

FORTISALBERTA INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2016

April 29, 2016

The following Management's Discussion and Analysis ("MD&A") of FortisAlberta Inc. (the "Corporation") should be read in conjunction with the following: (i) the unaudited interim financial statements and notes thereto for the three months ended March 31, 2016, prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"); (ii) the audited financial statements and notes thereto for the year ended December 31, 2015, prepared in accordance with US GAAP; and (iii) the MD&A for the year ended December 31, 2015. All financial information presented in this MD&A has been prepared in accordance with US GAAP and is expressed in Canadian dollars unless otherwise indicated.

FORWARD-LOOKING STATEMENTS

The Corporation includes forward-looking information in the MD&A within the meaning of applicable securities laws in Canada ("forward-looking information"). The purpose of the forward-looking information is to provide management's expectations regarding the Corporation's future growth, results of operations, performance, business prospects and opportunities and may not be appropriate for other purposes. All forward-looking information is given pursuant to the safe harbour provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to management.

The forward-looking information in the MD&A includes, but is not limited to, statements regarding: the expected timing of filing of regulatory applications and receipt of regulatory decisions; the expectation that sufficient cash will be generated to pay all operating costs and interest expense from internally generated funds; the expectation that sufficient cash to finance ongoing capital expenditures will be generated from a combination of long-term debt and short-term borrowings, internally generated funds and equity contributions; the expectation that the Corporation will continue to have access to the required capital on reasonable market terms; and the Corporation's forecast gross capital expenditures for 2016. The forecasts and projections that make up the forward-looking information are based on assumptions that include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the electricity system to ensure its continued performance; favourable economic conditions; no significant variability in interest rates; sufficient liquidity and capital resources; maintenance of adequate insurance coverage; the ability to obtain licences and permits; retention of existing service areas; continued maintenance of information technology infrastructure; favourable labour relations; and sufficient human resources to deliver service and execute the capital program.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. Risk factors which could cause results or events to differ from current expectations are detailed in the "Business Risk" section of the MD&A for the year ended December 31, 2015 and in continuous disclosure materials filed from time to time with Canadian securities regulatory authorities. Key risk factors include, but are not limited to: regulatory risk; loss of service areas; political risk; a severe and prolonged economic downturn; environmental risks; capital resources and liquidity risks; operating and maintenance risks; weather conditions in geographic areas where the Corporation operates; risk of failure of information technology infrastructure; cyber-security risk; insurance coverage risk; risk of loss of permits and rights-of-way; labour relations risk; human resources risk; and the ability to report under US GAAP beyond 2018.

All forward-looking information in the MD&A is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

THE CORPORATION

The Corporation 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 operates a largely rural low-voltage distribution network of approximately 121,000 kilometres in central and southern Alberta, which serves approximately 541,000 electricity customers comprised of residential, commercial, farm, oil and gas, and industrial consumers.

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 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.

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 ("I-X") 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 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.

As a significant portion of the Corporation's distribution revenue is derived from fixed or largely fixed billing determinants, changes in quantities of energy delivered are not entirely correlated with changes in revenue. Revenue is a function of numerous variables, many of which are independent of actual energy deliveries.

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.

REGULATORY MATTERS

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 includes a capital tracker mechanism to fund the recovery of costs associated with certain qualifying capital tracker expenditures.

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. The 2016 Capital Tracker Decision determined that the Corporation's applied for capital trackers met the established criteria and were, therefore, approved for collection from customers as a K factor. The 2016 Capital Tracker Decision also addressed previously unapproved capital tracker amounts related to prior years, capital tracker groupings in the accounting test, and depreciation-related matters.

With respect to the depreciation-related matters, the Commission directed the Corporation to remove the impact of a 2015 depreciation technical update from the K factor calculation in the accounting test. While actual depreciation expense, as reflected in the financial results of the Corporation, continues to be determined in accordance with the depreciation rates established by the 2015 depreciation technical update, the Commission determined that changes in depreciation rates should not be reflected in the accounting test underpinning the determination of capital tracker revenue during the PBR term. Also, the Corporation was directed to use the same accounting test allocation methodology for depreciation expense in the true-up to actual of capital tracker revenue as that used in calculating forecasts of capital tracker revenue.

