FORTISALBERTA INC.

Unaudited Condensed Interim Financial Statements
For the three and nine months ended September 30, 2018

FORTISALBERTA INC.

CONDENSED INTERIM BALANCE SHEETS (UNAUDITED)

As at (all amounts in thousands of Canadian dollars)	September 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 28,171	$ 78,802
Restricted cash	-	3,933
Accounts receivable	159,596	137,608
Prepaids and deposits	5,555	3,974
Income tax receivable	2,462	-
Regulatory assets (note 4)	30,528	1,054
Total current assets	226,312	225,371
Regulatory assets (note 4)	435,104	391,393
Property, plant and equipment, net	3,680,892	3,535,021
Intangible assets, net	74,666	68,711
Other assets	1,756	1,767
Goodwill	226,968	226,968
Total Assets	$ 4,645,698	$ 4,449,231
Liabilities and Shareholder's Equity		
Current liabilities		
Short-term borrowings	$ -	$ 50,000
Accounts payable and other current liabilities	272,340	272,954
Income tax payable	-	241
Regulatory liabilities (note 4)	25,228	47,871
Total current liabilities	297,568	371,066
Other liabilities	17,938	18,080
Regulatory liabilities (note 4)	408,835	398,113
Deferred income tax	323,284	283,648
Long-term debt	2,167,565	2,018,363
Total Liabilities	3,215,190	3,089,270
Commitments and contingencies (note 10)		
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	(12)	(190)
Retained earnings	511,776	466,407
Total Shareholder's Equity	1,430,508	1,359,961
Total Liabilities and Shareholder's Equity	$ 4,645,698	$ 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 September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Revenues (note 6)				
Electric rate revenue	$ 154,312	$ 148,512	$ 452,441	$ 437,199
Alternative revenue	6,163	-	6,998	-
Other revenue	4,868	3,987	12,210	10,864
Total Revenues	165,343	152,499	471,649	448,063
Expenses				
Cost of sales	51,833	47,294	154,663	146,959
Depreciation	45,579	44,442	135,528	134,732
Amortization	2,347	2,273	7,213	7,210
Total Expenses	99,759	94,009	297,404	288,901
Other income (expense)	(183)	-	(24)	888
Income before interest expense and income tax	65,401	58,490	174,221	160,050
Interest expense	24,904	23,345	74,552	69,152
Income before income tax	40,497	35,145	99,669	90,898
Income tax				
Current income tax recovery	(997)	(670)	(2,542)	(1,524)
Deferred income tax expense	2,917	804	4,342	2,002
	1,920	134	1,800	478
Net Income	$ 38,577	$ 35,011	$ 97,869	$ 90,420
Other comprehensive income				
Reclassification of other post-employment benefit items	60	24	178	73
Comprehensive Income	$ 38,637	$ 35,035	$ 98,047	$ 90,493

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 September 30, 2018	2017	Nine Months Ended September 30, 2018	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	$ 744,896	$ 719,896	$ 719,896	$ 699,896
Equity contributions	-	-	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	$ (72)	$ 1,378	$ (190)	$ 1,329
Reclassification of other post-employment benefit items	60	24	178	73
Balance, end of period	$ (12)	$ 1,402	$ (12)	$ 1,402
Retained Earnings				
Balance, beginning of period	$ 490,699	$ 434,504	$ 466,407	$ 411,595
Net income	38,577	35,011	97,869	90,420
Dividends	(17,500)	(16,250)	(52,500)	(48,750)
Balance, end of period	$ 511,776	$ 453,265	$ 511,776	$ 453,265
Total Shareholder's Equity	$ 1,430,508	$ 1,348,411	$ 1,430,508	$ 1,348,411

