FORTISALBERTA INC.

Unaudited Condensed Interim Financial Statements
For the three and nine months ended September 30, 2017

FORTISALBERTA INC.

CONDENSED INTERIM BALANCE SHEETS (UNAUDITED)

As at (all amounts in thousands of Canadian dollars)	September 30, 2017	December 31, 2016
Assets		
Current assets		
Restricted cash	$ 3,933	$ 3,933
Accounts receivable	135,389	107,028
Prepaids and deposits	5,652	3,486
Income tax receivable	1,759	-
Regulatory assets (note 3)	2,053	854
Total current assets	148,786	115,301
Regulatory assets (note 3)	379,603	339,745
Property, plant and equipment	3,463,453	3,310,897
Intangible assets	67,709	64,201
Other assets	1,774	1,799
Goodwill	226,968	226,968
Total Assets	$ 4,288,293	$ 4,058,911
Liabilities and Shareholder's Equity		
Current liabilities		
Short-term borrowings	$ 4,738	$ 92,610
Accounts payable and other current liabilities	183,814	158,742
Income tax payable	-	1,927
Regulatory liabilities (note 3)	47,741	26,136
Total current liabilities	236,293	279,415
Other liabilities	15,950	16,390
Regulatory liabilities (note 3)	391,789	412,033
Deferred income tax	277,297	244,927
Long-term debt	2,018,553	1,819,478
Total Liabilities	2,939,882	2,772,243
Commitments and contingencies (note 8)		
Shareholder's Equity		
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (December 31, 2016 - 63)	173,848	173,848
Additional paid-in capital	719,896	699,896
Accumulated other comprehensive income	1,402	1,329
Retained earnings	453,265	411,595
Total Shareholder's Equity	1,348,411	1,286,668
Total Liabilities and Shareholder's Equity	$ 4,288,293	$ 4,058,911

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

FORTISALBERTA INC.

CONDENSED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
(all amounts in thousands of Canadian dollars)	**2017**	**2016**	**2017**	**2016**
Revenues				
Electric rate revenue	$ 148,512	$ 139,419	$ 437,199	$ 418,067
Other revenue	3,987	4,410	10,864	11,559
Total Revenues	152,499	143,829	448,063	429,626
Expenses				
Cost of sales (exclusive of items shown separately below)	47,294	47,631	146,959	142,136
Depreciation	44,442	41,964	134,732	126,951
Amortization	2,273	2,197	7,210	7,523
Total Expenses	94,009	91,792	288,901	276,610
Other income	-	-	888	1,657
Income before interest expense and income tax	58,490	52,037	160,050	154,673
Interest expense	23,345	21,474	69,152	63,226
Income before income tax	35,145	30,563	90,898	91,447
Income tax				
Current income tax recovery	(670)	(910)	(1,524)	(3,301)
Deferred income tax expense	804	1,086	2,002	3,816
Total Income Tax	134	176	478	515
Net Income	$ 35,011	$ 30,387	$ 90,420	$ 90,932
Other comprehensive income				
Reclassification of other post-employment benefit items	24	64	73	190
Comprehensive Income	$ 35,035	$ 30,451	$ 90,493	$ 91,122

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, 2017	2016	Nine Months Ended September 30, 2017	2016
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	$ 719,896	$ 699,896	$ 699,896	$ 689,896
Equity contributions	-	-	20,000	10,000
Balance, end of period	$ 719,896	$ 699,896	$ 719,896	$ 699,896
Accumulated Other Comprehensive Income (Loss)				
Balance, beginning of period	$ 1,378	$ (2,272)	$ 1,329	$ (2,398)
Reclassification of other post-employment benefit items	24	64	73	190
Balance, end of period	$ 1,402	$ (2,208)	$ 1,402	$ (2,208)
Retained Earnings				
Balance, beginning of period	$ 434,504	$ 457,696	$ 411,595	$ 429,651
Net income	35,011	30,387	90,420	90,932
Dividends	(16,250)	(16,250)	(48,750)	(48,750)
Balance, end of period	$ 453,265	$ 471,833	$ 453,265	$ 471,833
Total Shareholder's Equity	$ 1,348,411	$ 1,343,369	$ 1,348,411	$ 1,343,369

