FORTISALBERTA INC.

An indirect subsidiary of Fortis Inc.

Unaudited Condensed Interim Financial Statements
For the three months ended March 31, 2022

FORTISALBERTA INC.
CONDENSED INTERIM BALANCE SHEETS
(UNAUDITED)

As at (all amounts in thousands of Canadian dollars)	**March 31, 2022**	**December 31, 2021**
Assets		
Current assets		
Accounts receivable	$ 177,583	$ 151,979
Prepaids and deposits	6,112	5,136
Regulatory assets (note 4)	1,538	2,137
Total current assets	185,233	159,252
Regulatory assets (note 4)	392,657	385,433
Property, plant and equipment, net	4,348,269	4,318,348
Intangible assets, net	108,062	105,667
Other assets	3,579	3,552
Goodwill	228,357	228,357
Total Assets	$ 5,266,157	$ 5,200,609
Liabilities and Shareholder's Equity		
Current liabilities		
Short-term borrowings	$ 107,510	$ 63,771
Accounts payable and other current liabilities	210,210	214,599
Income tax payable	2,263	10,415
Regulatory liabilities (note 4)	26,338	19,981
Total current liabilities	346,321	308,766
Other liabilities	58,940	61,741
Regulatory liabilities (note 4)	486,793	476,845
Deferred income tax	388,148	380,990
Long-term debt	2,342,979	2,342,798
Total Liabilities	$ 3,623,181	$ 3,571,140
Shareholder's Equity		
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (December 31, 2021 – 63)	173,848	173,848
Additional paid-in capital	774,896	774,896
Accumulated other comprehensive income	316	234
Retained earnings	693,916	680,491
Total Shareholder's Equity	1,642,976	1,629,469
Total Liabilities and Shareholder's Equity	$ 5,266,157	$ 5,200,609

Commitments and contingencies (note 9)

The accompanying notes are an integral part of these unaudited 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 March 31, 2022	2021
Revenues		
Electric rate revenue	$ 179,355	$ 167,978
Other revenue (note 7)	5,814	6,047
Total Revenues	185,169	174,025
Expenses		
Cost of sales	60,155	54,694
Depreciation	55,659	53,039
Amortization	4,445	4,014
Total Expenses	120,259	111,747
Other income	1,349	953
Income before interest expense and income tax	66,259	63,231
Interest expense	26,445	26,157
Income before income tax	39,814	37,074
Income tax expense	3,889	1,865
Net Income	$ 35,925	$ 35,209
Other comprehensive income		
Reclassification of amounts related to post-employment benefits	82	88
Comprehensive Income	$ 36,007	$ 35,297

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

FORTISALBERTA INC.
CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

	Three months ended March 31,	
(all amounts in thousands of Canadian dollars)	2022	2021
Share Capital		
Balance, beginning and end of period	$ 173,848	$ 173,848
Additional Paid-in Capital		
Balance, beginning and end of period	$ 774,896	$ 774,896
Accumulated Other Comprehensive Income (Loss)		
Balance, beginning of period	$ 234	$ (762)
Reclassification of amounts related to post-employment benefits	82	88
Balance, end of period	$ 316	$ (674)
Retained Earnings		
Balance, beginning of period	$ 680,491	$ 624,790
Net income	35,925	35,209
Dividends	(22,500)	(21,250)
Balance, end of period	$ 693,916	$ 638,749
Total Shareholder's Equity	$ 1,642,976	$ 1,586,819