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 September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Operating Activities				
Net income	$ 38,577	$ 35,011	$ 97,869	$ 90,420
Adjustments for non-cash items included in net income:				
Depreciation	45,579	44,442	135,528	134,732
Amortization	2,554	2,475	7,833	7,764
Deferred income tax	2,917	804	4,342	2,002
Equity component of allowance for funds used during construction	-	-	(599)	(888)
Net gain on sale of property, plant and equipment	-	-	(78)	-
Change in long-term regulatory assets and liabilities	(11,231)	(13,022)	(10,050)	(38,930)
Change in other non-current operating assets and liabilities	892	(81)	(143)	(444)
Change in non-cash operating working capital (note 11)	57,036	13,008	(61,548)	5,978
Cash from operating activities	136,324	82,637	173,154	200,634
Investing Activities				
Additions to property, plant and equipment	(97,796)	(105,419)	(311,025)	(293,857)
Customer contributions for property, plant and equipment	10,317	7,341	23,518	19,253
Additions to intangible assets	(4,699)	(3,028)	(14,197)	(9,852)
Proceeds from the sale of property, plant and equipment	658	441	2,700	1,666
Net change in employee loans	342	247	4	27
Cash used in investing activities	(91,178)	(100,418)	(299,000)	(282,763)
Financing Activities				
Change in short-term borrowings	(10,461)	(85,262)	-	(87,872)
Proceeds from long-term debt, net of issuance costs	149,058	198,941	148,937	198,941
Payment of deferred financing fees	(5)	(113)	(155)	(190)
Borrowings under committed credit facility	393,000	276,000	1,127,000	608,000
Repayments under committed credit facility	(535,000)	(371,000)	(1,177,000)	(608,000)
Dividends paid	(17,500)	(16,250)	(52,500)	(48,750)
Equity contributions	-	-	25,000	20,000
Cash from (used in) financing activities	(20,908)	2,316	71,282	82,129
Change in cash, cash equivalents and restricted cash	24,238	(15,465)	(54,564)	-
Cash, cash equivalents and restricted cash, beginning of period	3,933	19,398	82,735	3,933
Cash, cash equivalents and restricted cash, end of period	$ 28,171	$ 3,933	$ 28,171	$ 3,933

Supplemental cash flow information (note 11)

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 *"PUA"*), 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 of America ("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 nine months ended September 30, 2018 as compared to September 30, 2017 and the year ended 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 nine months ended September 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 *PUA*, 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 are 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 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. The 2012 distribution rates were set using a traditional cost-of-service model whereby the AUC established the Corporation's revenue requirements, being those revenues corresponding to the costs associated with the distribution business and provided a rate of return on a deemed equity component of capital structure ("ROE") applied to rate base assets. The Corporation's ROE for ratemaking purposes was 8.75% for 2012 with a 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 K factor 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 for certain of its 2016 capital tracker programs in a compliance filing in February 2018. Pursuant to the Corporation's 2016 capital tracker compliance filing, K factor revenue related to 2016 was reduced by $0.5 million in the first quarter of 2018.

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

In July 2018, the AUC issued Decision 23372-D01-2018 approving the 2016 K factor revenue true-up amount as filed in the Corporation's 2016 capital tracker compliance filing and a new Load Settlement Replacement capital tracker program for 2016 and 2017. In the third quarter of 2018, an increase of $4.7 million was recognized in alternative revenue for the true-up of 2016 and 2017 K factor revenue for the Load Settlement Replacement program.

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. In August 2018, AUC Decision 22570-D01-2018 approved a ROE of 8.50% and a capital structure of 37% equity and 63% debt on a final basis for 2018, 2019 and 2020.

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 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 June 2018, the AUC issued Decision 21785-D01-2018 in respect of the transfer of the CNP system to the Corporation. The AUC provided conditional approval of the transfer of the CNP system but did not approve a final purchase price for ratemaking purposes. In July 2018, the AUC provided final approval of the transfer of the CNP system to the Corporation. The Corporation addressed the purchase price for ratemaking purposes in a compliance filing filed in October 2018.

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

(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.

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 6 for additional disclosures 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 (expense) 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 nine months ended September 30, 2017 was adjusted to reclassify $3.9 million of restricted cash for both periods. There was no impact to net income.

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

(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, *Leases,* issued in February 2016, is effective January 1, 2019 with earlier adoption permitted, and is to be applied on a modified retrospective approach or an optional transition method with implementation options, referred to as practical expedients. 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 with a lease term greater than 12 months along with additional disclosures.

The Corporation plans to select the optional transition method which allows entities to continue to apply the current lease guidance in the comparative periods presented in the year of adoption and apply the transition provisions of the new guidance on the effective date of the new guidance. 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. The Corporation also expects to elect an additional practical expedient that permits entities to not evaluate existing land easements that were not previously accounted for as leases.

