FORTISALBERTA INC.

An indirect subsidiary of Fortis Inc.

Unaudited Condensed Interim Financial Statements
For the three and six months ended June 30, 2022

FORTISALBERTA INC.
CONDENSED INTERIM BALANCE SHEETS
(UNAUDITED)

As at (all amounts in thousands of Canadian dollars)		**June 30, 2022**		**December 31, 2021**
Assets				
Current assets				
Cash and cash equivalents	$	2,368	$	—
Accounts receivable		177,029		151,979
Prepaids and deposits		8,570		5,136
Regulatory assets		1,172		2,137
Total current assets		189,139		159,252
Regulatory assets		399,968		385,433
Property, plant and equipment, net		4,396,920		4,318,348
Intangible assets, net		109,459		105,667
Other assets		3,689		3,552
Goodwill		228,357		228,357
Total Assets	$	5,327,532	$	5,200,609
Liabilities and Shareholder's Equity				
Current liabilities				
Short-term borrowings	$	—	$	63,771
Accounts payable and other current liabilities		212,992		214,599
Income tax payable		660		10,415
Regulatory liabilities		45,785		19,981
Total current liabilities		259,437		308,766
Other liabilities		58,425		61,741
Regulatory liabilities		491,735		476,845
Deferred income tax		395,369		380,990
Long-term debt		2,467,216		2,342,798
Total Liabilities	$	3,672,182	$	3,571,140
Shareholder's Equity				
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (December 31, 2021 – 63)		173,848		173,848
Additional paid-in capital		774,896		774,896
Accumulated other comprehensive income		398		234
Retained earnings		706,208		680,491
Total Shareholder's Equity		1,655,350		1,629,469
Total Liabilities and Shareholder's Equity	$	5,327,532	$	5,200,609

Commitments and contingencies (note 7)

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)	**2022**	**2021**	**2022**	**2021**
Revenues				
Electric rate revenue	$ 177,619	$ 170,389	$ 356,974	$ 338,367
Other revenue	7,014	6,209	12,828	12,256
Total Revenues	184,633	176,598	369,802	350,623
Expenses				
Cost of sales	(58,097)	(54,198)	(118,252)	(108,892)
Depreciation	(56,242)	(53,586)	(111,901)	(106,625)
Amortization	(4,576)	(4,101)	(9,021)	(8,115)
Total Expenses	(118,915)	(111,885)	(239,174)	(223,632)
Other (expense) income	(161)	(132)	1,188	821
Income before interest expense and income tax	65,557	64,581	131,816	127,812
Interest expense	(27,659)	(26,990)	(54,104)	(53,147)
Income before income tax	37,898	37,591	77,712	74,665
Income tax expense	(3,106)	(1,598)	(6,995)	(3,463)
Net Income	$ 34,792	$ 35,993	$ 70,717	$ 71,202
Other comprehensive income				
Reclassification of amounts related to post-employment benefits	82	89	164	177
Comprehensive Income	$ 34,874	$ 36,082	$ 70,881	$ 71,379

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

FORTISALBERTA INC.
CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

	Six months ended June 30,	
(all amounts in thousands of Canadian dollars)	2022	2021
Share Capital		
Balance, beginning and end of period	$ 173,848	$ 173,848
Additional Paid-in Capital		
Balance, beginning and end of period	$ 774,896	$ 774,896
Accumulated Other Comprehensive Income (Loss)		
Balance, beginning of period	$ 234	$ (762)
Reclassification of amounts related to post-employment benefits	164	177
Balance, end of period	$ 398	$ (585)
Retained Earnings		
Balance, beginning of period	$ 680,491	$ 624,790
Net income	70,717	71,202
Dividends	(45,000)	(42,500)
Balance, end of period	$ 706,208	$ 653,492
Total Shareholder's Equity	$ 1,655,350	$ 1,601,651

