FORTISALBERTA INC.

Unaudited Interim Financial Statements
For the three and nine months ended September 30, 2015

FORTISALBERTA INC.

BALANCE SHEETS (UNAUDITED)

As at (all amounts in thousands of Canadian dollars)	September 30, 2015	December 31, 2014
Assets		
Current assets		
Accounts receivable	$ 119,556	$ 105,313
Prepaids and deposits	4,909	3,073
Income tax receivable	6,580	10,979
Deferred income tax	3,204	10,578
Regulatory assets (note 3)	11,217	877
	145,466	130,820
Regulatory assets (note 3)	270,497	204,637
Property, plant and equipment	3,050,099	2,866,890
Intangible assets	43,551	40,970
Other assets	14,857	14,079
Goodwill	226,968	226,968
	$ 3,751,438	$ 3,484,364
Liabilities and Shareholder's Equity		
Current liabilities		
Short-term borrowings	$ 4,401	$ 23,398
Accounts payable and other current liabilities	181,517	167,017
Regulatory liabilities (note 3)	24,341	42,128
	210,259	232,543
Other liabilities	21,011	19,850
Regulatory liabilities (note 3)	364,786	352,479
Deferred income tax	194,979	142,688
Long-term debt	1,683,820	1,533,982
	2,474,855	2,281,542
Shareholder's Equity		
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (December 31, 2014 - 63)	173,848	173,848
Additional paid-in capital	689,896	679,896
Accumulated other comprehensive loss	(2,867)	(3,057)
Retained earnings	415,706	352,135
	1,276,583	1,202,822
	$ 3,751,438	$ 3,484,364

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

FORTISALBERTA INC.

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

(all amounts in thousands of Canadian dollars)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Revenues				
Electric rate revenue	$ 137,983	$ 126,413	$ 411,991	$ 374,306
Other revenue	3,768	4,529	11,894	11,594
	141,751	130,942	423,885	385,900
Expenses				
Cost of sales (exclusive of items shown separately below)	43,191	43,093	132,639	128,228
Depreciation	39,331	35,887	118,025	107,697
Amortization	2,405	5,045	7,291	14,922
	84,927	84,025	257,955	250,847
Other income	-	-	1,307	1,410
Income before interest expense and income taxes	56,824	46,917	167,237	136,463
Interest expense	20,205	20,065	59,208	59,245
Income before income taxes	36,619	26,852	108,029	77,218
Income taxes				
Current income tax recovery	(1,550)	(1,888)	(6,580)	(6,698)
Deferred income tax expense	1,398	1,527	6,038	5,930
	(152)	(361)	(542)	(768)
Net Income	$ 36,771	$ 27,213	$ 108,571	$ 77,986
Other comprehensive income				
Reclassification of other post-employment benefit items	64	63	190	190
Comprehensive Income	$ 36,835	$ 27,276	$ 108,761	$ 78,176

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

FORTISALBERTA INC.

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (UNAUDITED)

(all amounts in thousands of Canadian dollars)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
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	$ 689,896	$ 674,896	$ 679,896	$ 639,896
Equity contributions	-	-	10,000	35,000
Balance, end of period	$ 689,896	$ 674,896	$ 689,896	$ 674,896
Accumulated Other Comprehensive Loss				
Balance, beginning of period	$ (2,931)	$ (3,060)	$ (3,057)	$ (3,187)
Reclassification of other post-employment benefit items	64	63	190	190
Balance, end of period	$ (2,867)	$ (2,997)	$ (2,867)	$ (2,997)
Retained Earnings				
Balance, beginning of period	$ 393,935	$ 328,011	$ 352,135	$ 304,738
Net income	36,771	27,213	108,571	77,986
Dividends	(15,000)	(13,750)	(45,000)	(41,250)
Balance, end of period	$ 415,706	$ 341,474	$ 415,706	$ 341,474
Total Shareholder's Equity	$ 1,276,583	$ 1,187,221	$ 1,276,583	$ 1,187,221

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

FORTISALBERTA INC.