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, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Operating Activities				
Net income	$ 35,011	$ 30,387	$ 90,420	$ 90,932
Adjustments for non-cash items included in net income:				
Depreciation	44,442	41,964	134,732	126,951
Amortization	2,475	2,383	7,764	8,080
Deferred income tax	804	1,086	2,002	3,816
Equity component of allowance for funds used during construction	-	-	(888)	(1,657)
Change in long-term regulatory assets and liabilities	(13,022)	(7,659)	(38,930)	(29,824)
Change in other non-current operating assets and liabilities	(81)	(91)	(444)	(298)
Change in non-cash operating working capital (note 9)	13,008	25,417	5,978	33,625
Cash from operating activities	82,637	93,487	200,634	231,625
Investing Activities				
Additions to property, plant and equipment	(105,419)	(89,614)	(293,857)	(244,870)
Customer contributions for property, plant and equipment	7,341	6,908	19,253	14,227
Additions to intangible assets	(3,028)	(4,522)	(9,852)	(15,005)
Proceeds from the sale of property, plant and equipment	441	1,257	1,666	1,918
Net change in employee loans	247	168	27	(193)
Cash used in investing activities	(100,418)	(85,803)	(282,763)	(243,923)
Financing Activities				
Change in short-term borrowings	(85,262)	(10,864)	(87,872)	(35,000)
Proceeds from long-term debt, net of issuance costs	198,941	148,970	198,941	148,891
Net borrowings under committed credit facility	(95,113)	(115,114)	(190)	(53,159)
Dividends paid	(16,250)	(16,250)	(48,750)	(48,750)
Equity contributions	-	-	20,000	10,000
Cash from financing activities	2,316	6,742	82,129	21,982
Change in cash and cash equivalents	(15,465)	14,426	-	9,684
Cash and cash equivalents, beginning of period	15,465	-	-	4,742
Cash and cash equivalents, end of period	$ -	$ 14,426	$ -	$ 14,426

Supplemental cash flow information (note 9)

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 *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 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 2014, Canadian securities regulators 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, 2019 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 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. Significant 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 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, 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, 2016. 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, 2017 are not necessarily indicative of the results expected for the full year ending December 31, 2017.

(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, revenues and expenses as a result of regulation may differ from that otherwise expected using US GAAP for entities not subject to rate regulation.

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

(b) Regulation (cont'd)

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 requirement, 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 2016 and 2017, the Corporation's ROE has been set at 8.30% and 8.50%, respectively, with a deemed equity ratio of 37%. The impact of changes approved by the AUC to ROE 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 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.

Capital Tracker Applications

In February 2016, the AUC issued Decision 20497-D01-2016 (the "2016 Capital Tracker Decision") related to the Corporation's 2014 True-Up and 2016-2017 Capital Tracker Application. In that Application, the Corporation had sought: (i) approval of capital tracker revenue associated with 2016 and 2017; (ii) an update to the 2014 capital tracker revenue to reflect actual capital tracker expenditures; and (iii) approval of additional revenue related to capital tracker amounts for 2013, 2014 and 2015 that had not been fully approved in the 2015 Capital Tracker Decision received in March 2015.

In June 2016, the Corporation filed a 2015 True-Up Application to update 2015 capital tracker revenue for actual capital tracker expenditures and the effects of the 2016 Capital Tracker Decision. The AUC issued its decision on the 2015 True-Up Application in January 2017, approving the 2015 capital tracker amount as filed, pending a determination on the Corporation's Compliance Filing submitted in February 2017. In May 2017, the AUC issued Decision 22442-D01-2017 approving the Corporation's 2015 Capital Tracker True-Up Compliance Filing.

In June 2017, the Corporation filed a 2016 Capital Tracker True-Up Application to update the 2016 capital tracker revenue for actual capital tracker expenditures. Capital tracker revenue was reduced by $0.3 million in the first nine months of 2017 to reflect the true-up to actual 2016 capital expenditures. A decision is expected in the first quarter of 2018.

In September 2016, the AUC issued Decision 21520-D01-2016 approving 2017 K factor revenue of $89.5 million. Capital tracker revenue was reduced by $1.7 million in the first nine months of 2017 to reflect actual capital expenditures and associated financing costs.

