FORTISALBERTA INC.

Unaudited Condensed Interim Financial Statements
For the three and six months ended June 30, 2019

FORTISALBERTA INC.
CONDENSED INTERIM BALANCE SHEETS
(UNAUDITED)

As at (all amounts in thousands of Canadian dollars)	June 30, 2019	December 31, 2018
Assets		
Current assets		
Accounts receivable	$ 163,333	$ 183,854
Prepaids and deposits	6,269	2,990
Income tax receivable	3,592	3,592
Regulatory assets (note 3)	1,150	781
Total current assets	174,344	191,217
Regulatory assets (note 3)	443,084	448,662
Property, plant and equipment, net	3,804,339	3,738,645
Intangible assets, net	78,008	78,040
Other assets	3,477	1,755
Goodwill	228,275	226,968
Total Assets	$ 4,731,527	4,685,287
Liabilities and Shareholder's Equity		
Current liabilities		
Short-term borrowings	$ 66,265	$ 55,739
Accounts payable and other current liabilities	206,499	221,518
Regulatory liabilities (note 3)	50,659	42,989
Total current liabilities	323,423	320,246
Other liabilities	17,345	15,169
Regulatory liabilities (note 3)	420,863	410,439
Deferred income tax	321,772	335,047
Long-term debt	2,167,810	2,167,658
Total Liabilities	3,251,213	3,248,559
Commitments and contingencies (note 8)		
Shareholder's Equity		
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (December 31, 2018 – 63)	173,848	173,848
Additional paid-in capital	764,896	744,896
Accumulated other comprehensive income	1,615	1,549
Retained earnings	539,955	516,435
Total Shareholder's Equity	1,480,314	1,436,728
Total Liabilities and Shareholder's Equity	$ 4,731,527	$ 4,685,287

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

FORTISALBERTA INC.

CONDENSED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(all amounts in thousands of Canadian dollars)	**2019**	**2018**	**2019**	**2018**
Revenues				
Electric rate revenue	$ 156,906	$ 150,305	$ 311,829	$ 298,129
Alternative revenue	2,205	20	2,349	835
Other revenue	3,251	3,891	7,318	7,342
Total Revenues	162,362	154,216	321,496	306,306
Expenses				
Cost of sales	49,822	49,394	103,696	102,830
Depreciation	48,356	45,105	96,984	89,949
Amortization	3,752	2,486	7,437	4,866
Total Expenses	101,930	96,985	208,117	197,645
Other income (expense)	(116)	(89)	464	159
Income before interest expense and income tax	60,316	57,142	113,843	108,820
Interest expense	26,214	25,005	51,700	49,648
Income before income tax	34,102	32,137	62,143	59,172
Income tax				
Current income tax recovery	—	(867)	—	(1,545)
Deferred income tax expense (recovery)	(201)	760	1,123	1,425
	(201)	(107)	1,123	(120)
Net Income	$ 34,303	$ 32,244	$ 61,020	$ 59,292
Other comprehensive income				
Reclassification of other post-employment benefit items	33	59	66	118
Comprehensive Income	$ 34,336	$ 32,303	$ 61,086	$ 59,410

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

FORTISALBERTA INC.

CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(all amounts in thousands of Canadian dollars)	2019	2018	2019	2018
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	$ 744,896	$ 719,896	$ 744,896	$ 719,896
Equity contributions	20,000	25,000	20,000	25,000
Balance, end of period	$ 764,896	$ 744,896	$ 764,896	$ 744,896
Accumulated Other Comprehensive Income (Loss)				
Balance, beginning of period	$ 1,582	$ (131)	$ 1,549	$ (190)
Reclassification of other post-employment benefit items	33	59	66	118
Balance, end of period	$ 1,615	$ (72)	$ 1,615	$ (72)
Retained Earnings				
Balance, beginning of period	$ 524,402	$ 475,955	$ 516,435	$ 466,407
Net income	34,303	32,244	61,020	59,292
Dividends	(18,750)	(17,500)	(37,500)	(35,000)
Balance, end of period	$ 539,955	$ 490,699	$ 539,955	$ 490,699
Total Shareholder's Equity	$ 1,480,314	$ 1,409,371	$ 1,480,314	$ 1,409,371