Based on the Corporation's assessment to date, leasing activities accounted for as operating leases primarily relate to office facilities. Ongoing implementation efforts include the evaluation of business processes and controls to support recognition and disclosure under the new guidance and preparation of expanded lease disclosures. The Corporation continues to assess the impact of adoption and monitor standard-setting activities that may affect transition requirements.

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.

Compensation – Retirement Benefits – Defined Benefit Plans – General

ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General,* issued in August 2018, is effective January 1, 2021 with earlier adoption permitted, and is to be applied on a retrospective basis to all periods presented. Principally, it modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The Corporation is assessing the impact of adoption.

Intangibles – Goodwill and Other – Internal-Use Software

ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software,* issued in August 2018, is effective January 1, 2020 with earlier adoption permitted, and is to be applied either on a retrospective basis or on a prospective basis to all implementation costs incurred after the effective date of the new guidance. Principally, it aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The Corporation is assessing the impact of adoption.

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

3. BUSINESS ACQUISITIONS

On July 24, 2018, the Corporation purchased the Municipality of Crowsnest Pass electric distribution system for $3.7 million, plus GST. The AUC approved the transfer of these assets to the Corporation but did not approve a final purchase price for ratemaking purposes. The transfer of these assets allows the Corporation to provide service to the customers formerly served by the Municipality of Crowsnest Pass. The Corporation will address the purchase price for ratemaking purposes in a compliance filing filed in the fourth quarter of 2018.

This acquisition has been accounted for using the acquisition method and the financial results from these assets have been included in the financial statements of the Corporation since the acquisition date. The fair value of these assets was deemed to be the purchase price and allocated to property, plant and equipment on a provisional basis at the date of acquisition. A decision on the purchase price for ratemaking purposes is expected in the first half of 2019.

4. 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	**September 30, 2018**	**December 31, 2017**
Deferred income tax	$ 331,591	$ 296,297
Deferred overhead	99,739	90,662
AESO charges deferral *(i)*	26,642	-
Regulatory defined benefit pension deferral	3,796	4,154
Distribution revenue deferral *(ii)*	1,910	-
A1 rider deferral	744	940
PBR rebasing deferral *(iii)*	606	-
Y factor deferral	604	394
Total regulatory assets	465,632	392,447
Less: current portion	30,528	1,054
Long-term regulatory assets	$ 435,104	$ 391,393

Regulatory liabilities	**September 30, 2018**	**December 31, 2017**
Non-Asset Retirement Obligation provision	$ 401,587	$ 389,233
AESO charges deferral *(i)*	17,858	39,566
K factor deferral	12,981	15,658
Y factor deferral	1,083	1,154
A1 rider deferral	554	373
Total regulatory liabilities	434,063	445,984
Less: current portion	25,228	47,871
Long-term regulatory liabilities	$ 408,835	$ 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 September 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)

4. 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 three 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 approved in rates on an interim basis.

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.

5. 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.

In September 2018, the Corporation entered into an agreement with a syndicate of agents, pursuant to which the Corporation sold $150.0 million of senior unsecured debentures. The debentures bear interest at a rate of 3.73%, to be paid semi-annually, and mature in 2048. Proceeds of the issue were used to repay existing indebtedness incurred under the committed credit facility to finance capital expenditures and for general corporate purposes.

6. REVENUES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Electric rate revenue	$ 154,312	$ 151,542	$ 452,441	$ 444,451
Alternative revenue	6,163	(3,030)	6,998	(7,252)
Other revenue	4,868	3,987	12,210	10,864
Total Revenues	$ 165,343	152,499	471,649	448,063

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 4 for additional information related to 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)

6. REVENUES (cont'd)

Accounts Receivable

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

	September 30, 2018	December 31, 2017
Trade accounts receivable	$ 38,037	$ 10,420
Unbilled accounts receivable	117,513	121,272
Other [(1)]	4,046	5,916
Total Accounts receivable	$ 159,596	$ 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.

