SHEETS (UNAUDITED)

As at (all amounts in thousands of Canadian dollars)	March 31, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 981	$ 78,802
Restricted cash	3,933	3,933
Accounts receivable	160,656	137,608
Prepaids and deposits	3,828	3,974
Income tax receivable	678	-
Regulatory assets (note 3)	13,246	1,054
Total current assets	183,322	225,371
Regulatory assets (note 3)	404,356	391,393
Property, plant and equipment, net	3,575,815	3,535,021
Intangible assets, net	70,152	68,711
Other assets	1,762	1,767
Goodwill	226,968	226,968
Total Assets	$ 4,462,375	$ 4,449,231
Liabilities and Shareholder's Equity		
Current liabilities		
Short-term borrowings	$ 135,000	$ 50,000
Accounts payable and other current liabilities	183,200	272,954
Income tax payable	-	241
Regulatory liabilities (note 3)	31,143	47,871
Total current liabilities	349,343	371,066
Other liabilities	17,376	18,080
Regulatory liabilities (note 3)	413,046	398,113
Deferred income tax	294,601	283,648
Long-term debt	2,018,441	2,018,363
Total Liabilities	3,092,807	3,089,270
Commitments and contingencies (note 8)		
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	719,896	719,896
Accumulated other comprehensive loss	(131)	(190)
Retained earnings	475,955	466,407
Total Shareholder's Equity	1,369,568	1,359,961
Total Liabilities and Shareholder's Equity	$ 4,462,375	$ 4,449,231

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

FORTISALBERTA INC.

CONDENSED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

Three months ended March 31 (all amounts in thousands of Canadian dollars)	2018	2017
Revenues (note 4)		
Electric rate revenue	$ 147,824	$ 143,452
Alternative revenue	815	-
Other revenue	3,451	3,451
Total Revenues	152,090	146,903
Expenses		
Cost of sales	53,436	51,907
Depreciation	44,844	46,405
Amortization	2,380	2,447
Total Expenses	100,660	100,759
Other income	248	888
Income before interest expense and income tax	51,678	47,032
Interest expense	24,643	22,472
Income before income tax	27,035	24,560
Income tax		
Current income tax recovery	(678)	(610)
Deferred income tax expense	665	925
	(13)	315
Net Income	$ 27,048	$ 24,245
Other comprehensive income		
Reclassification of other post-employment benefit items	59	24
Comprehensive Income	$ 27,107	$ 24,269

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

FORTISALBERTA INC.

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

Three months ended March 31 (all amounts in thousands of Canadian dollars)	2018	2017
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	$ 719,896	$ 699,896
Equity contributions	-	-
Balance, end of period	$ 719,896	$ 699,896
Accumulated Other Comprehensive Income (Loss)		
Balance, beginning of period	$ (190)	$ 1,329
Reclassification of other post-employment benefit items	59	24
Balance, end of period	$ (131)	$ 1,353
Retained Earnings		
Balance, beginning of period	$ 466,407	$ 411,595
Net income	27,048	24,245
Dividends	(17,500)	(16,250)
Balance, end of period	$ 475,955	$ 419,590
Total Shareholder's Equity	$ 1,369,568	$ 1,294,687

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

FORTISALBERTA INC.

CONDENSED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

Three months ended March 31 (all amounts in thousands of Canadian dollars)	2018	2017
Operating Activities		
Net income	$ 27,048	$ 24,245
Adjustments for non-cash items included in net income:		
Depreciation	44,844	46,405
Amortization	2,589	2,623
Deferred income tax	665	925
Equity component of allowance for funds used during construction	(599)	(888)
Net gain on sale of property, plant and equipment	39	-
Change in long-term regulatory assets and liabilities	9,906	(14,151)
Change in other non-current operating assets and liabilities	(705)	(459)
Change in non-cash operating working capital (note 9)	(118,471)	5,061
Cash from (used in) operating activities	(34,684)	63,761
Investing Activities		
Additions to property, plant and equipment	(114,448)	(90,548)
Customer contributions for property, plant and equipment	7,374	5,214
Additions to intangible assets	(4,270)	(2,851)
Proceeds from the sale of property, plant and equipment	1,259	679
Net change in employee loans	(474)	(327)
Cash used in investing activities	(110,559)	(87,833)
Financing Activities		
Change in short-term borrowings	-	5,354
Proceeds from long-term debt, net of issuance costs	(78)	-
Payment of deferred financing fees	-	(32)
Borrowings under committed credit facility (note 10)	295,000	352,000
Repayments under committed credit facility (note 10)	(210,000)	(317,000)
Dividends paid	(17,500)	(16,250)
Cash from financing activities	67,422	24,072
Change in cash, cash equivalents and restricted cash	(77,821)	-
Cash, cash equivalents and restricted cash, beginning of period	82,735	3,933
Cash, cash equivalents and restricted cash, end of period	$ 4,914	$ 3,933