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(all amounts in thousands of Canadian dollars)	2019	2018	2019	2018
Operating Activities				
Net income	$ 34,303	$ 32,244	$ 61,020	$ 59,292
Adjustments for non-cash items included in net income				
Depreciation	48,356	45,105	96,984	89,949
Amortization	3,942	2,690	7,816	5,279
Deferred income tax	(201)	760	1,123	1,425
Equity component of allowance for funds used during construction	—	—	(742)	(599)
Net gain on sale of property, plant and equipment	—	(117)	—	(78)
Change in long-term regulatory assets and liabilities	(7,015)	(8,725)	(7,245)	1,181
Change in other non-current operating assets and liabilities	928	(330)	1,236	(1,035)
Change in non-cash operating working capital (note 9)	(4,518)	(113)	20,483	(118,584)
Cash from operating activities	75,795	71,514	180,675	36,830
Investing Activities				
Additions to property, plant and equipment	(91,659)	(98,781)	(192,878)	(213,229)
Customer contributions for property, plant and equipment	10,849	5,827	27,155	13,201
Additions to intangible assets	(3,818)	(5,228)	(9,291)	(9,498)
Proceeds from the sale of property, plant and equipment	1,186	783	1,878	2,042
Net change in employee loans	148	136	(404)	(338)
Cash used in investing activities	(83,294)	(97,263)	(173,540)	(207,822)
Financing Activities				
Change in short-term borrowings	14,410	10,461	15,526	10,461
Proceeds from long-term debt, net of issuance costs	(15)	(43)	(15)	(121)
Payment of deferred financing fees	(146)	(150)	(146)	(150)
Borrowings under committed credit facility	215,000	439,000	404,000	734,000
Repayments under committed credit facility	(223,000)	(432,000)	(409,000)	(642,000)
Dividends paid	(18,750)	(17,500)	(37,500)	(35,000)
Equity contributions	20,000	25,000	20,000	25,000
Cash from (used in) financing activities	7,499	24,768	(7,135)	92,190
Change in cash, cash equivalents and restricted cash	—	(981)	—	(78,802)
Cash, cash equivalents and restricted cash, beginning of period	—	4,914	—	82,735
Cash, cash equivalents and restricted cash, end of period	$ —	$ 3,933	$ —	$ 3,933

Supplemental cash flow information (note 9)

The accompanying notes are an integral part of these unaudited 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 *"PUA"*), the *Hydro and Electric Energy Act* (the "*HEEA*") 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 regulated electric and gas utility business serving customers in five Canadian provinces, nine US states and three Caribbean countries.

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 of America ("US GAAP") as codified in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). In December 2017, the Ontario Securities Commission 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, 2024 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 the financial statements in accordance with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Certain estimates are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until finalization and adjustments, if any, are determined pursuant to subsequent regulatory decisions or other regulatory proceedings. Critical accounting estimates made by management include income tax, contingent liabilities due to general litigation, depreciation, amortization, employee future benefits, goodwill impairment, accrued revenue, expense accruals, and regulatory assets and liabilities. Due to the inherent uncertainty in making such estimates, actual results reported in future periods could differ materially from those estimated. There were no material changes to the Corporation's critical accounting estimates for the six months ended June 30, 2019 as compared to June 30, 2018 and December 31, 2018, except as discussed below.

Depreciation and amortization estimates are based on depreciation and amortization rates derived from capital asset balances and depreciation parameters, including the service life of assets and expected net salvage percentages, which are periodically determined based on depreciation reviews prepared by an independent expert. Outside of these periodic reviews, management annually assesses if updates are required to depreciation and amortization rates based on changes in capital asset balances, while maintaining the previously determined depreciation parameters.

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

(a) Basis of Presentation (cont'd)

Depreciation and amortization in 2018 was based on depreciation and amortization rates derived from capital asset balances as at December 2014 and depreciation parameters established in a 2012 depreciation review. Effective January 1, 2019, depreciation and amortization rates were changed based on the results of a depreciation review, which updated rates for changes in capital asset balances and depreciation parameters. The impact to the three months ended June 30, 2019 financial results was an increase to depreciation of approximately $1.0 million and an increase to amortization of approximately $1.1 million, as compared to 2018. The impact to the six months ended June 30, 2019 financial results was an increase to depreciation of approximately $2.1 million and an increase to amortization of approximately $2.2 million, as compared to 2018.

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, 2018. 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 three and six months ended June 30, 2019 are not necessarily indicative of the results expected for the full year ending December 31, 2019.

(b) Regulation

The Corporation is regulated by the AUC, pursuant to the *EUA*, the *PUA*, the *HEEA* 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 Corporation recognizes amounts to be recovered from, or refunded to, customers in those periods in which related applications are filed with, or decisions are received from, the AUC. The timing of recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using US GAAP for entities not subject to rate regulation.