STATEMENTS OF CASH FLOWS (UNAUDITED)

(all amounts in thousands of Canadian dollars)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Operating Activities				
Net income	$ 36,771	$ 27,213	$ 108,571	$ 77,986
Adjustments for non-cash items included in net income:				
Depreciation	39,331	35,887	118,025	107,697
Amortization	2,581	5,268	7,797	15,572
Deferred income tax	1,398	1,527	6,038	5,930
Equity component of allowance for funds used during construction	-	-	(1,307)	(1,357)
Gain on sale of property, plant and equipment	-	-	-	(53)
Change in long-term regulatory assets and liabilities	3,814	(10,466)	(10,701)	(29,516)
Change in other non-current operating assets and liabilities	424	428	1,066	622
Change in non-cash operating working capital (note 10)	(11,424)	(15,920)	(43,443)	27,254
Cash from operating activities	72,895	43,937	186,046	204,135
Investing Activities				
Property, plant and equipment	(95,160)	(80,648)	(295,116)	(236,156)
Customer contributions for property, plant and equipment	8,403	9,305	24,669	27,133
Intangible assets	(3,964)	(1,906)	(11,241)	(8,077)
Proceeds from the sale of property, plant and equipment	287	156	1,083	1,216
Net change in employee loans	129	801	(286)	481
Cash used in investing activities	(90,305)	(72,292)	(280,891)	(215,403)
Financing Activities				
Change in short-term borrowings	(11,477)	(329)	4,003	(4,830)
Proceeds from long-term debt, net of issuance costs	149,008	273,702	149,008	273,665
Net borrowings under committed credit facility	(105,121)	(112)	(23,166)	(20,161)
Dividends paid	(15,000)	(13,750)	(45,000)	(41,250)
Equity contributions	-	-	10,000	35,000
Cash from financing activities	17,410	259,511	94,845	242,424
Change in cash and cash equivalents	-	231,156	-	231,156
Cash and cash equivalents, beginning of period	-	-	-	-
Cash and cash equivalents, end of period	$ -	$ 231,156	$ -	$ 231,156

Supplemental cash flow information (note 10)

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

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 and is not involved in the direct sale of electricity. It is intended that the Corporation remain a regulated electricity utility for the foreseeable future, focusing on the delivery of safe, reliable and cost-effective electricity services to its customers in Alberta.

The Corporation is regulated by the Alberta Utilities Commission (the "AUC") pursuant to the *Alberta Utilities Commission Act* (the "*AUC Act*"). The AUC's jurisdiction, pursuant to the *Electric Utilities Act* (the "*EUA*"), the *Public Utilities Act*, the *Hydro and Electric Energy Act* 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 electric and gas utility business, serving customers across Canada and in the United States and the Caribbean.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States ("US GAAP") as codified in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). The preparation of 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 revenue 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. Significant accounting estimates made by management include income taxes, contingent liabilities due to general litigation, depreciation, amortization, employee future benefits, goodwill impairment, accrued revenue, expense accruals and other items impacted by regulation. 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 significant accounting estimates during the three and nine months ended September 30, 2015.

The depreciation and amortization rates used to record depreciation and amortization expense in 2014 were developed based on capital asset balances as at December 2010. Management reviewed these depreciation and amortization rates and determined that completion of a technical update to the depreciation study was appropriate given the change in capital asset balances since December 2010.

Depreciation and amortization estimates are based primarily on significant depreciation parameters, including the service life of assets and expected net salvage percentages, which are periodically calculated in a depreciation study and approved by the AUC. The depreciation and amortization rates are subject to change when a new depreciation study is completed by the Corporation and approved by the AUC or when a technical update to the depreciation study is completed. A technical update develops depreciation and amortization rates for the current capital asset balances based on the approved depreciation parameters.

Effective January 1, 2015, depreciation and amortization rates were changed based on the results of a technical update to the last approved depreciation study, and the impact to 2015 financial results as at September 30, 2015 was an increase to depreciation of approximately $3.0 million and a decrease to amortization of approximately $9.0 million.