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

FORTISALBERTA INC.
CONDENSED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three months ended March 31,	
(all amounts in thousands of Canadian dollars)	2022	2021
Operating Activities		
Net income	$ 35,925	$ 35,209
Adjustments for non-cash items included in net income		
Depreciation	55,659	53,039
Amortization	4,709	4,280
Deferred income tax	67	105
Equity component of allowance for funds used during construction	(1,136)	(1,052)
Net gain on sale of property, plant and equipment	(388)	(59)
Change in long-term regulatory assets and liabilities	2,824	1,489
Change in other non-current operating assets and liabilities	(2,887)	(2,928)
Change in non-cash operating working capital (note 10)	(21,234)	(14,817)
Cash from operating activities	73,539	75,266
Investing Activities		
Additions to property, plant and equipment	(103,792)	(98,742)
Customer contributions for property, plant and equipment	15,372	6,141
Additions to intangible assets	(7,330)	(5,186)
Proceeds from disposition of property, plant and equipment	1,451	1,358
Net change in employee loans	(472)	(665)
Cash used in investing activities	(94,771)	(97,094)
Financing Activities		
Net change in bank indebtedness	(2,861)	(2,357)
Payment of deferred financing fees	(7)	(176)
Borrowings under committed credit facility	264,600	246,000
Repayments under committed credit facility	(218,000)	(201,000)
Dividends	(22,500)	(21,250)
Cash from financing activities	21,232	21,217
Change in cash, cash equivalents and restricted cash	—	(611)
Cash, cash equivalents and restricted cash, beginning of period	—	611
Cash and cash equivalents, end of period	$ —	$ —

Supplemental cash flow information (note 10)

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

NOTES TO THE AUDITED FINANCIAL STATEMENTS (UNAUDITED)

1. ENTITY DEFINITION AND NATURE OF OPERATIONS

FortisAlberta Inc. (the “Corporation” or “FortisAlberta”) is a regulated electric distribution utility in the Province of Alberta. Its business is the ownership and operation of electric 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.

The Corporation is regulated by the Alberta Utilities Commission (“AUC”) pursuant to the *Alberta Utilities Commission Act* (“*AUCA*”). The AUC’s jurisdiction, pursuant to the *Electric Utilities Act (“EUA“)*, the *Public Utilities Act (“PUA“)*, the *Hydro and Electric Energy Act (“HEEA“)* and the *AUCA*, 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. REGULATORY MATTERS

The Corporation is regulated by the AUC, pursuant to the *EUA*, the *PUA*, the *HEEA* and the *AUCA*. 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 accounting principles generally accepted in the United States of America ("US GAAP") for entities not subject to rate regulation.

Performance-Based Regulation
Since January 1, 2018, the Corporation has operated under a second performance-based regulation (“PBR”) rate plan approved by the AUC for a five-year term from 2018 to 2022, inclusive. The PBR plan adjusts FortisAlberta’s distribution rates annually using an “I-X” escalation formula (the "formula"), that incorporates an inflation factor (“I”) and a productivity factor (“X”). Each year this formula is applied to the preceding year’s distribution rates.

The Corporation's base distribution rates, subject to escalation by the formula, for the second PBR term are based on a notional 2017 revenue requirement approved by the AUC. The impact of changes to return on equity ("ROE"), cost of debt and capital structure during the PBR term apply only to the portion of rate base that is funded by revenue provided by mechanisms separate from going-in rates escalated by the formula; any change in these items are recoverable through annual true-ups associated with these mechanisms. For 2022 and 2021, the Corporation's ROE was approved at 8.50%, with a capital structure of 37% equity and 63% debt.

In the second PBR term, incremental capital funding to recover costs related to capital expenditures that are not recovered through going-in rates escalated by the formula is available through two mechanisms. A capital tracker mechanism similar to that made available during the first 2013-2017 PBR term, continues 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. All capital in the notional going-in rate base with a provision for a prescribed level of annual capital additions is classified as “Type 2” capital and is funded through a K-Bar mechanism. A K-Bar amount is established for each year of the PBR term based on the revenue requirement associated with this projected notional rate base for Type 2 capital programs. The notional 2017 rate base and the level of annual capital additions were calculated using an AUC prescribed methodology, including both actual and historical averages.