In the first quarter of 2016, capital tracker revenue related to 2013, 2014 and 2015 was reduced by \$0.6 million due to the impact of the 2016 Capital Tracker Decision and the true-up to actuals. Capital tracker revenue related to 2015 is still subject to change. The Corporation will file a 2015 True-Up Application in the second quarter of 2016, with a decision from the AUC expected in the first quarter of 2017.

The Corporation had applied for \$71.5 million and \$89.5 million of capital tracker revenue for 2016 and 2017, respectively. The effects of the 2016 Capital Tracker Decision reduced the applied for capital tracker revenue for 2016 and 2017 by \$0.6 million and \$0.4 million, respectively. The Corporation filed the required Compliance Filing related to the 2016 Capital Tracker Decision in April 2016, with a decision expected in the second half of 2016.

The Corporation expects to recognize capital tracker revenue of \$64.9 million for 2016, down \$6.0 million from the \$70.9 million to reflect actual capital expenditures and associated financing costs compared to forecast.

The Corporation expects that the adjustments to capital tracker revenue, as discussed above, will be considered in the 2017 Annual Rates Application, to be filed in September 2016, and reflected in customer rates effective January 1, 2017.

Utility Asset Disposition Matters

In Decision 2011-474 (the "2011 GCOC Decision"), the AUC made statements regarding cost responsibility for stranded assets, which the Corporation, along with the other Alberta Utilities (the "Utilities") challenged as being incorrectly made. Stranded assets are generally understood to be utility assets no longer used to provide utility services as a result of extraordinary circumstances. The AUC's statements implied that the shareholder is responsible for the cost of stranded assets in a broader sense than that generally understood by regulated utilities and also conflicted with the provisions of the *EUA*. As a result, the Utilities filed a leave to appeal motion with the Court of Appeal of Alberta (the "Court of Appeal"). In addition, the Utilities filed a Review and Variance application with the AUC, which prompted the AUC to initiate a Utility Asset Disposition proceeding to further examine the issues raised by the Utilities.

In November 2013, the AUC issued Decision 2013-417 (the "UAD Decision") regarding the Utility Asset Disposition proceeding. The decision confirmed that no changes to existing regulations, rules and practices relative to the recovery of utility asset costs in the ordinary course of business are required. The decision indicated, however, that utilities will be responsible for the gains or losses related to the extraordinary retirement of utility assets. The Utilities also filed a leave to appeal motion with the Court of Appeal concerning the UAD Decision.

The appeal of the 2011 GCOC Decision and the UAD Decision was heard in June 2015. In September 2015, the Court of Appeal issued a decision that dismissed that appeal (the "2015 UAD Appeal"). The basis for the Court of Appeal's decision was that the AUC should be accorded deference for its conclusions with respect to utility asset disposition matters.

In November 2015, the Utilities filed an application with the Supreme Court of Canada (the "Supreme Court") seeking leave to appeal the 2015 UAD Appeal. In April 2016, the Supreme Court dismissed the leave to appeal application.

The Court of Appeal and Supreme Court decisions have no immediate impact on the Corporation's financial position. However, the Corporation is exposed to the risk that unrecovered costs associated with utility assets subsequently deemed by the AUC to have been subject to an extraordinary retirement will not be recoverable from customers.

RESULTS OF OPERATIONS

Highlights

(\$ thousands)	Three Months Ended March 31		
	2016	2015	Variance
Revenues	141,991	146,650	(4,659)
Cost of sales	47,695	46,292	1,403
Depreciation	42,245	38,713	3,532
Amortization	2,641	2,391	250
Other income	1,657	865	792
Income before interest expense and income tax	51,067	60,119	(9,052)
Interest expense	20,068	18,748	1,320
Income before income tax	30,999	41,371	(10,372)
Income tax expense (recovery)	67	(12)	79
Net income	30,932	41,383	(10,451)

Net income for the first quarter of 2016 decreased \$10.5 million compared to the same period in 2015. The decrease was primarily due to the recognition in the first quarter of 2015 of a positive capital tracker adjustment of \$10.3 million related to 2013 and 2014, and the recognition in the first quarter of 2016 of a negative capital tracker adjustment of \$0.6 million related to 2013, 2014 and 2015. Excluding the capital tracker adjustments, net income increased \$0.4 million, due to an increase in rates and growth in the number of customers, partially offset by the timing of certain operating costs.