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

(b) Regulation

The Corporation is regulated by the AUC, pursuant to the *EUA*, the *Public Utilities Act*, the *Hydro and Electric Energy Act* 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 timing of recognition of certain assets, liabilities, revenue and expenses as a result of regulation may differ from that otherwise expected using US GAAP for entities not subject to rate 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 a five-year term. 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. The 2012 distribution rates are the base rates upon which the formula was first applied and they were set using a traditional cost-of-service model whereby the AUC established the Corporation's revenue requirements, being those revenues corresponding to the costs associated with the distribution business, and provided a rate of return on a deemed equity component of capital structure ("ROE") applied to rate base assets. The Corporation's ROE for ratemaking purposes was 8.75% for 2012 with a deemed equity ratio of 41%. For 2013, 2014 and 2015, the Corporation's ROE has been set at 8.30% with a deemed equity ratio of 40%. The impact of changes to ROE and capital structure during the PBR term apply only to the portion of rate base that is funded by revenue provided by mechanism separate from the formula.

The PBR plan includes 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 are not being recovered through the formula ("K factor" or "capital tracker"). The AUC also approved a Z factor, a PBR re-opener and an ROE efficiency carry-over mechanism. The Z factor permits an application for recovery of costs related to significant unforeseen events. The PBR re-opener permits 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 is associated with certain thresholds. The ROE efficiency carry-over mechanism provides 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.

Generic Cost of Capital

In March 2015, the AUC issued Decision 2191-D01-2015 (the "2015 GCOC Decision") related to the Generic Cost of Capital ("GCOC") proceeding. In this decision, the AUC set the Corporation's allowed ROE for ratemaking purposes for 2013 to 2015 at 8.30%, down from the interim allowed ROE of 8.75%, and set the deemed equity ratio at 40%, down from 41%.

The AUC also determined that it will not re-establish a formula-based approach to setting annual ROE at this time. Instead, the allowed ROE of 8.30% and deemed equity ratio of 40% would remain in effect on an interim basis for 2016 and beyond.

For Alberta utilities under PBR, including FortisAlberta, the impact of the changes to the allowed ROE and capital structure resulting from the 2015 GCOC Decision applies to the portion of rate base that is funded by capital tracker revenue only. For assets not being funded by capital tracker revenue, no revenue adjustment is required for the change in allowed ROE and deemed equity ratio, as set in an earlier GCOC decision.

The Corporation, along with other Alberta Utilities (the "Utilities"), filed a review and variance application related to the 2015 GCOC Decision on grounds including that the AUC erred by using hindsight to arrive at the ROE for 2013 and 2014. An AUC decision on whether the review and variance application will proceed on its merits is expected in the fourth quarter of 2015. The Corporation also filed an application with the Court of Appeal of Alberta (the "Court") for permission to appeal aspects of the 2015 GCOC Decision related to retrospective ratemaking and the risk associated with utility asset disposition matters, as discussed below. An appeal hearing is scheduled to be heard in February 2016.

In April 2015, the AUC initiated a GCOC proceeding to set allowed ROE and capital structure for ratemaking purposes for 2016 and 2017. While the AUC approved a request by the Utilities to negotiate the matters at issue in the GCOC proceeding for 2016, a negotiated settlement was not reached. Therefore, the 2016 and 2017 GCOC proceeding will commence in the first quarter of 2016.

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

(b) Regulation (cont'd)

Capital Tracker Applications

The funding of capital expenditures during the PBR term is a material aspect of the PBR plan for the Corporation. The PBR plan provides a capital tracker mechanism to fund the recovery of costs associated with certain qualifying capital tracker expenditures.

In March 2015, the AUC issued Decision 3220-D01-2015 (the "2015 Capital Tracker Decision") related to the Corporation's 2013, 2014 and 2015 capital tracker application. The 2015 Capital Tracker Decision: (i) indicated that the majority of the Corporation's applied for capital trackers met the criteria established in the original PBR decision and were, therefore, approved for collection from customers as a K factor; (ii) approved the Corporation's accounting test; and (iii) confirmed certain inputs to be used in the accounting test, including the conclusion that the weighted average cost of capital used in the accounting test is to be based on actual debt rates and the allowed ROE and capital structure approved in the 2015 GCOC Decision.

While the majority of the Corporation's capital trackers were approved as filed, certain capital trackers were only partially approved. The AUC indicated that additional evidence supporting these capital trackers could be provided as part of a later filing.

