FORTISALBERTA INC.

An indirect subsidiary of Fortis Inc.

Unaudited Condensed Interim Financial Statements
For the three and nine months ended September 30, 2021

FORTISALBERTA INC.
CONDENSED INTERIM BALANCE SHEETS
(UNAUDITED)

As at (all amounts in thousands of Canadian dollars)	**September 30, 2021**	**December 31, 2020**
Assets		
Current assets		
Restricted cash	$ —	$ 611
Accounts receivable	196,427	167,427
Prepaids and deposits	8,009	4,433
Income tax receivable	—	4,659
Regulatory assets (note 4)	17,700	37,030
Total current assets	222,136	214,160
Regulatory assets (note 4)	383,197	352,824
Property, plant and equipment, net	4,265,988	4,192,568
Intangible assets, net	99,658	93,198
Other assets	3,410	2,774
Goodwill	228,357	228,357
Total Assets	$ 5,202,746	$ 5,083,881
Liabilities and Equity		
Current liabilities		
Short-term borrowings	$ 101,018	$ 46,509
Accounts payable and other current liabilities	196,429	223,718
Income tax payable	2,176	—
Regulatory liabilities (note 4)	22,157	32,354
Total current liabilities	321,780	302,581
Other liabilities	62,836	67,024
Regulatory liabilities (note 4)	468,873	449,750
Deferred income tax	379,587	349,419
Long-term debt	2,342,635	2,342,335
Total Liabilities	3,575,711	3,511,109
Commitments (note 9)		
Equity		
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (December 31, 2020 – 63)	173,848	173,848
Additional paid-in capital	774,896	774,896
Accumulated other comprehensive loss	(497)	(762)
Retained earnings	678,788	624,790
Total Equity	1,627,035	1,572,772
Total Liabilities and Equity	$ 5,202,746	$ 5,083,881

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 September 30,		Nine Months Ended September 30,	
(all amounts in thousands of Canadian dollars)	**2021**	**2020**	**2021**	**2020**
Revenues				
Electric rate revenue	$ 180,376	$ 164,099	$ 518,743	$ 487,442
Alternative revenue	—	(32)	—	(209)
Other revenue (note 7)	4,551	4,909	16,807	12,213
Total Revenues	184,927	168,976	535,550	499,446
Expenses				
Cost of sales	51,514	50,236	160,406	149,672
Depreciation	53,995	52,539	160,620	156,529
Amortization	3,887	3,437	12,002	10,799
Total Expenses	109,396	106,212	333,028	317,000
Other income (expense)	(194)	(149)	627	458
Income before interest expense and income tax	75,337	62,615	203,149	182,904
Interest expense	27,126	26,091	80,273	77,931
Income before income tax	48,211	36,524	122,876	104,973
Income tax expense	1,665	1,253	5,128	5,315
Net Income	$ 46,546	$ 35,271	$ 117,748	$ 99,658
Other comprehensive income				
Unrealized post-employment benefit gains	88	84	265	254
Comprehensive Income	$ 46,634	$ 35,355	$ 118,013	$ 99,912

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

FORTISALBERTA INC.

CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

Nine Months Ended September 30 (all amounts in thousands of Canadian dollars)	**2021**	**2020**
Share Capital		
Balance, beginning and end of period	$ 173,848	$ 173,848
Additional Paid-in Capital		
Balance, beginning and end of period	$ 774,896	$ 764,896
Accumulated Other Comprehensive Loss		
Balance, beginning of period	$ (762)	$ (321)
Unrealized post-employment benefit gains	265	254
Balance, end of period	$ (497)	$ (67)
Retained Earnings		
Balance, beginning of period	$ 624,790	$ 571,987
Net income	117,748	99,658
Dividends	(63,750)	(60,000)
Balance, end of period	$ 678,788	$ 611,645
Total Equity	$ 1,627,035	$ 1,550,322