The following table outlines the significant variances in the Results of Operations for the three months ended March 31, 2016 as compared to March 31, 2015:

Item	Variance (\$ millions)	Explanation
Revenues	(4.7)	Electric rate revenue decreased by \$3.9 million primarily due to the recognition of capital tracker revenue adjustments related to prior periods. In the first quarter of 2015 a positive capital tracker revenue adjustment of \$10.3 million was recognized and in the first quarter of 2016 a negative capital tracker revenue adjustment of \$0.6 million was recognized. Excluding the prior period adjustments electric rate revenue increased \$7.0 million, due to an increase in 2016 revenue resulting from the approved I-X increase of 0.9%, growth in the number of customers, and net increases in revenues related to flow-through items which were fully offset in cost of sales. Other revenue decreased by \$0.8 million primarily due to decreases in various miscellaneous revenues.
Cost of sales	1.4	The increase was primarily driven by net increases in costs that qualify as flow-through items which were fully offset in electric rate revenue, higher labour and benefit costs driven by inflation and wage increases, and differences in timing of certain operating costs. Labour and benefit costs and contracted manpower costs comprised approximately 61% of total cost of sales.
Depreciation	3.5	The increase was due to continued investment in capital assets.
Interest expense	1.3	The increase was primarily attributable to the issuance of long-term debt in September 2015.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth certain unaudited quarterly information of the Corporation:

(\$ thousands)	Revenues	Net Income
March 31, 2016	141,991	30,932
December 31, 2015	139,186	28,945
September 30, 2015	141,751	36,771
June 30, 2015	135,484	30,417
March 31, 2015	146,650	41,383
December 31, 2014	132,135	24,411
September 30, 2014	130,942	27,213
June 30, 2014	128,113	25,352

Changes in revenues and net income from quarter to quarter are a result of many factors including energy deliveries, number of customer sites, regulatory decisions, ongoing investment in energy infrastructure, and changes in income tax. The quarterly information presented above has been impacted by specific regulatory decisions. As approved by the AUC, the allowance for funds used during construction ("AFUDC") is recognized in the first and fourth quarters of the year. There is no significant seasonality in the Corporation's operations.

March 31, 2016/December 31, 2015

Net income for the quarter ended March 31, 2016 increased \$2.0 million compared to the quarter ended December 31, 2015. Revenue increased by \$2.8 million due to the approved I-X increase of 0.9% and net increases in revenue related to flow-through items which were fully offset in cost of sales. Cost of sales decreased by \$2.5 million primarily due to the timing of the use of contracted manpower and general operating costs, partially offset by net increases in costs that qualify as flow-through items which were fully offset in electric rate revenue. Depreciation expense increased by \$2.2 million as a result of continued investment in capital assets. Interest expense increased by \$0.6 million as a result of an increase in credit facility borrowings.

December 31, 2015/September 30, 2015

Net income for the quarter ended December 31, 2015 decreased \$7.8 million compared to the quarter ended September 30, 2015. Revenue decreased by \$2.6 million, primarily as a result of weather conditions reducing the demand for energy. Cost of sales increased by \$7.0 million mainly due to higher labour and benefit costs and the timing of general operating costs. The decreases in net income were partially offset by an increase in other income of \$1.7 million and a decrease in interest expense of \$1.5 million related to the equity and debt portions of AFUDC, respectively.

September 30, 2015/June 30, 2015

Net income for the quarter ended September 30, 2015 increased \$6.4 million compared to the quarter ended June 30, 2015. Revenue increased by \$6.3 million mainly due to higher electric rate revenue as a result of customer growth and weather conditions increasing the demand for energy. Also contributing to the increase in net income were adjustments made in the second quarter of 2015 to reduce capital tracker revenue related to 2013 and 2014 upon further application of the 2015 Capital Tracker and 2015 GCOC Decisions and to true-up depreciation for net increases in depreciation rates effective January 1, 2015 based on the results of a technical update to the depreciation study.

