FORTISALBERTA INC.

Unaudited Interim Financial Statements
For the three months ended March 31, 2012

BALANCE SHEETS (UNAUDITED)

As at (all amounts in thousands of Canadian dollars)	March 31, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	5,485	–
Accounts receivable	146,672	144,170
Prepaids and deposits	4,418	4,731
Income taxes receivable	346	98
Deferred income taxes	3,566	3,506
Regulatory assets	13,153	47,824
	173,640	200,329
Accounts receivable	778	886
Property, plant and equipment	2,176,651	2,135,182
Intangible assets	59,473	61,386
Regulatory assets	85,090	73,559
Investment tax credits receivable	1,346	1,280
Transaction costs	9,614	9,754
Goodwill	226,968	226,968
	2,733,560	2,709,344
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable, accrued and other liabilities	223,236	184,845
Short-term debt	–	5,568
Regulatory liabilities	13,109	16,859
	236,345	207,272
Other liabilities	11,136	11,140
Accrued pension liability	4,651	5,030
Regulatory liabilities	309,333	303,811
Deferred income taxes	53,268	44,619
Long-term debt	1,184,217	1,213,192
	1,798,950	1,785,064
Shareholder's Equity		
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (December 31, 2011 – 63)	173,848	173,848
Additional paid-in capital	544,896	544,896
Accumulated other comprehensive loss	(4,230)	(4,303)
Retained earnings	220,096	209,839
	934,610	924,280
	2,733,560	2,709,344

Approved on behalf of the Board:

(signed)
Al Duerr
Director

(signed)
Judith Athaide
Director

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

Three months ended (all amounts in thousands of Canadian dollars)	March 31, 2012	March 31, 2011
Revenues		
Electric rate revenue	105,285	97,789
Other revenue	2,962	2,672
	108,247	100,461
Expenses		
Cost of sales (exclusive of items shown separately below)	38,679	35,491
Depreciation	31,407	29,606
Amortization	3,499	3,317
	73,585	68,414
Other income	1,763	3,031
Income before interest and income taxes	36,425	35,078
Interest	15,131	13,604
Income before income taxes	21,294	21,474
Income taxes		
Current income tax (recovery) expense	(241)	220
Deferred income tax expense	28	296
	(213)	516
Net income	21,507	20,958
Other comprehensive income		
Amortization of past service costs and actuarial losses for the post-retirement benefit plan	73	64
Comprehensive income	21,580	21,022

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (UNAUDITED)

Three months ended (all amounts in thousands of Canadian dollars)	March 31, 2012	March 31, 2011
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	544,896	489,896
Equity contributions	—	—
Balance, end of period	544,896	489,896
Accumulated Other Comprehensive Loss		
Balance, beginning of period	(4,303)	(4,106)
Amortization of past service costs and actuarial losses for the post-retirement benefit plan	73	64
Balance, end of period	(4,230)	(4,042)
Retained Earnings		
Balance, beginning of period	209,839	176,260
Net income	21,507	20,958
Dividends	(11,250)	(10,000)
Balance, end of period	220,096	187,218
Total Shareholder's Equity	934,610	846,920

STATEMENTS OF CASH FLOWS (UNAUDITED)

Three Months Ended (all amounts in thousands of Canadian dollars)	March 31, 2012	March 31, 2011
Operating Activities		
Net income	21,507	20,958
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	31,407	29,606
Amortization	3,729	3,493
Deferred income taxes	28	296
Allowance for funds used during construction	(3,366)	(3,283)
Gain on sale of property, plant, and equipment	–	(1,326)
Changes in operating assets and liabilities:		
Current:		
Accounts receivable	(3,082)	6,638
Prepaids and deposits	313	341
Regulatory assets	34,671	11,705
Accounts payable, accrued and other liabilities	42,417	1,029
Income taxes receivable	(248)	220
Regulatory liabilities	(3,919)	2,578
Non-current:		
Investment tax credits receivable	(66)	(25)
Regulatory assets	(2,801)	(2,443)
Accrued pension liability	(379)	(72)
Other liabilities	(4)	176
Regulatory liabilities	(490)	277
Unamortized bankers acceptance discount	(7)	(4)
Cash from operating activities	119,710	70,164
Investing Activities		
Additions to property, plant and equipment	(76,906)	(81,473)
Customer contributions for property, plant and equipment	10,035	8,524
Additions to intangible assets	(1,603)	(3,210)
Proceeds from the sale of property, plant and equipment	397	1,718
Net change in employee loans	(343)	357
Cash used in investing activities	(68,420)	(74,084)
Financing Activities		
Increase in debt	8,446	51,546
Repayment of debt	(42,985)	(37,615)
Dividends paid	(11,250)	(10,000)
Additions to transaction costs	(16)	(11)
Cash (used in) from financing activities	(45,805)	3,920
Change in cash and cash equivalents	5,485	–
Cash and cash equivalents, beginning of period	–	–
Cash and cash equivalents, end of period	5,485	–