Generic Cost of Capital

In October 2016, the AUC issued Decision 20622-D01-2016 (the "2016 GCOC Decision") related to the 2016 and 2017 Generic Cost of Capital ("GCOC") proceeding. In this decision, the AUC maintained an 8.30% allowed ROE for 2016 and increased the allowed ROE to 8.50% for 2017. The decision also set the equity portion of capital structure at 37% for most utilities, which was a decrease from 40% for the Corporation.

For Alberta utilities under PBR, including the Corporation, the impact of the changes to the allowed ROE and capital structure resulting from the 2016 GCOC Decision applies to the portion of rate base that is funded by capital tracker revenue only.

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

(b) Regulation (cont'd)

Generic Cost of Capital (cont'd)

In July 2017, the AUC established a proceeding to determine the ROE and capital structure for 2018, 2019, and 2020. The proceeding will commence in October 2017, with an oral hearing in March 2018. A decision is expected in the third quarter of 2018.

2017 Annual Rates Application

In September 2016, the Corporation filed its 2017 Annual Rates Application. The rates and riders, proposed to be effective on an interim basis for January 1, 2017, included a decrease of approximately 2.4% 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 4.6%.

The decrease in the distribution component of rates reflected: (i) a combined inflation and productivity factor (I-X) of negative 1.9%; (ii) a K factor placeholder of $89.5 million that was 100% of the depreciation and return associated with the 2017 forecast capital tracker expenditures; (iii) a refund of $13.1 million that was the difference between the 2013-2016 K factor amounts applied for or approved and the previous placeholder amounts; (iv) a refund of $0.5 million of K factor carrying costs; and (v) a net collection of Y factor amounts of $0.5 million. The refund of $13.1 million was primarily due to the over collection of 2015 capital tracker revenue, as accounted for in the K factor deferrals on the balance sheets as at December 31, 2016 and 2015.

In December 2016, the AUC issued a decision approving the 2017 rates, options, and riders schedules, on an interim basis, effective January 1, 2017, with a rate mitigation measure for residential customers only. The AUC imposed this rate mitigation measure until April 1, 2017 in order to partially offset the impact of the transmission and generation-related increase. The Corporation filed an application in February 2017 for revised residential distribution rates effective April 1, 2017, to give effect to the approved annual rate increases over the remaining nine months of 2017. The Corporation recorded a rate mitigation deferral at March 31, 2017 for revenues to be recovered from residential customers under these rates as of April 1, 2017.

In March 2017, the AUC issued Decision 22415-D01-2017 approving the Corporation's 2017 PBR rates as filed on an interim basis until any required true-up amounts or placeholders are finalized by the AUC. These rates incorporated the collection of the rate mitigation deferral at March 31, 2017.

Electric Distribution System Purchases

If the Corporation and a municipality or a Rural Electrification Association ("REA") come to an agreement to transfer electric distribution system assets to the Corporation, the transfer and purchase is subject to regulatory oversight. The municipality or REA is required to apply to the AUC to cease and discontinue its operations. Concurrently, the Corporation is required to apply to the AUC to alter its electric service area to include the electric service area of the municipality or REA and obtain approval of the purchase price for the distribution system assets and the related rate treatment.

In 2015, the Corporation was granted AUC approval to, and did acquire, the electric distribution systems of Kingman REA Ltd. and VNM REA Ltd. for $5.1 million and $16.0 million, respectively. Subsequently, in 2016, upon request by the Office of the Utilities Consumer Advocate, the AUC initiated a review of its decisions regarding these acquisitions to confirm that the purchase prices paid by the Corporation were properly determined. The scope of the proceeding, as established by the AUC, would not permit the withdrawal of the approval for the transfer of assets involved in the acquisitions.

On October 3, 2017, the AUC issued Decision 21768-D01-2017 in this proceeding, which determined: (i) the Corporation's method to determine the purchase price of both Kingman REA Ltd. and VNM REA Ltd. to be reasonable; (ii) brushing costs associated with facilities' easements for both Kingman REA Ltd. and VNM REA Ltd. be removed from the purchase price; and (iii) the Corporation should apply amortization assumptions to reflect the remaining value of land rights on acquisition. The Corporation has been directed to file a compliance filing by January 15, 2018, for which a decision is expected in the second quarter of 2018.