In September 2015, the AUC approved the Corporation's Compliance Filing, related to the 2015 Capital Tracker Decision, substantially as filed. Capital tracker revenue of $17.4 million was approved for 2013 on an actual basis and capital tracker revenue of $42.2 million and $62.2 million was approved on a forecast basis for 2014 and 2015, respectively. The Corporation collected $14.6 million and $29.2 million in 2013 and 2014, respectively, and expects to collect $62.0 million in 2015, related to capital tracker expenditures.

In May 2015, the Corporation filed a 2014 True-Up and 2016-2017 Capital Tracker Application with the AUC. The Corporation is seeking: (i) capital tracker revenue for 2016 and 2017 of $71.5 million and $89.9 million, respectively; (ii) a reduction to the 2014 capital tracker revenue of $7.2 million to reflect actual capital expenditures; and (iii) approval of additional revenue of $3.3 million related to capital tracker amounts that had not been fully approved in the 2015 Capital Tracker Decision. A hearing related to this proceeding concluded in October 2015 with a decision from the AUC expected in the first quarter of 2016.

The Corporation expects to recognize capital tracker revenue of approximately $58.9 million in 2015, of which $8.7 million is related to 2013 and 2014 capital tracker expenditures and is not yet collected from customers. The capital tracker revenue for 2015 of approximately $50.2 million incorporates an updated forecast for related 2015 capital tracker expenditures as compared to the approved forecast reflected in current rates. This is expected to result in a deferral of approximately $11.8 million of 2015 capital tracker revenue as a regulatory liability. For the nine months ended September 30, 2015, the Corporation recognized capital tracker revenue of approximately $37.5 million related to 2015 capital tracker expenditures and deferred $8.8 million of revenue as a regulatory liability.

Further adjustment to the capital tracker amounts for 2013, 2014 and 2015 will result in an adjustment to revenue. Such an adjustment will be recognized when an AUC decision is received or when sufficient information is available to allow management to estimate the required adjustment in accordance with US GAAP.

(c) Changes in Accounting Policies

These unaudited interim financial statements have been prepared following the same accounting policies as those used in preparing the Corporation's 2014 audited annual financial statements.

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

(d) Future Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. The amendments in this update create ASC Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the codification. This standard completes a joint effort by FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for US GAAP and International Financial Reporting Standards that clarifies the principles for recognizing revenue and that can be applied consistently across various transactions, industries and capital markets. This update is to be applied on a full retrospective or modified retrospective basis. This standard was originally effective for annual and interim periods ending after December 15, 2016. In August 2015 FASB issued ASU 2014-09, *Deferral of the Effective Date.* The amendments in the update defer the effective date of ASU 2014-09 by one year to annual and interim periods beginning on or after December 15, 2017. Early adoption is permitted as of the original effective date. The Corporation is assessing the impact that the adoption of this standard will have on its financial statements and is in the process of identifying contracts with customers and performance obligations in contracts.

Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The amendments in this update are intended to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related disclosures. This update is effective for annual and interim periods beginning on or after December 15, 2016. Early adoption is permitted. The Corporation does not expect that the adoption of this update will have a material impact on its financial statements.

Simplifying the Presentation of Debt Issuance Costs

In April 2015, FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The amendments in this update require that debt issuance costs be presented on the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts or premiums. This update is effective for annual and interim periods beginning on or after December 15, 2015 and should be applied on a retrospective basis. Early adoption is permitted. The adoption of this update will result in the reclassification of debt issuance costs from long-term other assets to long-term debt on the Corporation's balance sheet. As at September 30, 2015, debt issuance costs included in long-term other assets were approximately $13.1 million (December 31, 2014 - $12.4 million). Additionally, in August 2015 FASB issued ASU 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements.* The guidance in ASU 2015-03 does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. The amendments in ASU 2015-15 permit an entity to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The Corporation does not expect that the adoption of this update will have a material impact on its financial statements.

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

3. REGULATORY ASSETS AND LIABILITIES

Based on previous, existing or expected AUC decisions, the Corporation has recorded the following amounts that are expected to be recovered from, or refunded to, customers in future periods.