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

1. ENTITY DEFINITION AND NATURE OF OPERATIONS

FortisAlberta Inc. (the "Corporation") is a regulated electricity distribution utility in the Province of Alberta. Its business is the ownership and operation of electricity distribution 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, is not involved in the direct sale of electricity, and has limited exposure to exchange rate fluctuations on foreign currency transactions. It is intended that the Corporation remain a regulated electric utility for the foreseeable future, focusing on the delivery of safe, reliable and cost-effective electricity services to its customers in Alberta.

The Corporation is regulated by the Alberta Utilities Commission (the "AUC") pursuant to the *Alberta Utilities Commission Act* (the "*AUC Act*").

The AUC's jurisdiction, pursuant to the *Electric Utilities Act* (the "*EUA*"), the *Public Utilities Act*, the *Hydro and Electric Energy Act* and the *AUC Act*, includes the approval of distribution tariffs for regulated distribution utilities such as the Corporation including the rates and terms and conditions on which service is to be provided by those utilities.

The Corporation is an indirect, wholly-owned subsidiary of Fortis Inc. ("Fortis"), a diversified, international electricity and gas distribution utility holding company having investments in distribution, transmission and generation utilities, real estate and hotel operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These interim financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP" or "US GAAP") as codified in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") for interim financial statements and do not include all of the disclosures normally found in the annual audited financial statements for the Corporation. These interim financial statements include all adjustments that are considered necessary for fair presentation of its respective financial statements in accordance with US GAAP. All adjustments are of a normal, recurring nature, except as otherwise disclosed. These interim financial statements should be read in conjunction with the Corporation's voluntarily filed US GAAP annual audited financial statements for the year ended December 31, 2011.

These financial statements have been prepared following the same accounting policies and methods as those used in preparing the most recent annual audited financial statements.

The preparation of interim financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures with respect to contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. 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. Due to the inherent uncertainty in making such estimates, actual results reported in future periods could differ materially from those estimated. Interim financial statements necessarily employ a greater use of estimates than the annual financial statements.

(b) Regulation

The Corporation is regulated by the AUC, pursuant to the *EUA*, the *Public Utilities Act*, the *Hydro and Electric Energy Act* and the *AUC Act*. The AUC administers these acts and regulations covering such matters as tariffs, rates, construction, operations and financing. The timing of recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using GAAP for entities not subject to rate regulation.

The Corporation operates under cost-of-service regulation as prescribed by the AUC. Rate orders issued by the AUC establish the Corporation's revenue requirements, being those revenues required to recover approved costs associated with the distribution business, and provide a rate of return on a deemed capital structure applied to approved rate base assets.

The Corporation applies for tariff revenue based on estimated costs-of-service. Once the tariff is approved, it is not adjusted as a result of actual costs-of-service being different from that which was estimated, other than for certain prescribed costs that are eligible for deferral treatment and are either collected or refunded in future rates. When the AUC issues decisions affecting the financial statements, the effects of the decision are recorded in the period in which the decision is received.