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

(b) Regulation (cont'd)

Electric Distribution System Purchases (cont'd)

In July 2016, the Corporation and the Municipality of Crowsnest Pass ("CNP") agreed to the acquisition by the Corporation of CNP's electric distribution system for a proposed purchase price of $3.7 million, plus GST, and the related applications were filed with the AUC. In December 2016, as a result of the AUC decision to review the purchase prices of the Kingman REA Ltd. and VNM REA Ltd. acquisitions, the AUC suspended its consideration of the acquisition of CNP until it issued a decision on the purchase prices of Kingman REA Ltd. and VNM REA Ltd. In the interim, the Corporation has an operating agreement with CNP to oversee and maintain its electric distribution system and has placed the proposed purchase price of $3.7 million, plus GST, in trust, as disclosed in Note 2(d) to the 2016 audited annual financial statements. A decision on this matter is expected in the first half of 2018.

(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 2016 audited annual financial statements, except as follows.

Effective January 1, 2017, the Corporation adopted Accounting Standards Update ("ASU") 2017-04, Simplifying the Test for Goodwill Impairment. The amendments in this update simplify the subsequent measurement of goodwill by eliminating step two in the two-step goodwill impairment test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. The above-noted ASU was applied prospectively and did not impact the Corporation's unaudited condensed interim financial statements for the nine months ended September 30, 2017.

(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.

Revenue from Contracts with Customers

ASU No. 2014-09 was issued in May 2014 and the amendments in this update create Accounting Standards Codification ("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 clarifies the principles for recognizing revenue and can be applied consistently across various transactions, industries and capital markets. In 2016, a number of additional ASUs were issued that clarify implementation guidance in ASC Topic 606. This standard, and all related ASUs, is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted for annual and interim periods beginning after December 15, 2016. The Corporation has elected not to early adopt.

The new guidance permits two methods of adoption: (i) the full retrospective method and (ii) the modified retrospective method. The Corporation expects to adopt guidance using the modified retrospective approach under which comparative periods would not be restated and the cumulative impact of applying the standard would be recognized at the date of initial adoption, January 1, 2018.

The majority of the Corporation's revenue is generated from the distribution of electricity to end-user customers based on published tariff rates, as approved by the regulator. The Corporation has assessed tariff revenue and expects that the adoption of this standard will not change the Corporation's accounting policy for recognizing tariff revenue and, therefore, will not have a material impact on earnings.

The Corporation is finalizing its assessment on whether this standard will have an impact on its remaining revenue streams. The Corporation has not disclosed the expected impact of adoption on its financial statements as it is not expected to be material.

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

(d) Future Accounting Pronouncements (cont'd)

Revenue from Contracts with Customers (cont'd)

Alternative revenue programs of rate regulated utilities are outside the scope of this standard as they are not considered contracts with customers. Revenues arising from alternative revenue programs will be presented separately from revenues in scope of the new guidance. The Corporation also expects to add additional disclosures to address the requirements to provide more information regarding the nature, amount, timing and uncertainty of revenue and cash flows. The Corporation is in the process of drafting these required disclosures.

As part of its work to adopt the new revenue recognition standard, the Corporation is implementing, as necessary, changes to existing internal controls over financial reporting ("ICFR"), including accounting processes and the gathering and evaluation of information used in assessing the required disclosures. As the implementation process continues, the Corporation will further assess any necessary changes to ICFR.

Leases

ASU No. 2016-02 was issued in February 2016 and the amendments in this update create ASC Topic 842, *Leases*, and supersede guidance outlined in ASC Topic 840, *Leases*. The main provision of ASC Topic 842 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. For operating leases, a lessee is required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; (ii) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis; and (iii) classify all cash payments within operating activities in the statement of cash flows. These amendments also require qualitative disclosures along with specific quantitative disclosures. This update is effective for annual and interim periods beginning after December 15, 2018 and is to be applied using a modified retrospective approach with practical expedient options. Early adoption is permitted. The Corporation is assessing the impact that the adoption of this update will have on its financial statements and related disclosures.