Performance-Based 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 an initial five-year term, from 2013 to 2017. Effective January 1, 2018, the AUC approved a second PBR term, from 2018 to 2022.

Under PBR, a formula incorporating an inflation factor and a productivity factor (I-X) (the "formula"), that estimates inflation (I) annually and assumes a set level of productivity improvements (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 first PBR term included 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 were not being recovered through the formula (“K factor” or “capital tracker”). The AUC also approved a Z factor, a PBR re-opener and an efficiency carry-over mechanism. The Z factor permitted an application for recovery of costs related to significant unforeseen events. The PBR re-opener permitted 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 was associated with certain thresholds. The efficiency carry-over mechanism provided an 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.

For the second PBR term, the going-in rates were based on a notional 2017 revenue requirement. The components of the notional 2017 revenue requirement were determined using an AUC prescribed forecast methodology that was primarily based on entity-specific historical experience, with an 8.50% rate of return on a deemed equity component of capital structure ("ROE") of 37% equity and 63% debt applied to notional 2017 rate base assets. The impact of changes to ROE and capital structure during a PBR term apply only to the portion of rate base that is funded by revenue provided by mechanisms separate from the formula. For 2019, the Corporation's ROE has been maintained at 8.50%, with a deemed equity ratio of 37%.

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

(b) Regulation (cont'd)

The second PBR term incorporates mechanisms consistent with those in the first PBR term, except that incremental capital funding to recover costs related to capital expenditures that are not recovered through the formula will be available through two mechanisms. The capital tracker mechanism from the first term will continue for capital expenditures identified as Type 1. Type 1 capital must be extraordinary, not previously included in the utility's rate base, and required by a third party. Type 2 capital includes all capital in the notional going-in rate base with a provision for a prescribed level of annual capital additions funded through a K-Bar mechanism. A K-Bar amount is established for each year of the term based on the resulting projected notional rate base for Type 2 capital programs.

2019 Annual Rates Application

In October 2018, the AUC issued Decision 23355-D02-2018 (the "Rebasing Compliance Decision") and directed the Corporation to true-up its PBR rates for 2018 and 2019 accordingly in the 2019 Annual Rates Application. The rates and riders, proposed to be effective on an interim basis for January 1, 2019, include a decrease of approximately 0.5% to the distribution component of customer rates. The decrease in the distribution component of customer rates, incorporating the determinations of the Rebasing Compliance Decision, reflected: (i) an I-X of 1.83%; (ii) a refund of $0.2 million for the true-up of going-in rates; (iii) a refund of $1.9 million for the true-up of the 2018 K-Bar; (iv) a 2019 K-Bar placeholder of $35.9 million; (v) a refund of $11.7 million for the difference between the 2016 and 2017 K factor amounts approved or applied for and the amounts collected; (vi) a refund of $1.1 million of K factor carrying costs; and (vii) a net collection of Y factor amounts of $4.6 million, including $5.9 million for the efficiency carry-over mechanism associated with results achieved in the first PBR term.

In December 2018, the AUC issued Decision 23893-D01-2018 approving the Corporation's 2019 rates, as filed in the 2019 Annual Rates Application, on an interim basis.

Capital Tracker Applications

In June 2018, the Corporation filed a 2017 Capital Tracker True-Up Application to update 2017 K factor revenue for actual 2017 capital tracker expenditures. In January 2019, the AUC issued Decision 23649-D01-2019, which disallowed capital tracker treatment for costs associated with the battery operated tools portion of the Capital Tools program. The Corporation filed a compliance filing in February 2019.

In June 2019, the AUC issued Decision 24369-D01-2019 approving the 2017 K factor revenue true-up as filed in the Corporation's 2017 capital tracker compliance filing with the exception of revenue associated with the Corporation's Alberta Electric System Operator ("AESO") Contributions program, which remains subject to further regulatory process.

In April 2018, the AUC initiated a Review and Variance proceeding to address the treatment of AESO contributions in rebasing. In November 2018, the AUC issued Decision 23505-D01-2018, which approved the use of a hybrid deferral account approach to incremental capital funding for AESO contributions during the second PBR term. This approach provides for recovery of capital costs associated with AESO contribution projects that received permit and license prior to January 1, 2018 through deferral account treatment. For contribution projects that receive permit and license during the 2018 to 2022 PBR term, capital cost recovery will be provided through the K-Bar mechanism.