Regulatory assets	**September 30, 2015**	**December 31, 2014**
Deferred income taxes	$ 199,563	$ 145,933
Deferred overhead	63,234	54,178
K factor deferrals (i)	8,654	-
Regulatory defined benefit pension deferrals	5,696	4,727
Alberta Electric System Operator charges deferral	3,992	-
Y factor deferrals	575	3
A1 rider deferral	-	673
Total regulatory assets	281,714	205,514
Less: current portion	11,217	877
Long-term regulatory assets	$ 270,497	$ 204,637

Regulatory liabilities	**September 30, 2015**	**December 31, 2014**
Non-asset retirement obligation removal cost provision	$ 349,524	$ 338,746
Alberta Electric System Operator charges deferral	24,470	49,162
K factor deferrals (i)	8,800	-
A1 rider deferral	4,041	3,530
Y factor deferrals	1,566	2,447
Deferred income taxes	726	722
Total regulatory liabilities	389,127	394,607
Less: current portion	24,341	42,128
Long-term regulatory liabilities	$ 364,786	$ 352,479

(i) K factor deferrals

These balances represent the deferral of capital tracker revenue that is expected to be collected from and refunded to customers in future periods, and were comprised of an asset balance of $8.7 million related to 2013 and 2014 and a liability balance of $8.8 million related to 2015. Refer to Note 2 (b) for further information.

A detailed description of the nature of the Corporation's other regulatory assets and liabilities was provided in Note 4 of the Corporation's 2014 audited annual financial statements.

4. DEBT

In July 2015, the Corporation renegotiated and amended its syndicated credit facility, extending the maturity date of the facility to August 2020 from August 2019. The amended agreement contains substantially similar terms and conditions as the previous agreement.

In September 2015, 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 4.27%, to be paid semi-annually, and mature in 2045. 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.

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

5. 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	**2015**	**2014**	**2015**	**2014**
Service cost	$ 165	$ 157	$ 155	$ 138
Interest cost	397	422	99	112
Expected return on plan assets	(228)	(231)	-	-
Amortizations:				
Past service cost	-	2	64	63
Actuarial loss	177	280	-	-
Net benefit cost recognized	511	630	318	313
Regulatory adjustments	(495)	(618)	-	-
Net benefit cost recognized in financial statements	16	12	318	313
Defined contribution cost	2,044	1,937	-	-
Total employee future benefit cost	$ 2,060	$ 1,949	$ 318	$ 313

	Defined Benefit Pension Plans		OPEB Plan	
Nine months ended September 30	**2015**	**2014**	**2015**	**2014**
Service cost	$ 496	$ 471	$ 467	$ 416
Interest cost	1,193	1,267	298	337
Expected return on plan assets	(683)	(693)	-	-
Amortizations:				
Past service cost	-	7	190	190
Actuarial loss	532	839	-	-
Net benefit cost recognized	1,538	1,891	955	943
Regulatory adjustments	(1,500)	(1,148)	-	-
Net benefit cost recognized in financial statements	38	743	955	943
Defined contribution cost	7,076	6,638	-	-
Total employee future benefit cost	$ 7,114	$ 7,381	$ 955	$ 943

Pension Plan Contributions

Minimum funding contributions for the defined benefit pension plan were approximately $1.6 million for each of 2013, 2014 and 2015, and the 2015 contributions have been funded by excess contributions made in 2013 and 2014. The Corporation estimates that contributions of $0.8 million will be made toward the OPEB plan in 2015.

6. INCOME TAXES

In the second quarter of 2015, the Corporation revised its estimated annual effective tax rate to reflect a change in the Alberta provincial statutory rate from 10% to 12%, effective July 1, 2015, resulting from legislation that was enacted on June 29, 2015. As a result, deferred income tax expense reported for the first six months of 2015 was adjusted to reflect the effects of the change in the tax law and decreased by $0.2 million, and the total deferred income tax liability and corresponding deferred income tax regulatory asset increased by $11.7 million and $11.9 million, respectively. The current income tax recovery was not impacted by the change in rate.