7. 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 September 30	**2018**	**2017**	**2018**	**2017**
Service cost	$ 158	$ 154	$ 127	$ 95
Interest cost	387	403	85	75
Expected return on plan assets	(236)	(216)	-	-
Amortizations:				
Past service cost	-	-	95	63
Actuarial loss (gain)	147	294	(35)	(39)
Net benefit cost recognized	456	635	272	194
Regulatory adjustments	(314)	(181)	-	-
Net benefit cost recognized in financial statements	142	454	272	194
Defined contribution cost	2,216	2,120	-	-
Total employee future benefit cost	$ 2,358	$ 2,574	$ 272	$ 194

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

7. EMPLOYEE FUTURE BENEFITS (cont'd)

Components of Net Periodic Costs (cont'd)

	Defined Benefit Pension Plans		OPEB Plan	
Nine months ended September 30	**2018**	**2017**	**2018**	**2017**
Service cost	$ 473	$ 488	$ 383	$ 286
Interest cost	1,163	1,209	256	224
Expected return on plan assets	(708)	(647)	-	-
Amortizations:				
Past service cost	-	-	285	190
Actuarial loss (gain)	441	881	(107)	(117)
Net benefit cost recognized	1,369	1,931	817	583
Regulatory adjustments	(95)	(587)	-	-
Net benefit cost recognized in financial statements	1,274	1,344	817	583
Defined contribution cost	7,686	7,480	-	-
Total employee future benefit cost	$ 8,960	$ 8,824	$ 817	$ 583

Pension Plan Contributions

The Corporation made total contributions to the defined benefit pension plan of $0.1 million and $1.0 million for the three and nine months ended September 30, 2018, respectively. Minimum funding contributions of approximately $1.1 million will be made toward 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 10 for further information.

8. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement is required to reflect the assumptions that market participants would use in pricing a financial asset or financial liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. A fair value hierarchy exists which prioritizes the inputs used to measure fair value.

The three levels of the fair value hierarchy are defined as follows:

Level 1: Fair value determined using unadjusted quoted prices in active markets;
Level 2: Fair value determined using pricing inputs that are observable; and
Level 3: Fair value determined using unobservable inputs only when relevant observable inputs are not available.

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

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

Long-term debt	**September 30, 2018**	**December 31, 2017**
Fair value [(1)]	$ 2,477,524	$ 2,428,501
Carrying value [(2)]	2,183,647	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 $16,082 (December 31, 2017 - $15,261).*

8. FAIR VALUE MEASUREMENTS (cont'd)

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.

9. 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 September 30, 2018, the Corporation's credit risk exposure is $1.0 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 September 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.

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 September 30, 2018, the Corporation had no drawings on this facility (December 31, 2017 - $50.0 million).

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

10. 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 discussed below.

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.

The Corporation's obligation for future principal and interest payments have increased as a result of the September 2018 issuance of $150.0 million senior unsecured debentures. Refer to Note 5 for further information.

11. SUPPLEMENTAL CASH FLOW INFORMATION

Change in Non-Cash Operating Working Capital

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Accounts receivable	$ (11,029)	$ 205	$ (18,581)	$ (27,421)
Prepaids and deposits	(137)	1,278	(1,581)	(2,166)
Income tax receivable and payable	(917)	(666)	(2,703)	(3,686)
Regulatory assets	7,164	9,919	(29,474)	(1,199)
Accounts payable and other current liabilities	67,338	(11,186)	13,433	18,845
Regulatory liabilities	(5,383)	13,458	(22,642)	21,605
	$ 57,036	$ 13,008	$ (61,548)	$ 5,978

Non-Cash Investing Activities

As at September 30	**2018**	**2017**
Additions to property, plant and equipment and intangible assets included in current liabilities	$ 71,445	$ 72,902
Customer contributions for property, plant and equipment included in current assets	7,864	5,356

Reconciliation of Cash, Cash Equivalents and Restricted Cash

As at September 30	**2018**	**2017**
Cash and cash equivalents	$ 28,171	$ -
Restricted cash	-	3,933
	$ 28,171	$ 3,933

12. SUBSEQUENT EVENTS

These financial statements and notes reflect the Corporation's evaluation of events occurring subsequent to the balance sheet date through November 1, 2018, the date the financial statements were available for issuance.