(c) Accounting changes

In 2011, the FASB issued two Accounting Standards Updates ("ASU") which amend guidance for the presentation of comprehensive income. The amended guidance requires an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The current option to report other comprehensive income and its components in the statement of shareholder's equity will be eliminated. Although the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under existing guidance. The Corporation adopted these ASUs as at January 1, 2012 which did not change the Corporation's financial statement presentation of comprehensive income.

In 2011, the FASB issued an ASU which is intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The ASU also expands upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The Corporation adopted this ASU as at January 1, 2012.

In 2011, the FASB issued an ASU which amends the wording used to describe many of the requirements for measuring fair value to achieve the objective of developing common fair value measurement and disclosure requirements, as well as improving consistency and understandability. Some of the requirements clarify the FASB's intent about the application of existing fair value measurement requirements while other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The Corporation adopted this ASU as at January 1, 2012.

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

3. EMPLOYEE FUTURE BENEFITS

(a) Costs Recognized

Any difference between the expense recognized under GAAP for defined benefit, defined contributions and supplemental pension plans and that recovered in current rates, which is expected to be recovered or refunded in future rates, is subject to deferral treatment. Any difference between the expense recognized under GAAP for the other post-retirement non-pension benefit plan and that recovered in current rates, which is expected to be recovered or refunded in future rates is not subject to deferral treatment.

Components of Net Periodic Costs

March 31, 2012	Retirement Plan	Supplemental Plan	Non-Pension Benefits	All Benefits Covered
Service cost	172	63	128	363
Interest cost	361	21	102	484
Expected return on plan assets	(241)	–	–	(241)
Amortizations				
- Past service cost	20	–	40	60
- Actuarial loss	367	–	33	400
- Initial net asset	–	(13)	–	(13)
Net periodic costs recognized	679	71	303	1,053
Regulatory adjustments to net periodic costs	(9)	93	–	84
Net periodic costs recognized in financial statements	670	164	303	1,137
Defined contribution net benefit cost recognized in financial statements	2,420	–	–	2,420
Total recognized in the financial statements	3,090	164	303	3,557

March 31, 2011	Retirement Plan	Supplemental Plan	Non-Pension Benefits	All Benefits Covered
Service cost	151	61	112	324
Interest cost	375	19	111	505
Expected return on plan assets	(243)	–	–	(243)
Amortizations				
- Past service cost	20	–	40	60
- Actuarial loss (gain)	386	(4)	24	406
Net periodic costs recognized	689	76	287	1,052
Regulatory adjustments to net periodic costs	(333)	(73)	–	(406)
Net periodic costs recognized in financial statements	356	3	287	646
Defined contribution net benefit cost recognized in financial statements	2,165	–	–	2,165
Total recognized in the financial statements	2,521	3	287	2,811

(b) Pension Plan Contributions

The Corporation made total contributions to the defined benefit retirement plan of $670 for the three months ended March 31, 2012 and estimates that total contributions of $2,817 will be made towards the defined benefit retirement plan for fiscal year 2012.

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

4. FINANCIAL INSTRUMENTS

(a) Fair Value

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

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, 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 as they relate to the fair value hierarchy, as well as the corresponding financial instruments carrying value.

March 31, 2012	Carrying Value	Level 1 Fair Value	Level 2 Fair Value	Level 3 Fair Value	Estimated Fair Value
Long-term debt	1,184,217	–	1,462,898	–	1,462,898

December 31, 2011	Carrying Value	Level 1 Fair Value	Level 2 Fair Value	Level 3 Fair Value	Estimated Fair Value
Long-term debt	1,213,192	–	1,495,107	–	1,495,107

The fair value of the long-term debt is estimated based on the indicative prices for the same or similarly rated issues for debt of the same remaining maturities.

The carrying values of financial instruments included in current assets, long-term accounts receivable, current liabilities and short term debt on the balance sheet of the Corporation approximate their fair values, which reflects the short-term maturity, normal trade credit terms and/or nature of these financial instruments.

(b) Risk Management

(i) Interest Rate Risk

The Corporation defines interest rate risk as 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 rates, thereby minimizing cash flow variability due to interest rate exposures. The fair value of the fixed rate debentures fluctuates as market interest rates change. However, the Corporation plans to hold these debentures until maturity and applies in its rate applications to recover the actual interest rates on the debentures, thereby mitigating the risk of these fluctuations. The drawings under the Corporation's syndicated credit facility are at current market short-term interest rates, exposing the Corporation to some cash flow risk, but minimal fluctuations in fair value.