In January 2019, the Corporation submitted a compliance filing pursuant to Decision 23505-D01-2018 for its final 2016 and 2017 AESO contribution capital tracker amounts. Final approval of these amounts, which are included in the calculation of the notional 2017 revenue requirement and the 2018 and 2019 K-Bar amounts, will impact the Corporation's going-in rates for the 2018 to 2022 PBR term.

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 are 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.

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

(b) Regulation (cont'd)

Electric Distribution System Purchases (cont'd)

In July 2016, the Municipality of Crowsnest Pass ("CNP") decided to cease the operation of, and to transfer, the CNP electric distribution system and related assets (the "system") to the Corporation for a proposed purchase price of $3.7 million, plus GST, and the related applications were filed with the AUC. In June 2018, the AUC issued Decision 21785-D01-2018 in respect of the transfer of the CNP system to the Corporation. The AUC provided conditional approval of the transfer of the CNP system but did not approve a final purchase price for ratemaking purposes. In July 2018, the AUC provided final approval of the transfer of the CNP system to the Corporation and the Corporation completed the purchase of the CNP system. In October 2018, the Corporation filed a request for approval of an adjusted purchase price for ratemaking purposes of $2.4 million in accordance with AUC directions. In the first quarter of 2019, the Corporation recognized a $1.3 million adjustment to property, plant and equipment that was recorded in goodwill to reflect the fair value of the CNP system.

In December 2018, the AUC suspended the proceeding for approval of the adjusted purchase price for ratemaking purposes, pending the outcome of a newly initiated generic proceeding to establish the rate treatment methodology in respect of distribution system purchases by distribution utilities under 2018 to 2022 PBR plans.

In March 2019, the AUC released Bulletin 2019-03, inviting participants to comment on a preliminary issues list and further process. Bulletin 2019-03 confirmed that the generic proceeding will not re-examine how the acquisition costs should be evaluated for prudency nor will it reconsider the parameters, rate adjustment mechanisms, and capital funding mechanisms in the 2018 to 2022 PBR plans. In April 2019, a final issues list was released by the AUC. The Corporation filed evidence in May 2019 regarding the matters included on the final issues list.

(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 2018 audited annual financial statements, except as follows.

Leases

Effective January 1, 2019, the Corporation adopted ASC 842, *Leases*, which requires lessees to recognize a lease liability, initially measured at the present value of future lease payments, and a right-of-use ("ROU") asset for all leases with a lease term greater than 12 months. The new lease standard also requires additional quantitative and qualitative disclosures for both lessees and lessors. The Corporation applied the transition provisions of the new lease standard as of the adoption date and did not retrospectively adjust prior periods. The Corporation elected a package of practical expedients that allowed it to not reassess: (i) whether existing contracts are or contain a lease; (ii) the lease classification of existing leases; or (iii) the initial direct costs for existing leases. Furthermore, the Corporation elected a practical expedient that permitted it to not evaluate existing land easements that were not previously accounted for as leases. The new lease standard will be applied on a prospective basis to all new or modified land easements after January 1, 2019. Finally, the Corporation utilized the hindsight practical expedient to determine the lease term. Upon adoption, the Corporation did not identify or record an adjustment to the opening balance of retained earnings, and there was no impact on net income or cash flows.

When a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, a ROU asset and liability are recognized. At inception, the ROU asset and liability are both measured at the present value of future lease payments, excluding variable payments that are based on usage or performance. Future lease payments include both lease components (e.g., rent, property taxes and insurance costs) and nonlease components (e.g., common area maintenance costs), which the Corporation accounts for as a single lease component. The present value is calculated using a secured interest rate based on the remaining lease term. Renewal options are included in the lease term when it is reasonably certain that the option will be exercised.

Leases with a term of twelve months or less are not recorded on the balance sheet but are recognized as lease expense on a straight-line basis over the lease term. As at June 30, 2019, the Corporation's easements have not resulted in the recognition of a ROU asset as the current easement contracts do not convey a right to control. See Note 5 for additional information related to the Corporation's leasing arrangements.

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

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

(d) Future Accounting Pronouncements

The Corporation considers the applicability and impact of all Accounting Standard Updates ("ASUs") issued by the FASB. The following updates have been issued by the 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.

Financial Instruments

ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, was issued in June 2016, is effective January 1, 2020, and is to be applied on a modified retrospective basis. Principally, it requires entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to estimate credit losses. The Corporation is assessing the impact of adoption.