June 30, 2015/March 31, 2015

Net income for the quarter ended June 30, 2015 decreased \$11.0 million compared to the quarter ended March 31, 2015. Revenue decreased by \$11.2 million mainly due to the recognition of the capital tracker revenue adjustment related to 2013 and 2014 in the first quarter of 2015, partially offset by an increase in the number of customers and higher demand relating to the start of irrigation season. Cost of sales decreased \$3.1 million mainly due to the timing of benefit costs and a reduction in costs that qualify as flow-through items that were fully offset in electric rate revenue, partially offset by an increase in the use of contracted manpower due to the timing of contracted activities. Other income decreased \$0.4 million and interest expense increased \$1.3 million related to the equity and debt portions of the AFUDC, respectively. Depreciation increased \$1.3 million due to net increases in depreciation rates based on the results of a technical update to the depreciation study.

March 31, 2015/December 31, 2014

Net income for the quarter ended March 31, 2015 increased \$17.0 million compared to the quarter ended December 31, 2014. Revenue increased by \$14.5 million primarily due to the recognition of the capital tracker revenue adjustment related to 2013 and 2014 of \$10.3 million in the first quarter of 2015. The increase was also due to higher 2015 revenue resulting from the approved I-X increase of 1.49% and estimated capital tracker revenue based on the 2015 Capital Tracker and the 2015 GCOC Decisions, and net increases in revenues related to flow-through items that were fully offset in cost of sales. These increases were partially offset by \$2.3 million in lower revenue related to the timing of the provision of third-party services. Cost of sales decreased \$1.6 million primarily due to the timing of general operating costs and use of contracted manpower, partially offset by net increases in costs that qualify as flow-through items that were fully offset in electric rate revenue, and increases in labour and benefit costs. Interest expense decreased \$1.4 million due to the repayment of \$200.0 million senior unsecured debentures in October 2014 and lower carrying costs associated with lower Alberta Electric System Operator ("AESO") charges deferral account balances.

December 31, 2014/September 30, 2014

Net income for the quarter ended December 31, 2014 decreased \$2.8 million compared to the quarter ended September 30, 2014. Revenue increased by \$1.2 million mainly due to higher revenue related to the provision of third-party services, while cost of sales increased \$4.8 million primarily due to higher labour and benefit costs and the timing of general operating costs. Interest expense increased \$0.7 million due to the issuance of \$275.0 million senior unsecured debentures in September 2014 and the repayment of \$200.0 million senior unsecured debentures in October 2014. The decreases in net income were partially offset by an increase in other income of \$1.5 million and a decrease in interest expense of \$1.2 million related to the equity and debt portions of AFUDC, respectively.

September 30, 2014/June 30, 2014

Net income for the quarter ended September 30, 2014 increased \$1.9 million compared to the quarter ended June 30, 2014. Revenue increased by \$2.8 million mainly due to higher electric rate revenue as a result of customer growth, partially offset by net decreases in revenues related to flow-through items that were fully offset in cost of sales. Cost of sales increased \$1.2 million primarily due to the timing of expenses, partially offset by net decreases in costs that qualify as flow-through items that were fully offset in electric rate revenue.

FINANCIAL POSITION

The following table outlines the significant changes in the Balance Sheet as at March 31, 2016 as compared to December 31, 2015:

Item	Variance (\$ millions)	Explanation
Assets:		
Regulatory assets (current and long-term)	14.7	The increase was primarily due to increases in the deferred income tax regulatory deferral and deferred overhead costs.
Property, plant and equipment	29.6	The increase was due to continued investment in energy infrastructure, partially offset by depreciation and customer contributions.
Liabilities and Shareholder's equity:		
Accounts payable and other current liabilities	5.8	The increase was primarily due to the net collection of customer deposits related to transmission connected projects, which will be refunded when the projects are completed.
Regulatory liabilities (current and long-term)	8.4	The increase was primarily due to increases in the provision for future site restoration costs and an increase in the K factor liability, partially offset by a decrease in the AESO charges deferral.
Deferred income tax	11.9	The increase was primarily due to higher temporary differences relating to capital assets.
Debt (including short-term borrowings)	7.2	The increase was primarily related to \$17.0 million higher drawings on the Corporation's committed credit facility, partially offset by a decrease of \$9.8 million in short-term borrowings.
Shareholder's equity	14.7	The increase was due to net income for the quarter, less dividends paid.