A change in the Corporation's interest rates results in interest rate exposure for drawings under the syndicated credit facility. Further, changes to the credit rating of the Corporation also represents a financial risk whereby changes in the credit rating could affect the costs of financing and access to sources of liquidity and capital. The Corporation has debt facilities, which have interest rate and fee components that are sensitive to the credit rating of the Corporation. The Corporation is rated by Moody's Investors Service, Dominion Bond Rating Service Limited and Standard and Poor's and a change in rating by any of these rating agencies could potentially increase or decrease the interest expense of the Corporation.

5. COMMITMENTS AND CONTINGENCIES

(a) Operating Leases and Other Contractual Obligations

The Corporation has operating leases for facilities and office premises. Also, the Corporation and an Alberta transmission service provider have entered into an agreement in consideration for joint attachments of distribution facilities to the transmission system. The expiry terms of this agreement state that the agreement remains in effect until the Corporation no longer has attachments to the transmission facilities. In addition, the Corporation and an Alberta transmission service provider have entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. The service agreements have minimum expiry terms of five years from September 1, 2010, and are subject to extension based on mutually agreeable terms.

(b) Legal Proceedings

The Corporation is subject to various legal proceedings and claims that arise in the ordinary course of business operations, none of which are currently material to the Corporation.

(c) Capital Expenditures

As an electric utility, the Corporation is obligated to provide service to customers within its service territory. As such, the Corporation may be required to expend capital in excess of that which it has forecast in its distribution tariff application.

(d) Pension Contribution Obligations

The Corporation makes minimum pension contributions into a defined benefit component of the Corporation's pension plan for certain employees, which according to the actuarial valuation for funding purposes as at December 31, 2010 amounts to approximately $2,817 in 2012 and $2,296 in 2013. Future actuarial valuations will establish the funding obligations for subsequent years, which could be materially different from prior years depending upon market conditions. The next required funding valuation is expected to be completed as at December 31, 2013 and will be filed in 2014.

(e) Letters of Credit

The Corporation carries letters of credit that have a maximum potential payment of $819.7 as at March 31, 2012 (December 31, 2011 - $819.7). These letters of credit arise in the ordinary course of business on construction projects within the Corporation's service territory. All letters of credit have a term of one year and are automatically annually renewed at the expiry date or once a request from the contracted party to cancel the letter of credit is provided. Should the Corporation not perform its obligations under contract it may be liable up to the amount of the individual outstanding letter of credit attached to the construction project. The Corporation is currently not at risk of paying any obligations and has minimal risk of non-performance.

6. SUBSEQUENT EVENTS

In April 2012, the AUC approved, substantially as filed on November 8, 2011, a Negotiated Settlement Agreement ("NSA") pertaining to the Corporation's 2012 distribution revenue requirement. The 2012 revenue requirement results in an average rate increase of 5%, which is currently being collected under interim rates. Final rates will be determined after the completion of a Phase II proceeding, which is expected to be filed in the fourth quarter of 2012. The increase in revenue requirement was driven primarily by ongoing investment in energy infrastructure, including increased amortization and financing costs. The NSA provides for a forecast midyear rate base of $2,025.4 million. The AUC did not approve the continuation of the deferral of volume variances associated with the Corporation's Alberta Electric System Operator charges deferral account. This issue is to be examined by the AUC in a future proceeding.

These financial statements and notes reflect the Company's evaluation of events occurring subsequent to the balance sheet date through April 24, 2012, the date the financial statements were available for issuance.

FORTISALBERTA INC. SUPPLEMENTARY FINANCIAL INFORMATION COVERAGE RATIOS (UNAUDITED)

The following financial ratio is provided as additional supplementary information.

For the twelve months ended March 31	**2012**
Earnings coverage (times) [(a)]	2.227

Note:

a. Net income before interest expense and taxes divided by interest expense.