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)	2022	2021	2022	2021
Operating Activities				
Net income	$ 34,792	$ 35,993	$ 70,717	$ 71,202
Adjustments for non-cash items included in net income				
Depreciation	56,242	53,586	111,901	106,625
Amortization	4,840	4,367	9,549	8,647
Deferred income tax	48	22	115	127
Equity component of allowance for funds used during construction	—	—	(1,136)	(1,052)
Net gain on sale of property, plant and equipment	—	—	(388)	(59)
Change in long-term regulatory assets and liabilities	(968)	(2,672)	1,856	(1,183)
Change in other non-current operating assets and liabilities	(658)	(929)	(3,545)	(3,857)
Change in non-cash operating working capital (note 8)	20,220	(5,359)	(1,014)	(20,176)
Cash from operating activities	114,516	85,008	188,055	160,274
Investing Activities				
Additions to property, plant and equipment	(110,810)	(74,911)	(214,602)	(173,653)
Acquisition of property, plant and equipment	—	—	—	—
Customer contributions for property, plant and equipment	11,946	7,838	27,318	13,979
Additions to intangible assets	(7,893)	(7,608)	(15,223)	(12,794)
Proceeds from disposition of property, plant and equipment	193	1,804	1,644	3,162
Net change in employee loans	162	232	(310)	(433)
Cash used in investing activities	(106,402)	(72,645)	(201,173)	(169,739)
Financing Activities				
Net change in bank indebtedness	(9,910)	(217)	(12,771)	(2,574)
Net change in demand notes from Fortis	—	80,000	—	80,000
Borrowing under bilateral credit facility	—	—	—	
Repayment under bilateral credit facility	—	—	—	—
Proceeds from long-term debt	125,000	—	125,000	—
Deferred financing fees	(736)	104	(743)	(72)
Borrowings under committed credit facility	318,900	201,000	583,500	447,000
Repayments under committed credit facility	(416,500)	(272,000)	(634,500)	(473,000)
Dividends	(22,500)	(21,250)	(45,000)	(42,500)
Cash (used in) from financing activities	(5,746)	(12,363)	15,486	8,854
Change in cash, cash equivalents and restricted cash	2,368	—	2,368	(611)
Cash, cash equivalents and restricted cash, beginning of period	—	—	—	611
Cash and cash equivalents, end of period	$ 2,368	$ —	$ 2,368	$ —

Supplemental cash flow information (note 8)

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 electric distribution utility in the Province of Alberta. Its business is the ownership and operation of electric 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.

The Corporation is regulated by the Alberta Utilities Commission ("AUC") pursuant to the *Alberta Utilities Commission Act* ("*AUCA*"). The AUC's jurisdiction, pursuant to the *Electric Utilities Act ("EUA")*, the *Public Utilities Act ("PUA")*, the *Hydro and Electric Energy Act ("HEEA")* and the *AUCA*, 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. REGULATORY MATTERS

The Corporation is regulated by the AUC, pursuant to the *EUA*, the *PUA*, the *HEEA* and the *AUCA*. 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 accounting principles generally accepted in the United States of America ("US GAAP") for entities not subject to rate regulation.

Performance-Based Regulation

Since January 1, 2018, the Corporation has operated under a second performance-based regulation ("PBR") rate plan approved by the AUC for a five-year term from 2018 to 2022, inclusive. The PBR plan adjusts FortisAlberta's distribution rates annually using an "I-X" escalation formula (the "formula"), that incorporates an inflation factor ("I") and a productivity factor ("X"). Each year this formula is applied to the preceding year's distribution rates.

The Corporation's base distribution rates, subject to escalation by the formula, for the second PBR term are based on a notional 2017 revenue requirement approved by the AUC. The impact of changes to return on equity ("ROE"), cost of debt 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 going-in rates escalated by the formula; any change in these items are recoverable through annual true-ups associated with these mechanisms. For 2022 and 2021, the Corporation's ROE was approved at 8.50%, with a capital structure of 37% equity and 63% debt.