SOURCES AND USES OF LIQUIDITY AND CAPITAL RESOURCES

The Corporation's primary sources of liquidity and capital resources are the following:

- funds generated from operations;
- the issuance and sale of debt instruments;
- bank financing and operating lines of credit; and
- equity contributions from the Corporation's parent.

STATEMENTS OF CASH FLOWS

(\$ thousands)	Three Months Ended March 31		
	2016	2015	Variance
Cash, beginning of period	4,742	-	4,742
Cash from (used in):			
Operating activities	78,546	53,931	24,615
Investing activities	(74,120)	(95,868)	21,748
Financing activities	(9,168)	41,937	(51,105)
Cash, end of period	-	-	-

Operating Activities

For the three months ended March 31, 2016, net cash provided from operating activities was \$24.6 million higher than for the same period in 2015. The increase was primarily due to the timing of collection of accounts receivable balances and the timing of the refund of customer deposits related to transmission-connected projects. These increases were partially offset by unfavourable changes in long-term regulatory deferrals and the timing of the flow through of transmission costs as revenue was collected from customers on a different timeline than costs were paid to the AESO.

The Corporation expects to be able to pay all operating costs and interest expense out of operating cash flows, with some residual available for dividend payments to the parent company and/or capital expenditures.

Investing Activities

(\$ thousands)	Three Months Ended March 31		
	2016	2015	Variance
Capital expenditures:			
Customer growth ⁽¹⁾	31,251	43,655	(12,404)
Externally driven and other ⁽²⁾	9,693	9,792	(99)
Sustainment ⁽³⁾	28,814	24,867	3,947
AESO contributions ⁽⁴⁾	2,118	15,919	(13,801)
Gross capital expenditures	71,876	94,233	(22,357)
Less: customer contributions	(4,732)	(8,176)	3,444
Net capital expenditures	67,144	86,057	(18,913)
Adjustment to net capital expenditures for:			
Non-cash working capital	4,696	11,882	(7,186)
Costs of removal, net of salvage proceeds	2,366	3,333	(967)
Capitalized depreciation, capital inventory, AFUDC, and other	(86)	(5,404)	5,318
Cash used in investing activities	74,120	95,868	(21,748)

⁽¹⁾ Includes new customer connections

⁽²⁾ Includes upgrades associated with substations, line moves, new connections for independent power producers and the distribution control centre

⁽³⁾ Includes planned maintenance, capacity increases, facilities, vehicles and information technology

⁽⁴⁾ Reflects the Corporation's required contributions towards transmission projects as determined by the AUC approved investment levels and paid when transmission projects are approved

For the three months ended March 31, 2016, the Corporation's gross capital expenditures were \$71.9 million, compared to \$94.2 million for the same period in 2015. Expenditures related to customer growth decreased \$12.4 million due to lower expenditures for commercial, and oil and gas customers, partially offset by higher spending for residential customers. Sustainment expenditures increased \$3.9 million due to timing of expenditures for vehicles and information technology. AESO contributions decreased \$13.8 million due to the volume and timing of AUC approvals for transmission upgrade projects compared to 2015.

It is expected that ongoing capital expenditures will be financed from funds generated by operating activities, drawings on the committed credit facility, proceeds from issuance of debt, and equity contributions from Fortis via Fortis Alberta Holdings Inc., the Corporation's parent and an indirectly wholly owned subsidiary of Fortis.