Pensions and Other Postretirement Plan Disclosures

ASU 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans,* was issued in August 2018, is effective January 1, 2021 with earlier adoption permitted, and is to be applied on a retrospective basis for all periods presented. Principally, it modifies the disclosure requirements for employers with defined benefit pension or other postretirement plans and clarifies disclosure requirements. In addition, the amendments remove (a) the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit costs over the next fiscal period, (b) the amount and timing of plan assets expected to be returned to the employer, and (c) the effects of a one-percentage-point change on the assumed health care costs and the change in rates on service cost, interest cost and the benefit obligation for post-retirement health care benefits. The Corporation is assessing the impact of adoption.

Cloud Computing Arrangements

ASU 2018-15, *Customer's Accounting for Implementation Costs incurred in a Cloud Computing Arrangement that is a Service Contract,* was issued in August 2018, is effective January 1, 2020 with earlier adoption permitted, and is to be applied either on a retrospective basis or on a prospective basis to all implementation costs incurred after the effective date of the new guidance. Principally, it aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The Corporation is assessing the impact of adoption.

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.

	June 30, 2019	December 31, 2018
Regulatory assets		
Deferred income tax	$ 328,589	$ 342,987
Deferred overhead	112,494	103,072
Regulatory defined benefit pension deferrals	2,193	2,031
Y factor deferral	958	84
A1 rider deferral	—	496
AESO charges deferral	—	773
Total regulatory assets	444,234	449,443
Less: current portion	1,150	781
Long-term regulatory assets	$ 443,084	$ 448,662

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

3. REGULATORY ASSETS AND LIABILITIES (cont'd)

	June 30, 2019	December 31, 2018
Regulatory liabilities		
Non-ARO provision	$ 416,462	$ 407,613
AESO charges deferral	40,291	26,477
K factor deferral	6,816	13,073
Incremental capital deferral	4,943	3,204
Y factor deferral	1,716	2,097
A1 rider deferral	1,115	706
PBR rebasing deferral	179	258
Total regulatory liabilities	471,522	453,428
Less: current portion	50,659	42,989
Long-term regulatory liabilities	$ 420,863	$ 410,439

A detailed description of the nature of the Corporation's regulatory assets and liabilities was provided in Note 5 of the Corporation's 2018 audited annual financial statements. The incremental capital deferral is comprised of the K-Bar deferral and the AESO contributions deferral as disclosed individually in the Corporation's 2018 audited annual financial statements.

4. 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 June 30	**2019**	**2018**	**2019**	**2018**
Service cost	$ 125	$ 157	$ 115	$ 128
Interest cost	413	388	83	86
Expected return on plan assets	(270)	(236)	—	—
Amortizations:				
Past service cost	—	—	95	95
Actuarial loss (gain)	—	147	(62)	(36)
Net benefit cost recognized	268	456	231	273
Regulatory adjustments	(35)	108	—	—
Net benefit cost recognized in financial statements	233	564	231	273
Defined contribution cost	2,175	2,213	—	—
Total employee future benefit cost	$ 2,408	$ 2,777	$ 231	$ 273

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

4. EMPLOYEE FUTURE BENEFITS (cont'd)

Components of Net Periodic Costs

	Defined Benefit Pension Plans		OPEB Plan	
Six months ended June 30	**2019**	**2018**	**2019**	**2018**
Service cost	$ 250	$ 315	$ 230	$ 256
Interest cost	826	776	166	171
Expected return on plan assets	(539)	(472)	—	—
Amortizations:				
Past service cost	—	—	190	190
Actuarial loss (gain)	—	294	(124)	(72)
Net benefit cost recognized	537	913	462	545
Regulatory adjustments	(9)	219	—	—
Net benefit cost recognized in financial statements	528	1,132	462	545
Defined contribution cost	5,316	5,470	—	—
Total employee future benefit cost	$ 5,844	$ 6,602	$ 462	$ 545

Pension Plan Contributions

The Corporation made total contributions to the defined benefit pension plans of $0.2 million and $0.5 million for the three and six months ended June 30, 2019, respectively. Minimum funding contributions of approximately $1.1 million will be made towards the defined benefit pension plans and contributions of $0.9 million toward the OPEB plan in 2019.

5. LEASES

The Corporation's operating leases are primarily comprised of leases for office facilities, which have remaining terms of one to six years. As at June 30, 2019, the Corporation's weighted average remaining lease term was three years. Certain lease agreements require the Corporation to pay property taxes, insurance, common area maintenance, or other operating expenses associated with the leased premises.