Supplemental cash flow information (note 9)

The accompanying notes are an integral part of these 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 three months ended March 31, 2018 as compared to March 31, 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 three months ended March 31, 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 deemed equity ratio of 41%. 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, and a ROE 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. For 2017, the Corporation's ROE was set at 8.50% with a deemed equity ratio of 37%. The ROE of 8.50% and deemed equity ratio of 37% are approved for 2018 on an interim basis. 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 an 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 be all capital included in the going-in rate base and 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 as at March 31, 2018.

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 Company's Compliance Filing, capital tracker revenue related to 2016 was reduced by $0.5 million in the first quarter of 2018.

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 Alberta utilities under PBR, including the Corporation, the impact of the changes to the allowed ROE and capital structure resulting from GCOC Decisions applies to the portion of rate base that is funded by revenue provided by mechanisms separate from the formula.

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 and capital structure approved in the 2016 GCOC Decision 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, for which a decision is expected in the second half of 2018.

In July 2016, the Municipality of Crowsnest Pass ("CNP") decided to cease operation and to transfer CNP's electric distribution 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 CNP 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 CNP's electric distribution system to the Corporation. A decision on this matter is expected in the second half of 2018. 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.

(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 supersedes 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 enables users of financial statements to better understand and consistently analyze an entity's revenues across industries and transactions. The Corporation adopted the new revenue recognition guidance using the modified retrospective transition method, under which comparative periods are not restated and the cumulative impact of applying the standard is recognized at the date of initial adoption, supplemented by additional disclosures. Upon adoption, there were no adjustments to the opening balance of the Corporation's 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.

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 the reading of customers' meters, which occurs on a systematic basis throughout the 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.

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

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

Revenue from Contracts with Customers (cont'd)

The new guidance requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. See Note 4 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 an employer to disaggregate the service cost component of net benefit cost and present it in the same statement of earnings line item(s) as other employee compensation costs arising from services rendered. The amendment requires that other components of net periodic benefit cost be presented separately from the service cost component. 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 months ended March 31, 2018 and 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 not expected to have a material impact on the financial statements.

Leases

ASU No. 2016-02 was issued in February 2016 and the amendments in this update, along with an additional ASU issued in 2018 to provide additional optional practical expedients, create ASC Topic 842, *Leases,* and supersede lease requirements in ASC Topic 840, *Leases.* The main provision of ASC 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 continues to assess the impact that the adoption of this ASU will have on its financial statements and continues to monitor standard-setting activities that may affect the transition requirements of the new lease standard.

Measurement of Credit Losses on Financial Instruments

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, was issued in June 2016 and the amendments in this update require entities to use an expected credit loss methodology and to consider a broader 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 retrospective basis. 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, 2018**	**December 31, 2017**
Deferred income tax	$ 306,586	$ 296,297
Deferred overhead	93,814	90,662
AESO charges deferral (i)	6,767	-
Distribution revenue deferral (ii)	5,716	-
Regulatory defined benefit pension deferrals	3,945	4,154
A1 rider deferral	747	940
Y factor deferral	27	394
Total regulatory assets	417,602	392,447
Less: current portion	13,246	1,054
Long-term regulatory assets	$ 404,356	$ 391,393

Regulatory liabilities	**March 31, 2018**	**December 31, 2017**
Non-ARO provision	$ 391,587	$ 389,233
AESO charges deferral (i)	34,945	39,566
K factor deferral	16,277	15,658
Y factor deferral	1,194	1,154
A1 rider deferral	186	373
Total regulatory liabilities	444,189	445,984
Less: current portion	31,143	47,871
Long-term regulatory liabilities	$ 413,046	$ 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 March 31, 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.