Capital Expenditures Forecast

The Corporation has forecast gross capital expenditures for 2016 of approximately \$361.1 million, down \$72.8 million from the \$433.9 million disclosed in the MD&A for the year ended December 31, 2015. The decrease was a result of lower AESO contributions due to a delay in construction projects and a reduction in customer requests for electricity services attributable to the current economic downturn in Alberta. The 2016 capital expenditures are based on detailed forecasts, which include numerous assumptions such as projected growth in the number of customer sites, weather, cost of labour and material and other factors that could cause actual results to differ from forecast.

Financing Activities

For the three months ended March 31, 2016, cash from financing activities decreased \$51.1 million compared to the same period in 2015. This decrease was primarily due to a \$29.0 million decrease in net borrowings under the committed credit facility and a decrease in short-term borrowings of \$20.8 million.

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.

CONTRACTUAL OBLIGATIONS

The Corporation's contractual obligations have not changed materially from those disclosed in the MD&A for the year ended December 31, 2015.

CAPITAL MANAGEMENT

The Corporation's objective when managing capital is to ensure ongoing access to capital to allow it to build and maintain the electricity distribution facilities within the Corporation's service territory. To ensure this access to capital, the Corporation targets a capital structure that includes approximately 60% debt and 40% equity. This targeted capital structure excludes the effects of goodwill and other items that do not impact the deemed regulatory capital structure. This ratio is maintained by the Corporation through the issuance of debentures or other debt and/or equity contributions by Fortis via Fortis Alberta Holdings Inc.

Summary of Capital Structure

As at:	March 31, 2016		December 31, 2015	
	\$ millions	%	\$ millions	%
Total debt	1,765.7	57.5	1,758.5	57.7
Shareholder's equity	1,305.7	42.5	1,291.0	42.3
	3,071.4	100.0	3,049.5	100.0

The Corporation has externally imposed capital requirements by virtue of its Trust Indenture and committed credit facility that limit the amount of debt that can be incurred relative to equity. As at March 31, 2016, the Corporation was in compliance with these externally imposed capital requirements.

As at March 31, 2016, the Corporation had an unsecured committed credit facility with an available amount of \$250.0 million maturing in August 2020. Drawings under the committed credit facility are available by way of prime loans, bankers' acceptances and letters of credit. Prime loans bear an interest rate of prime and bankers' acceptances are issued at the applicable bankers' acceptance discount rate plus a stamping fee of 1.0%. The weighted average effective interest rate for the three months ended March 31, 2016 on the committed credit facility was 2.1% (2015 - 2.4%). As at March 31, 2016, there were \$70.0 million in drawings under the committed credit facility (December 31, 2015 - \$53.0 million).

As at March 31, 2016, the Corporation had a \$15.0 million (December 31, 2015 - \$35.0 million) demand note outstanding with Fortis. The demand note was unsecured, due on demand and the Corporation incurred interest that approximated the Corporation's cost of short-term borrowing.

CREDIT RATINGS

As at March 31, 2016, the Corporation's debentures were rated by DBRS at A (low) and by Standard and Poor's ("S&P") at A-. In December 2015, DBRS confirmed the Corporation's credit rating of A (low) but revised its outlook on the Corporation from Positive to Stable, reflecting DBRS' view of the current regulatory framework in Alberta. In February 2016, S&P revised the Corporation's outlook from Stable to Negative as a result of the announcement by Fortis that it had entered into an agreement to acquire ITC Holdings Corporation.

OUTSTANDING SHARES

Authorized – unlimited number of:

- Common shares;
- Class A common shares; and
- First preferred non-voting shares, redeemable, cumulative dividend at 10% of the redemption price. Subject to applicable law, the Corporation shall have the right to redeem, at any time, all or any part of the then outstanding first preferred shares for \$348.9 million together with any accrued and unpaid dividends up to the redemption date.

Issued:

- 63 Class A common shares, with no par value

OFF-BALANCE SHEET ARRANGEMENTS

With the exception of letters of credit outstanding of \$0.4 million as at March 31, 2016 (December 31, 2015 - \$0.4 million), the Corporation had no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with Fortis and other subsidiaries of Fortis. Amounts due from or to related parties were measured at the exchange amount and were as follows:

As at: (\$ thousands)	March 31, 2016	December 31, 2015
Accounts receivable		
Loans ⁽¹⁾	7	16
Related parties	116	117
	123	133
Accounts payable and other current liabilities		
Related parties	69	-
Short-term borrowings		
Related party ⁽²⁾	15,000	35,000

⁽¹⁾ These loans are to officers of the Corporation and may include stock option loans, employee share purchase plan loans and employee personal computer purchase program loans.