Measurement of Credit Losses on Financial Instruments

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, was issued in June 2016 and the amendments in this update require entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to inform credit loss estimates. This update is effective for annual and interim periods beginning after December 15, 2019 and is to be applied on a modified retrospective basis. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Corporation is assessing the impact that the adoption of this update will have on its financial statements and related disclosures.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, was issued in March 2017 and the amendments in this update require that an employer disaggregate the current service costs component of net benefit cost and present it in the same statement of earnings line item(s) as other employee compensation costs arising from services rendered. The other components of net benefit cost are required to be presented separately from the service cost component and outside of operating income. Additionally, the amendments allow only the service cost component to be eligible for capitalization when applicable. This update is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted. The amendments in this update should be applied retrospectively for the presentation of the net periodic benefit costs and prospectively, on and after the effective date, for the capitalization in assets of only the service cost component of net periodic benefit costs. The Corporation is assessing the impact that the adoption of this update will have on its financial statements and related disclosures.

(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, 2017**	**December 31, 2016**
Deferred income tax	$ 287,533	$ 257,165
Deferred overhead	87,581	78,348
Regulatory defined benefit pension deferrals	3,791	4,084
A1 rider deferral	1,201	696
Rate mitigation deferral *(i)*	935	-
Y factor deferrals	538	-
K factor deferrals	77	306
Total regulatory assets	381,656	340,599
Less: current portion	2,053	854
Long-term regulatory assets	$ 379,603	$ 339,745

Regulatory liabilities	**September 30, 2017**	**December 31, 2016**
Non-asset retirement obligation removal cost provision	$ 381,364	$ 372,168
Alberta Electric System Operator charges deferral	38,304	36,956
K factor deferrals	18,097	26,193
Y factor deferrals	1,206	1,181
A1 rider deferral	559	1,671
Total regulatory liabilities	439,530	438,169
Less: current portion	47,741	26,136
Long-term regulatory liabilities	$ 391,789	$ 412,033

(i) Rate mitigation deferral

This balance represents the deferral of revenue associated with the AUC's approved rate mitigation measures for residential customers as discussed in Note 2(b) above. The rate mitigation deferral balance is expected to be collected from customers over the remaining three months of 2017.

A detailed description of the nature of the Corporation's other regulatory assets and liabilities was provided in Note 4 of the Corporation's 2016 audited annual financial statements.

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

4. DEBT

In July 2017, the Corporation renegotiated and amended its syndicated credit facility, extending the maturity date of the facility from August 2021 to August 2022. The amended agreement contains similar terms and conditions as the previous agreement.

In September 2017, the Corporation entered into an agreement with a syndicate of agents, pursuant to which the Corporation sold $200.0 million of senior unsecured debentures. The debentures bear interest at a rate of 3.67%, to be paid semi-annually, and mature in 2047. Proceeds of the issue were used to repay the bilateral credit facility of $90.0 million and existing indebtedness incurred under the committed credit facility to finance capital expenditures and for general corporate purposes. The bilateral credit facility was terminated upon repayment.

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	**2017**	**2016**	**2017**	**2016**
Service cost	$ 154	$ 92	$ 95	$ 162
Interest cost	403	411	75	97
Expected return on plan assets	(216)	(223)	-	-
Amortizations:				
Past service cost	-	-	63	63
Actuarial loss (gain)	294	60	(39)	-
Net benefit cost recognized	635	340	194	322
Regulatory adjustments	(181)	118	-	-
Net benefit cost recognized in financial statements	454	458	194	322
Defined contribution cost	2,120	2,095	-	-
Total employee future benefit cost	$ 2,574	$ 2,553	$ 194	$ 322

	Defined Benefit Pension Plans		OPEB Plan	
Nine months ended September 30	**2017**	**2016**	**2017**	**2016**
Service cost	$ 488	$ 277	$ 286	$ 485
Interest cost	1,209	1,233	224	293
Expected return on plan assets	(647)	(669)	-	-
Amortizations:				
Past service cost	-	-	190	190
Actuarial loss (gain)	881	179	(117)	-
Net benefit cost recognized	1,931	1,020	583	968
Regulatory adjustments	(587)	374	-	-
Net benefit cost recognized in financial statements	1,344	1,394	583	968
Defined contribution cost	7,480	7,159	-	-
Total employee future benefit cost	$ 8,824	$ 8,553	$ 583	$ 968

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

5. EMPLOYEE FUTURE BENEFITS (cont'd)

Pension Plan Contributions

The Corporation made total contributions to the defined benefit retirement plan of $0.4 million and $1.3 million for the three and nine months ended September 30, 2017, respectively. Minimum funding contributions of approximately $1.8 million will be made towards the defined benefit pension plan and contributions of $0.8 million toward the OPEB plan in 2017.