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 September 30,		Nine Months Ended September 30,	
(all amounts in thousands of Canadian dollars)	2021	2020	2021	2020
Operating Activities				
Net income	$ 46,546	$ 35,271	$ 117,748	$ 99,658
Adjustments for non-cash items included in net income				
Depreciation	53,995	52,539	160,620	156,529
Amortization	4,150	3,687	12,797	11,542
Deferred income tax	38	(86)	165	(137)
Equity component of allowance for funds used during construction	—	—	(1,052)	(1,177)
Net gain on sale of property, plant and equipment	—	—	(59)	—
Change in long-term regulatory assets and liabilities	694	10,034	(489)	(10,421)
Change in other non-current operating assets and liabilities	(1,120)	947	(4,977)	1,550
Change in non-cash operating working capital (note 10)	(10,196)	(42,214)	(30,372)	(83,529)
Cash from operating activities	94,107	60,178	254,381	174,015
Investing Activities				
Additions to property, plant and equipment	(80,875)	(97,664)	(254,528)	(293,673)
Customer contributions for property, plant and equipment	10,049	9,315	24,028	25,323
Additions to intangible assets	(6,165)	(5,503)	(18,959)	(13,687)
Proceeds from disposition of property, plant and equipment	1,038	804	4,200	2,189
Net change in employee loans	233	307	(200)	(353)
Cash used in investing activities	(75,720)	(92,741)	(245,459)	(280,201)
Financing Activities				
Net change in bank indebtedness	(917)	1,607	(3,491)	4,334
Net change in Fortis demand notes	(80,000)	(20,000)	—	(89,000)
Borrowings under bilateral credit facility	—	—	—	150,000
Payment of deferred financing fees	(220)	(44)	(292)	(145)
Borrowings under committed credit facility	224,000	284,000	671,000	928,000
Repayments under committed credit facility	(140,000)	(213,000)	(613,000)	(827,000)
Dividends	(21,250)	(20,000)	(63,750)	(60,000)
Cash (used in) from financing activities	(18,387)	32,563	(9,533)	106,189
Change in cash, cash equivalents and restricted cash	—	—	(611)	3
Cash, cash equivalents and restricted cash, beginning of period	—	610	611	607
Cash, cash equivalents and restricted cash, end of period	$ —	$ 610	$ —	$ 610

Supplemental cash flow information (note 10)

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. It is intended that the Corporation remain a regulated electric 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 "*AUCA*"). 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 *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

Effective January 1, 2018, the AUC approved a second performance-based regulation ("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 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. For 2021, the Corporation's ROE is 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 distribution rates subject to escalation are funded primarily through a K-Bar mechanism. The K-Bar amount is established for each year of the PBR term based on the revenue requirement associated with a projected notional rate base. The projected level of annual capital additions is calculated using an AUC prescribed methodology, including both actuals and historical averages.

2021 Annual Rates Application

In December 2020, the AUC issued Decision 25843-D01-2020 approving the Corporation's 2021 rates and riders, effective on an interim basis for January 1, 2021, including an increase of approximately 0.9% to the distribution component of customer rates. The increase in the distribution component of customer rates reflects: (i) an I-X of 2.12%; (ii) a refund of $1.5 million for the true-up of going-in rates; (iii) a refund of $5.4 million for the true-up of the 2018, 2019 and 2020 K-Bar amounts; (iv) a 2021 K-Bar placeholder of $76.8 million; (v) a net refund of $14.6 million for the true-up of the 2018, 2019, and 2020 Alberta Electric System Operator ("AESO") contributions hybrid deferral; (vi) a placeholder refund of $11.6 million for the 2021 AESO contributions hybrid deferral; (vii) a refund of $1.2 million for the true-up of the Corporation's approved 2016 and 2017 K factor amounts; and (viii) a net refund of Y factor amounts of $1.5 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, 2020. 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 nine months ended September 30, 2021, are not necessarily indicative of the results expected for the full year ending December 31, 2021.

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 permanent 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 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 nine months ended September 30, 2021 as compared to September 30, 2020 and December 31, 2020.

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 2020 audited annual financial statements, except as follows.

Simplifying the Accounting for Income Taxes

Effective January 1, 2021, the Corporation adopted the applicable sections of Accounting Standards Update ("ASU") 2019-12, *Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes,* which provided amendments to reduce complexity in the accounting standard. The ASU was adopted using a prospective approach and did not have a significant effect on the recognition and measurement of the Corporation's current and deferred income taxes in the current period.