⁽²⁾ Demand note from Fortis that was borrowed in October 2015 and is expected to be repaid in the second quarter of 2016

The Corporation bills related parties on terms and conditions consistent with billings to third parties, which require amounts to be paid on a net 30 day basis with interest on overdue amounts. Terms and conditions on amounts billed to the Corporation by related parties are net 30 days with interest being charged on any overdue amounts.

Related party transactions included in other revenue, cost of sales and interest expense were measured at the exchange amount and were as follows:

(\$ thousands)	Three Months Ended March 31	
	2016	2015
Included in other revenue ⁽¹⁾	33	233
Included in cost of sales ⁽²⁾	1,161	1,100
Included in interest expense ⁽³⁾	17	-

⁽¹⁾ Includes services provided to Fortis and subsidiaries of Fortis related to metering, information technology, material sales and intercompany employee services

⁽²⁾ Includes charges from Fortis and subsidiaries of Fortis related to corporate governance expenses, stock-based compensation costs, consulting services, travel and accommodation expenses, and pension costs

⁽³⁾ Reflects interest expense paid on a demand note from Fortis that was borrowed in October 2015 and is expected to be repaid in the second quarter of 2016

All services provided to or received from related parties were billed on a cost-recovery basis.

FINANCIAL INSTRUMENTS

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

Long-term debt as at: (\$ thousands)	March 31, 2016	December 31, 2015
Fair value ⁽¹⁾	1,993,526	1,938,533
Carrying value ⁽²⁾	1,683,831	1,683,825

⁽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 \$13,242 (December 31, 2015 - \$13,280).

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 and, therefore, may not be relevant in predicting the Corporation's future earnings or cash flows.

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

SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Corporation's 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. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances.

Due to changes in facts and circumstances, and the inherent uncertainty in making estimates, actual results may differ materially from current estimates. Estimates and judgments are reviewed periodically and as adjustments become necessary they are recognized in the period they become known.

There were no material changes to the Corporation's significant accounting estimates during the three months ended March 31, 2016 from those disclosed in the MD&A for the year ended December 31, 2015.

CHANGES IN ACCOUNTING POLICIES

The Corporation's 2016 unaudited interim financial statements have been prepared following the same accounting policies as those used in preparing the Corporation's 2015 audited annual financial statements.

Future Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. 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 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 standard is to be applied on a full retrospective or modified retrospective basis and was originally effective for annual and interim periods ending after December 15, 2016. In August 2015, FASB issued ASU 2015-14, *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.

In March 2016, FASB issued ASU 2016-08, *Principal vs Agent Considerations* and in April 2016, FASB issued ASU 2016-10, *Identifying Performance Obligations and Licensing*, to clarify implementation guidance in ASC Topic 606. The effective date of these updates is the same as the effective date and transition requirements of ASU 2014-09.

The majority of the Corporation's revenue is generated from the distribution of electricity to end-use customers based on published tariff rates, as approved by the regulator, and is considered to be in the scope of ASU 2014-09. The Corporation has not yet selected a transition method and is assessing the impact that the adoption of this standard, and all related ASUs, will have on its financial statements and related disclosures. The Corporation plans to have this assessment substantially complete by the end of 2016.

Leases

In February 2016, FASB issued ASU 2016-02 and the amendments to this update create ASC Topic 842, *Leases*, and supersedes lease requirements in ASC Topic 840, *Leases*. The main provision of 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.

BUSINESS RISK

The Corporation's business risks have not changed materially from those disclosed in the Business Risk section of the MD&A for the year ended December 31, 2015.

Note: Additional information, including the Corporation's 2015 Annual Information Form and Audited Annual Financial Statements, is available on SEDAR at www.sedar.com and on the Corporation's website at www.fortisalberta.com.