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

7. FAIR VALUE MEASUREMENTS

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

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

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

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

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

Long-term debt	**September 30, 2015**	**December 31, 2014**
Fair value [(1)]	$ 1,930,856	$ 1,856,403
Carrying value	1,683,820	1,533,982

[(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.*

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

8. FINANCIAL RISK MANAGEMENT

Exposure to credit risk, interest rate risk and liquidity risk arises in the normal course of the Corporation's business.

Credit Risk

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

The Corporation monitors its credit exposure in accordance with the Terms and Conditions of Distribution Access Service as approved by the AUC. The following table provides information on the counterparties that the Corporation extends credit to with respect to its distribution tariff billings as at September 30, 2015.

Credit Rating	**Number of Counterparties**	**Gross Exposure**	**Net Exposure**
AAA to AA (low)	2	$ 1,359	$ -
A (high) to A (low)	8	35,610	-
BBB (high) to BBB (low)	8	10,059	-
Not rated	37	65,168	2,562
Total	55	$ 112,196	$ 2,562

8. FINANCIAL RISK MANAGEMENT (cont'd)

Credit Risk (cont'd)

Gross exposure represents the projected value of retailer billings over a 37-day period. 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.

Retailers with investment grade credit ratings have the net exposure shown as nil since the credit rating serves to reduce the amount of prudential. For retailers that do not have an investment grade credit rating, the net exposure is calculated as the projected value of billings over a 37-day period less the prudential held by the Corporation. The Corporation assesses non-retailer billings on an individual basis for collectability and these billings are not subject to obtaining prudential.

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 which 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, 2015, the Corporation's debentures were rated by DBRS at A (low) and by S&P at A-. In February 2015, DBRS confirmed the Corporation's credit rating of A (low) with a Positive trend.

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, 2014 were summarized in Note 17 of the Corporation's 2014 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, 2015, the Corporation had no drawings on this facility.

9. COMMITMENTS AND CONTINGENCIES

A detailed description of the nature of the Corporation's commitments and contingencies was provided in Note 17 of the Corporation's 2014 audited annual financial statements. With the exception of the following, there have been no material changes to the nature or amounts of these items.

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

9. COMMITMENTS AND CONTINGENCIES (cont'd)

Long-Term Debt

The Corporation's obligations for future principal and interest payments have increased as a result of the September 2015 issuance of senior unsecured debentures (Note 4).

Purchase of Rural Electrification Association

In September 2015, the AUC approved the discontinuation of operations of Kingman Rural Electrification Association ("REA"), and the sale and transfer of Kingman REA's electricity distribution system to the Corporation for a purchase price of $5.1 million. The sale closed on October 1, 2015.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Change in Non-Cash Operating Working Capital:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Accounts receivable	$ 2,203	$ (5,732)	$ (14,726)	$ 8,143
Prepaids and deposits	65	995	(1,836)	(646)
Income tax receivable and payable	9,429	(3,102)	4,399	(11,747)
Regulatory assets	(9,948)	762	(10,340)	1,813
Accounts payable and other current liabilities	1,412	12,770	(3,149)	11,376
Regulatory liabilities	(14,585)	(21,613)	(17,791)	18,315
	$ (11,424)	$ (15,920)	$ (43,443)	$ 27,254

Non-Cash Investing Activities:

As at September 30	**2015**	**2014**
Additions to property, plant and equipment and intangible assets included in current liabilities	$ (78,610)	$ (57,044)
Customer contributions for property, plant and equipment included in current assets	5,613	7,430

11. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to comply with the current period's presentation.

12. SUBSEQUENT EVENTS

(a) Short-Form Prospectus

In October 2015, the Corporation filed a short-form base shelf prospectus with the securities regulatory authority in each of the provinces of Canada. During the 25-month life of the base shelf prospectus, the Corporation may issue medium-term note debentures in an aggregate principal amount of up to $500.0 million.

(b) Purchase of VNM REA

In October 2015, the AUC approved the discontinuation of operations of VNM REA, and the sale and transfer of VNM REA's electricity distribution system to the Corporation for a purchase price of $16.0 million. The sale closed on November 1, 2015.

(c) Subsequent Event Evaluation

These financial statements and notes reflect the Company's evaluation of events occurring subsequent to the balance sheet date through November 5, 2015, the date the financial statements were available for issuance.