Future Accounting Pronouncements

The Corporation considers the applicability and impact of all ASUs issued by the FASB. 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. REGULATORY ASSETS AND LIABILITIES

Regulatory assets represent amounts that are expected to be recovered from customers in future periods. Regulatory liabilities represent amounts that are expected to be refunded to customers in future periods or the recovery of future costs in current rates. Based on existing or expected AUC decisions, the Corporation has recorded the following regulatory assets and liabilities.

	September 30, 2021	December 31, 2020
Regulatory assets		
Deferred income tax	$ 382,013	$ 352,009
AESO charges deferral	16,941	34,620
Regulatory defined benefit pension deferrals	1,438	1,080
Y factor deferral	505	—
AESO supply transmission service deferral	—	2,145
Total regulatory assets	400,897	389,854
Less: current portion	17,700	37,030
Long-term regulatory assets	$ 383,197	$ 352,824

	September 30, 2021	December 31, 2020
Regulatory liabilities		
Non asset retirement obligation provision	$ 463,735	$ 444,492
AESO charges deferral	13,927	9,612
Incremental capital deferral	10,666	22,554
Y factor deferral	970	1,207
A1 rider deferral	918	1,210
PBR rebasing deferral	387	1,547
K factor deferral	295	1,182
AESO retail consumers deferral program	132	300
Total regulatory liabilities	491,030	482,104
Less: current portion	22,157	32,354
Long-term regulatory liabilities	$ 468,873	$ 449,750

A detailed description of the nature of the Corporation's regulatory assets and liabilities was provided in Note 5 of the Corporation's 2020 audited annual financial statements.

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

5. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

Components of Net Periodic Costs

	Defined Benefit Pension Plans		OPEB Plan	
Three months ended September 30	**2021**	**2020**	**2021**	**2020**
Service cost	$ 108	$ 149	$ 235	$ 203
Interest cost	297	361	80	88
Expected return on plan assets	(119)	(202)	—	—
Amortizations:				
Past service cost	—	—	153	171
Actuarial gain	—	—	(64)	(85)
Net benefit cost recognized	286	308	404	377
Regulatory adjustments	(104)	(86)	—	—
Net benefit cost recognized in financial statements	182	222	404	377
Defined contribution cost	2,333	2,309	—	—
Total employee future benefit cost	$ 2,515	$ 2,531	$ 404	$ 377

	Defined Benefit Pension Plans		OPEB Plan	
Nine months ended September 30	**2021**	**2020**	**2021**	**2020**
Service cost	$ 324	$ 447	$ 706	$ 609
Interest cost	893	1,083	241	266
Expected return on plan assets	(356)	(607)	—	—
Amortizations:				
Past service cost	—	—	459	512
Actuarial gain	—	—	(194)	(257)
Net benefit cost recognized	861	923	1,212	1,130
Regulatory adjustments	(358)	263	—	—
Net benefit cost recognized in financial statements	503	1,186	1,212	1,130
Defined contribution cost	7,942	7,408	—	—
Total employee future benefit cost	$ 8,445	$ 8,594	$ 1,212	$ 1,130

Pension Plans and OPEB Contributions

The Corporation made total contributions to the defined benefit pension plans of $0.1 million and $0.4 million for the three and nine months ended September 30, 2021, respectively. The Corporation made total contributions to the OPEB plan of $0.1 million and $0.4 million for the three and nine months ended September 30, 2021, respectively. Minimum funding contributions of approximately $0.6 million will be made to the defined benefit pension plans.

6. DEBT AND CAPITAL MANAGEMENT

As at September 30, 2021, the Corporation had an unsecured committed credit facility with an available amount of $250.0 million maturing in August 2026. Drawings under the 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%. As at September 30, 2021, the Corporation had $95.0 million drawn on the credit facility (December 31, 2020 - $37.0 million) and $0.3 million in letters of credit (December 31, 2020 - $0.4 million).

In July 2021, the Corporation renegotiated and amended its unsecured committed credit facility, extending the maturity date of the facility to August 2026 from August 2024. The amended agreement contains substantially similar terms and conditions as the previous agreement.