(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 related to the first quarter over the remaining nine months of 2018.

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. REVENUES

The Corporation's revenue is comprised of the following:

Three months ended March 31	2018	2017
Electric rate revenue	$ 147,824	$ 144,730
Alternative revenue	815	(1,278)
Other revenue	3,451	3,451
Total Revenues	$ 152,090	$ 146,903

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.

Accounts Receivable

The timing of revenue recognition, billings and cash collections results in accounts receivable. The opening and closing balances of the Corporation's receivables are as follows:

	March 31, 2018	December 31, 2017
Trade accounts receivable	$ 29,996	$ 10,420
Unbilled accounts receivable	126,584	121,272
Other [1]	4,076	5,916
Total Accounts receivable	$ 160,656	$ 137,608

[1] *Other accounts receivable consists of 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.

5. EMPLOYEE FUTURE BENEFITS

Costs Recognized

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

Components of Net Periodic Costs

	Defined Benefit Pension Plans		OPEB Plan	
Three months ended March 31	**2018**	**2017**	**2018**	**2017**
Service cost	$ 158	$ 167	$ 128	$ 95
Interest cost	388	403	85	75
Expected return on plan assets	(236)	(216)	-	-
Amortizations:				
Past service cost	-	-	95	63
Actuarial loss (gain)	147	294	(36)	(39)
Net benefit cost recognized	457	648	272	194
Regulatory adjustments	111	(150)	-	-
Net benefit cost recognized in financial statements	568	498	272	194
Defined contribution cost	3,257	3,236	-	-
Total employee future benefit cost	$ 3,825	$ 3,734	$ 272	$ 194

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, 2018. Minimum funding contributions of approximately $1.8 million will be made towards the defined benefit pension plan and contributions of $0.9 million toward the OPEB plan in 2018.

6. 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.

6. FAIR VALUE MEASUREMENTS (cont'd)

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

Long-term debt	March 31, 2018	December 31, 2017
Fair value (1)	$ 2,405,492	$ 2,428,501
Carrying value (2)	2,033,632	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 $15,191 (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.

7. 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 March 31, 2018, the Corporation has reduced its exposure to $1.5 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 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, 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.

7. 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 March 31, 2018, the Corporation had $135.0 million drawings on this facility (December 31, 2017 - $50.0 million).

8. 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.

9. SUPPLEMENTAL CASH FLOW INFORMATION

Change in Non-Cash Operating Working Capital:

Three months ended March 31	2018	2017
Accounts receivable	$ (22,192)	$ (17,249)
Prepaids and deposits	146	(526)
Income tax receivable and payable	(919)	(2,776)
Regulatory assets	(12,191)	(10,425)
Accounts payable and other current liabilities	(66,586)	32,899
Regulatory liabilities	(16,729)	3,138
	$ (118,471)	$ 5,061

Non-Cash Investing Activities:

As at March 31	2018	2017
Additions to property, plant and equipment and intangible assets included in current liabilities	$ 62,352	$ 63,324
Customer contributions for property, plant and equipment included in current assets	4,841	5,332

Reconciliation of Cash, Cash Equivalents and Restricted Cash:

Three months ended March 31	2018	2017
Cash and cash equivalents	$ 981	$ -
Restricted cash	3,933	3,933
	$ 4,914	$ 3,933

10. STATEMENTS OF CASH FLOWS COMPARATIVE FIGURES

The Corporation revised a line item within the financing activities section of its Condensed Interim Statements of Cash Flows for the three months ended March 31, 2017 to correct an immaterial error in the presentation of a portion of credit facility borrowings. The Corporation evaluated the error and determined that there was no impact to its results of operations or financial position in previously issued financial statements and that the impact was not material to its cash flows in previously issued financial statements.

Effective January 1, 2018, the Corporation elected to present, on the Condensed Interim Statements of Cash Flows, all borrowings and repayments under committed credit facilities on a gross basis. In addition to the above noted correction, comparative figures have been reclassified to comply with the current period presentation.

The correction resulted in $35.0 million, which was previously reported as Net borrowings under committed credit facility, now being reported on a gross basis with $352.0 million reported as Borrowings under committed credit facility and $317.0 million being reported as Repayments under committed credit facility. The correction did not change the total cash from financing activities.

11. SUBSEQUENT EVENTS

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