2022 Annual Rates Application
In December 2021, the AUC issued Decision 26817-D01-2021 approving the Corporation's 2022 rates and riders, effective on an interim basis for January 1, 2022, including an increase of approximately 6.6% to the distribution component of customer rates. The increase in the distribution component of customer rates reflected: (i) an I-X of 1.46%; (ii) a refund of $4.6 million for the true-up of the 2020 and 2021 K-Bar amounts; (iii) a 2022 K-Bar placeholder of $89.1 million; (iv) a net collection of $32.8 thousand for the true-up of the 2020 and 2021 Alberta Electric System Operator ("AESO") contributions hybrid deferral; (v) a placeholder refund of $13.2 million for the 2022 AESO contributions hybrid deferral; and (vi) a net collection of Y factor amounts of $0.8 million.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
These unaudited condensed interim financial statements have been prepared by management in accordance with US GAAP as codified in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). 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 annual financial statements and notes thereto for the year ended December 31, 2021. In management's opinion, these 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, 2022, are not necessarily indicative of the results expected for the full year ending December 31, 2022.

In December 2017, the Ontario Securities Commission approved the extension of the Corporation's exemption 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 permanent standard within IFRS specific to entities with activities subject to rate regulation.

The preparation of the financial statements in accordance with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Certain estimates are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until finalization and adjustments, if any, are determined pursuant to subsequent regulatory decisions or other regulatory proceedings.

Critical accounting estimates made by management include current and deferred income tax, contingent liabilities due to general litigation, depreciation, amortization, pension and other post-employment benefits ("OPEB"), 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 for the three months ended March 31, 2022 as compared to March 31, 2021 and December 31, 2021.

Adoption of Accounting Pronouncements

There were no new significant accounting standards adopted for for the three months ended March 31, 2022. This is consistent with note 3 of the audited financial statements for the year ended December 31, 2021.

Future Accounting Pronouncements
The Corporation considers the applicability and impact of all Accounting Standards Update ("ASU") issued by the FASB. The Corporation has assessed the ASUs issued and determined the ASUs to be either not applicable to the Corporation or not expected to have a material impact on the financial statements.

4. REGULATORY ASSETS AND LIABILITIES

Regulatory assets represent amounts that are expected to be recovered from customers in future periods. Regulatory liabilities represent the current recovery of future costs or amounts that are expected to be refunded to customers in future periods. Based on existing or expected AUC decisions, the Corporation has recorded the following regulatory assets and liabilities.

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

	March 31, 2022	December 31, 2021
Regulatory assets		
Deferred income tax	$ 390,591	$ 383,499
Regulatory defined benefit pension deferrals	2,298	2,184
AESO charges deferral	1,192	1,843
Y factor deferral	114	44
Total regulatory assets	394,195	387,570
Less: current portion	1,538	2,137
Long-term regulatory assets	$ 392,657	$ 385,433

	March 31, 2022	December 31, 2021
Regulatory liabilities		
Non-ARO provision	$ 477,266	$ 470,274
AESO charges deferral	24,796	14,857
Incremental capital deferral	7,032	7,610
Y factor deferral	3,206	3,156
A1 rider deferral	591	607
AESO retail consumers deferral program	240	322
Total regulatory liabilities	513,131	496,826
Less: current portion	26,338	19,981
Long-term regulatory liabilities	$ 486,793	$ 476,845

A detailed description of the nature of the Corporation's regulatory assets and liabilities was provided in note 5 of the Corporation's 2021 audited annual financial statements.

5. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

Components of Net Periodic Costs

	Defined Benefit Pension Plans		OPEB Plan	
Three months ended March 31,	**2022**	**2021**	**2022**	**2021**
Service cost	$ 123	$ 108	$ 231	$ 235
Interest cost	329	298	93	80
Expected return on plan assets	(164)	(119)	—	—
Amortizations:				
Past service cost	—	—	153	153
Actuarial loss (gain)	—	—	(71)	(65)
Net benefit cost recognized	288	287	406	403
Regulatory adjustment	(114)	(119)	—	—
Net benefit cost recognized in financial statements	174	168	406	403
Defined contribution cost	3,550	3,335	—	—
Total employee future benefit cost	$ 3,724	$ 3,503	$ 406	$ 403

Pension Plans and OPEB Contributions

The Corporation made total contributions to the defined benefit pension plans of $0.1 million and contributions to the OPEB plan of $0.1 million for the three months ended March 31, 2022.