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

7. OTHER REVENUE

Contract Liability

In December 2020, the Corporation received an upfront payment of $52.4 million from EPCOR Energy Alberta GP Inc. ("EPCOR") pursuant to the terms of the Customer Rights Agreement whereby EPCOR acts as the Corporation's default supplier to eligible customers under the regulated rate option. As at December 31, 2020, the initial upfront payment of $52.4 million was recorded as a contract liability. Included in the initial upfront payment was a financing component of $2.8 million, which was determined using the Corporation's incremental borrowing rate and is being recognized as interest expense in the statements of income and comprehensive income over the eight-year term of the Customer Rights Agreement.

	September 30, 2021	December 31, 2020
Current contract liability	$ 6,312	$ 6,251
Long-term contract liability	41,367	46,109
Total contract liability	$ 47,679	$ 52,360

For the three and nine months ended September 30, 2021, $1.7 million and $5.1 million, respectively, are included in other revenue in the condensed interim statements of income and comprehensive income.

For the three and nine months ended September 30, 2021, $0.2 million and $0.5 million, respectively, are included in interest expense in the condensed interim statements of income and comprehensive income.

8. 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	September 30, 2021	December 31, 2020
Fair value (1)	$ 2,766,981	$ 3,098,239
Carrying value (2)	2,358,749	2,358,721

(1) *The fair value of the long-term debt is 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. Since the Corporation does not intend to settle the long-term debt prior to maturity, the excess of the estimated fair value above the carrying value does not represent an actual liability.*

(2) *Carrying value is presented gross of debt issuance costs of $16,114 (December 31, 2020 – $16,386).*

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.

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

Credit Risk
The Corporation has a concentration of credit risk as a result of its distribution service billings, 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 September 30, 2021, the Corporation's estimated credit risk exposure was $1.1 million based on historical retailer billings. Expected credit losses with other counterparties is evaluated using historical collection experience and internal counterparty-specific risk assessments.

In March 2021, one of the Corporation's retailers applied for, and was granted, creditor protection under the Companies' Creditors Arrangement Act. The court order relating to the creditor protection of the retailer granted a stay of any adverse steps, such as termination of licenses, by provincial regulators. Accordingly, the stay and the financing associated with it is expected to allow the retailer to continue paying amounts to its contractual counterparties, primarily consisting of utilities, in the ordinary course. As a result of the Corporation's Terms and Conditions and its requirement to minimize its credit exposure to retailer billings by obtaining an acceptable form of prudential, as at September 30, 2021, the Corporation has assessed that there is sufficient prudential to cover the retailers' current outstanding invoices.

Allowance for Credit Losses
Accounts receivables are recorded net of an allowance for credit losses. The credit loss allowance considers current and forecasted economic conditions and is reflective of normal course operations.

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

	September 30, 2021	December 31, 2020
Balance, beginning of year	$ (766)	$ (325)
Credit loss provision	(111)	(631)
Write-offs, net of recoveries	58	190
Balance, end of period	$ (819)	$ (766)

9. COMMITMENTS

A detailed description of the nature of the Corporation's commitments was provided in Note 19 of the Corporation's 2020 audited annual financial statements. There have been no material changes to the nature or amounts of these items.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Non-Cash Operating Working Capital

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Accounts receivable	$ (40,808)	$ (10,282)	$ (27,867)	$ 18,090
Prepaids and deposits	(153)	(2,099)	(3,576)	(3,592)
Income tax receivable	3,499	(2,431)	6,835	181
Regulatory assets	38,643	(16,562)	19,330	(7,315)
Accounts payable and other current liabilities	(11,722)	(5,528)	(14,897)	(71,086)
Regulatory liabilities	345	(5,312)	(10,197)	(19,807)
	$ (10,196)	$ (42,214)	$ (30,372)	$ (83,529)

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

Non-Cash Investing Activities

As at September 30	2021	2020
Additions to property, plant and equipment and intangible assets included in current liabilities	$ 67,712	$ 77,759
Customer contributions for property, plant and equipment included in current assets	10,087	8,460

Reconciliation of Cash, Cash Equivalents and Restricted Cash

As at September 30	2021	2020
Cash and cash equivalents	$ —	$ —
Restricted cash	—	610
	$ —	$ 610