6. FAIR VALUE MEASUREMENTS

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

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

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

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

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

Long-term debt	**September 30, 2017**	**December 31, 2016**
Fair value [(1)]	$ 2,321,204	$ 2,117,122
Carrying value[(2)]	2,033,617	1,833,594

[(1)] *The fair value of the long-term debt was estimated using level 2 inputs based on the indicative prices for the same or similarly rated issues for debt of the same remaining maturities.*
[(2)] *Carrying value is presented gross of debt issuance costs of $15,064 (December 31, 2016 - $14,116).*

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.

7. FINANCIAL RISK MANAGEMENT

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

Credit Risk

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

7. FINANCIAL RISK MANAGEMENT (cont'd)

Credit Risk (cont'd)

For accounts receivable, the Corporation's gross credit risk exposure is equal to the carrying value on the condensed interim balance sheet. The Corporation monitors its credit exposure in accordance with its 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, 2017, the Corporation has reduced its exposure to $1.4 million.

Interest Rate Risk

Interest rate risk is the financial risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation's debentures bear fixed interest expense that is recovered in current distribution rates, thereby minimizing cash flow variability due to interest rate exposures. Any new issues of fixed rate debentures by the Corporation within the five-year PBR term would be exposed to cash flow variability to the extent that the inflation and productivity factor of the PBR formula may not fully provide for the interest expense. The fair value of the Corporation's fixed rate debentures fluctuates as market interest rates change; however, the Corporation plans to hold these debentures until maturity thereby mitigating the risk of these fluctuations. The drawings under the Corporation's committed credit facilities are at current market short-term interest rates, exposing the Corporation to some cash flow risk, but minimal fluctuations in fair value.

The Corporation's committed credit facilities have interest rate and fee components that are sensitive to the Corporation's credit ratings. The Corporation is rated by DBRS and Standard and Poor's ("S&P") and a change in rating by either of these rating agencies could potentially increase or decrease the interest expense of the Corporation. As at September 30, 2017, the Corporation's debentures were rated by DBRS at A (low) and by S&P at A-.

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, 2016 were summarized in Note 17 of the Corporation's 2016 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, 2017, the Corporation had no drawings on this facility (December 31, 2016 - $nil).

8. 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 2016 audited annual financial statements. There have been no material changes to the nature or amounts of these items, except as discussed below.

The Corporation's obligation for future principal and interest payments have increased as a result of the September 2017 issuance of $200.0 million senior unsecured debentures. Refer to Note 4 for further information.

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

9. SUPPLEMENTAL CASH FLOW INFORMATION

Change in Non-Cash Operating Working Capital:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Accounts receivable	$ 205	$ 9,886	$ (27,421)	$ (5,086)
Prepaids and deposits	1,278	1,087	(2,166)	(2,059)
Income tax receivable and payable	(666)	5,041	(3,686)	100
Regulatory assets	9,919	1,132	(1,199)	7,662
Accounts payable and other current liabilities	(11,186)	(170)	18,845	9,627
Regulatory liabilities	13,458	8,441	21,605	23,381
	$ 13,008	$ 25,417	$ 5,978	$ 33,625

Non-Cash Investing Activities:

As at September 30	**2017**	**2016**
Additions to property, plant and equipment and intangible assets included in current liabilities	$ 72,902	$ 67,175
Customer contributions for property, plant and equipment included in current assets	5,356	3,688

10. SUBSEQUENT EVENTS

These financial statements and notes reflect the Corporation's evaluation of events occurring subsequent to the balance sheet date through October 30, 2017, the date the financial statements were available for issuance.