The following table details supplemental balance sheet information related to the Corporation's operating leases as at June 30, 2019:

	June 30, 2019
Operating Leases	
Other assets	$ 1,721
Accounts payable and other current liabilities	782
Other liabilities	939

For the three and six months ended June 30, 2019, the Corporation's total operating lease costs included in cost of sales was approximately $0.3 million and $0.6 million, respectively (three and six months ended June 30, 2018 - $0.3 million and $0.6 million, respectively.).

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

5. LEASES (cont'd)

As at June 30, 2019, the Corporation had the following future minimum operating lease payments, which exclude payments to lessors for variable property taxes and maintenance:

	June 30, 2019
Remainder of 2019	$ 418
2020	772
2021	406
2022	155
2023	29
Thereafter	34
Total	1,814
Less: imputed interest	(93)
Present value of operating lease liabilities [1]	1,721
Less: current operating lease liabilities	(782)
Long-term operating lease liabilities	$ 939

[1] *The present value of lease liabilities was calculated using a weighted average discount rate of 3.9%.*

The following table includes supplemental cash flow information related to the Corporation's operating leases for the three and six months ended June 30, 2019:

	Three Months Ended June 30	Six Months Ended June 30
Cash paid for monthly lease costs included in the measurement of operating lease liabilities	$ 208	$ 417
ROU assets obtained in exchange for new operating lease liabilities	—	2,101

In addition, the Corporation leases office facilities to others with remaining terms of one to fifteen years. Most leases include one or more options to renew with renewal terms that may extend the lease term for five to twenty years.

For the three and six months ended June 30, 2019, the Corporation received the following lease revenue from operating leases:

	Three Months Ended June 30	Six Months Ended June 30
Lease revenue from operating leases	$ 91	$ 216

As at June 30, 2019, the Corporation will receive the following lease revenue from operating leases:

	June 30, 2019
Remainder of 2019	$ 97
2020	195
2021	195
2022	195
2023	195
Thereafter	4,673
Total	$ 5,550

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

6. DEBT

In June 2019, the Corporation renegotiated and amended its unsecured committed credit facility, extending the maturity date of the facility to August 2024 from August 2023. The amended agreement contains substantially similar terms and conditions as the previous agreement.

As at June 30, 2019, the Corporation had a $10.0 million (December 31, 2018 - $nil) demand note outstanding with Fortis. The demand note is unsecured, due on demand and the Corporation incurred interest that approximated the Corporation's cost of short-term borrowing.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

The fair 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	**June 30, 2019**	**December 31, 2018**
Fair value *(1)*	$ 2,728,132	$ 2,465,514
Carrying value *(2)*	2,183,671	2,183,655

(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 $15,861 (December 31, 2018 – $15,997).*

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

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.

For accounts receivable, the Corporation's gross credit risk exposure is equal to the carrying value on the balance sheet. The Corporation monitors its credit exposure in accordance with the 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 June 30, 2019, the Corporation's credit risk exposure was $2.1 million.

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

8. COMMITMENTS AND CONTINGENCIES

A detailed description of the nature of the Corporation's commitments and contingencies was provided in Note 19 of the Corporation's 2018 audited annual financial statements. There have been no material changes to the nature or amounts of these items.

9. SUPPLEMENTAL CASH FLOW INFORMATION

Non-Cash Operating Working Capital

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Accounts receivable	$ (5,526)	$ 14,640	$ 17,114	$ (7,552)
Prepaids and deposits	(3,414)	(1,590)	(3,279)	(1,444)
Income tax receivable and payable	—	(867)	—	(1,786)
Regulatory assets	(639)	(24,447)	(369)	(36,638)
Accounts payable and other current liabilities	5,385	12,681	(652)	(53,905)
Regulatory liabilities	(324)	(530)	7,669	(17,259)
	$ (4,518)	$ (113)	$ 20,483	$ (118,584)

Non-Cash Investing Activities

As at June 30	2019	2018
Additions to property, plant and equipment and intangible assets included in current liabilities	$ 68,470	$ 64,436
Customer contributions for property, plant and equipment included in current assets	5,596	7,820

Refer to Note 5 for supplemental cash flow information related to leases.

Reconciliation of Cash, Cash Equivalents and Restricted Cash

As at June 30	2019	2018
Cash and cash equivalents	$ —	$ —
Restricted cash	—	3,933
	$ —	$ 3,933

10. SUBSEQUENT EVENTS

These condensed interim financial statements and notes reflect the Corporation's evaluation of events occurring subsequent to the balance sheet date through August 1, 2019, the date the financial statements were available for issuance.