In the second PBR term, incremental capital funding to recover costs related to capital expenditures that are not recovered through going-in rates escalated by the formula is available through two mechanisms. A capital tracker mechanism, similar to that made available during the first 2013-2017 PBR term, provides funding 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. All capital in the notional going-in rate base with a provision for a prescribed level of annual capital additions is classified as "Type 2" capital and is funded through a K-Bar mechanism. A K-Bar amount is established for each year of the PBR term based on the revenue requirement associated with this projected notional rate base for Type 2 capital programs. The notional 2017 rate base and the level of annual capital additions were calculated using an AUC prescribed methodology, including both actuals and historical averages.

2022 Annual Rates Application

In December 2021, the AUC issued Decision 26817-D01-2021 approving the Corporation's 2022 rates and riders, effective on an interim basis for January 1, 2022, including an increase of approximately 6.6% to the distribution component of customer rates. The increase in the distribution component of customer rates reflected: (i) an I-X of 1.46%; (ii) a refund of $4.6 million for the true-up of the 2020 and 2021 K-Bar amounts; (iii) a 2022 K-Bar placeholder of $89.1 million; (iv) a net collection of $32.8 thousand for the true-up of the 2020 and 2021 Alberta Electric System Operator ("AESO") contributions hybrid deferral; (v) a placeholder refund of $13.2 million for the 2022 AESO contributions hybrid deferral; and (vi) a net collection of Y factor amounts of $0.8 million.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These unaudited condensed interim financial statements have been prepared by management in accordance with US GAAP as codified in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). 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 annual financial statements and notes thereto for the year ended December 31, 2021. In management's opinion, these 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, 2022, are not necessarily indicative of the results expected for the full year ending December 31, 2022.

In May 2022, the Alberta Securities Commission ("ASC") 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, 2027 and the later of (i) the effective date prescribed by the International Accounting Standards Board ("IASB") for the mandatory application of a standard within IFRS specific to entities with activities subject to rate regulation and (ii) two years after the IASB publishes the final version of a Mandatory Rate-regulated Standard.

In accordance with US GAAP, the preparation of the financial statements 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 current and deferred income tax, contingent liabilities due to general litigation, depreciation, amortization, pension and other post-employment benefits ("OPEB"), 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 first half of 2022 as compared to June 30, 2021 and December 31, 2021.

Adoption of Accounting Pronouncements

There were no new significant accounting standards adopted for the three and six months ended June 30, 2022. This is consistent with note 3 of the audited financial statements for the year ended December 31, 2021.

Future Accounting Pronouncements

The Corporation considers the applicability and impact of all Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board. The Corporation has assessed the ASUs issued and determined the ASUs to be either not applicable to the Corporation or not expected to have a material impact on the financial statements.

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

4. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

Components of Net Periodic Costs

	Defined Benefit Pension Plans		OPEB Plan	
Three months ended June 30,	**2022**	**2021**	**2022**	**2021**
Service cost	$ 123	$ 108	$ 231	$ 236
Interest cost	329	298	93	81
Expected return on plan assets	(164)	(118)	—	—
Amortizations:				
Past service cost	—	—	153	153
Actuarial gain	—	—	(71)	(65)
Net benefit cost recognized	288	288	406	405
Regulatory adjustment	(121)	(135)	—	—
Net benefit cost recognized in financial statements	167	153	406	405

	Defined Benefit Pension Plans		OPEB Plan	
Six months ended June 30,	**2022**	**2021**	**2022**	**2021**
Service cost	$ 246	$ 216	$ 462	$ 471
Interest cost	658	596	186	161
Expected return on plan assets	(328)	(237)	—	—
Amortizations:				
Past service cost	—	—	306	306
Actuarial gain	—	—	(142)	(130)
Net benefit cost recognized	576	575	812	808
Regulatory adjustment	(235)	(254)	—	—
Net benefit cost recognized in financial statements	341	321	812	808

Defined Contribution Cost

The Corporation had defined contribution cost of $2.7 million and $6.3 million for the three and six months ended June 30, 2022, (for the three and six months ended June 30, 2021- $2.3 million and $5.6 million).