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

6. DEBT AND CAPITAL MANAGEMENT

As at March 31, 2022, the Corporation had a $250.0 million unsecured committed credit facility maturing in August 2026. As at March 31, 2022, the Corporation had $97.6 million drawn on the committed credit facility (December 31, 2021 - $51.0 million).

7. OTHER REVENUE

	March 31, 2022	December 31, 2021
Current contract liability	$ 6,354	$ 6,333
Long-term contract liability	38,180	39,776
Total contract liability	$ 44,534	$ 46,109

For the three months ended March 31, 2022, $1.7 million (March 31, 2021, $1.7 million) is included in other revenue and $0.2 million (March 31, 2021, $0.2 million) is included in interest expense in the condensed interim statements of income and comprehensive income.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value Measurement
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 that 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 value of the Corporation's financial instruments reflects 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 as at:	March 31, 2022	December 31, 2021
Fair value [1]	$ 2,546,090	$ 2,873,390
Carrying value [2]	2,358,767	2,358,757

[1] *The fair value of the long-term debt was estimated using level 2 inputs. It is calculated using indicative prices provided by a third party for the same or similarly rated issues of debt with similar maturities. Since the Corporation does not intend to settle the long-term debt prior to maturity, the excess of the estimated fair value above the carrying value does not represent an actual liability.*
[2] *Carrying value is presented gross of debt issuance costs of $15,788 (December 31, 2021 – $15,959).*

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

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

Credit Risk

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

The Corporation assesses its retailer credit exposure and expected credit loss using historical information, forms of prudential and current economic conditions. In accordance with the Corporation's Terms and Conditions, the Corporation is required to minimize its credit exposure to retailer billings by obtaining an acceptable form of prudential, which includes a cash deposit, 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. An acceptable form of prudential reduces the credit risk exposure of retailer billings. As at March 31, 2022, the Corporation's credit risk exposure was $1.2 million. Expected credit losses with other counterparties is evaluated using historical collection experience and internal counterparty-specific risk assessments. The Corporation's assessment is that its expected credit loss is not significant as at March 31, 2022.

Allowance for Credit Losses

Accounts receivables are recorded net of an allowance for credit losses. The credit loss allowance for the three months ended March 31, 2022, considers current and forecasted economic conditions and is reflective of normal course operations.

The change in allowance for credit losses balance is as follows:

	March 31, 2022	December 31, 2021
Balance, beginning of year	$ (199)	$ (766)
Credit loss provision	(412)	30
Write-offs, net of recoveries	25	537
Balance, end of period	$ (586)	$ (199)

9. COMMITMENTS AND CONTINGENCIES

A detailed description of the nature of the Corporation's commitments was provided in note 19 of the Corporation's 2021 audited annual financial statements. There have been no material changes to the nature or amounts of these items.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Non-Cash Operating Working Capital

	Three months ended March 31, 2022	2021
Accounts receivable	$ (26,792)	$ 2,146
Prepaids and deposits	(976)	(943)
Income tax (payable) receivable	(8,152)	1,760
Regulatory assets	599	(15,255)
Accounts payable and other current liabilities	7,730	897
Regulatory liabilities	6,357	(3,422)
	$ (21,234)	$ (14,817)

Non-Cash Investing Activities

As at March 31	**2022**	**2021**
Additions to property, plant and equipment and intangible assets included in current liabilities	$ 62,944	$ 56,662
Customer contributions for property, plant and equipment included in current assets	6,302	9,874