5. DEBT AND CAPITAL MANAGEMENT

As at June 30, 2022, the Corporation had a $250.0 million unsecured committed credit facility which, in July 2022, was extended to mature in August 2027. As at June 30, 2022, the Corporation had $nil drawn on the committed credit facility (December 31, 2021 - $51.0 million).

On May 19, 2022, the Corporation filed a short form base shelf prospectus to establish an MTN Debentures Program and entered into a Dealers Agreement with certain affiliates of a group of Canadian Chartered Banks. The Corporation may from time to time, during the 25-month life of the shelf prospectus, issue MTN Debentures.

On May 26, 2022, the Corporation entered into an agreement to sell $125.0 million of senior unsecured debentures at a rate of 4.62%, to be paid semi-annually, and mature in 2052. The net proceeds of the issuances were used to repay existing credit facilities.

As at June 30, 2022, $200.0 million remains available under the MTN Debentures Program.

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

6. 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 value of the Corporation's financial instruments reflects 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 as at:	June 30, 2022	December 31, 2021
Fair value [(1)]	$ 2,395,784	$ 2,873,390
Carrying value [(2)]	2,483,776	2,358,757

(1) *The fair value of the long-term debt was estimated using level 2 inputs. It is calculated using indicative prices provided by a third party for the same or similarly rated issues of debt with similar maturities.*
(2) *Carrying value is presented gross of debt issuance costs of $16,560 (December 31, 2021 – $15,959).*

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 because of its distribution service billings being to a small group of retailers or other counterparties. Counterparty credit risk is the financial risk associated with the non-performance of contractual obligations by all counterparties. The Corporation extends credit to retailers in the normal course of business.

The Corporation assesses its retailer credit exposure and expected credit loss using historical information, forms of prudential and current economic conditions. In accordance with the Corporation's Terms and Conditions, the Corporation is required to minimize its credit exposure to retailer billings by obtaining an acceptable form of prudential, which includes a cash deposit, 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. An acceptable form of prudential reduces the credit risk exposure of retailer billings. As at June 30, 2022, the Corporation's credit risk exposure was $2.1 million. Expected credit losses with other counterparties is evaluated using historical collection experience and internal counterparty-specific risk assessments. The Corporation's assessment is that its expected credit loss is not significant as at June 30, 2022.

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

Allowance for Credit Losses

Accounts receivables are recorded net of an allowance for credit losses. The credit loss allowance for the first half of 2022, considers current and forecasted economic conditions and is reflective of normal course operations.

The change in allowance for credit losses balance is as follows:

	June 30, 2022	December 31, 2021
Balance, beginning of year	$ (199)	$ (766)
Credit loss provision	(168)	30
Write-offs, net of recoveries	162	537
Balance, end of period	$ (205)	$ (199)

7. COMMITMENTS AND CONTINGENCIES

A detailed description of the nature of the Corporation's commitments was provided in note 19 of the Corporation's 2021 audited annual financial statements. There have been no material changes to the nature or amounts of these items.

8. SUPPLEMENTAL CASH FLOW INFORMATION

Non-Cash Operating Working Capital

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Accounts receivable	$ 3,415	$ 10,795	$ (23,377)	$ 12,941
Prepaids and deposits	(2,458)	(2,480)	(3,434)	(3,423)
Income tax (payable) receivable	(1,603)	1,576	(9,755)	3,336
Regulatory assets	366	(4,058)	965	(19,313)
Accounts payable and other current liabilities	1,053	(4,072)	8,783	(3,175)
Regulatory liabilities	19,447	(7,120)	25,804	(10,542)
	$ 20,220	$ (5,359)	$ (1,014)	$ (20,176)

Non-Cash Investing Activities

As at June 30	2022	2021
Additions to property, plant and equipment and intangible assets included in current liabilities	$ 64,495	$ 60,965
Customer contributions for property, plant and equipment included in current assets	9,326	10,234