

FORTISALBERTA INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2025

May 6, 2025

The following Management's Discussion and Analysis ("MD&A") of FortisAlberta Inc. (the "Corporation" or "FortisAlberta") has been prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations and should be read in conjunction with the following: (i) Corporation's Unaudited Condensed Interim Financial Statements and notes thereto for the three months ended March 31, 2025; (ii) the Corporation's Audited Financial Statements and notes thereto for the year ended December 31, 2024; and (iii) the MD&A for the year ended December 31, 2024. Financial information herein has been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and is presented in Canadian dollars. In May 2022, the Alberta Securities Commission approved the extension of the Corporation's exemptive relief order which permits the Corporation to continue reporting in accordance with US GAAP rather than the IFRS Accounting Standards, 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 Accounting Standards specific to entities with activities subject to rate regulation or (ii) two years after the IASB publishes the final version of a mandatory rate-regulated standard.

Additional information relating to the Corporation, including the Corporation's Annual Information Form, is available on SEDAR+ at www.sedarplus.ca. The information contained on, or accessible through, this website has not been incorporated by reference into this document.

In this MD&A, FAHI refers to the Corporation's direct parent entity, Fortis Alberta Holdings Inc. and Fortis refers to the Corporation's ultimate parent, Fortis Inc.

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 "assumes", "continues", "could", "depends", "expects", "forecasts", "intends", "may", "projects", "will", "would", "should", "if", 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 this MD&A includes, but is not limited to, statements regarding: the expected timing of filing of regulatory applications, regulatory hearings and appeals, and receipt of regulatory decisions; the expectations regarding the Corporation's revenue requirement and corresponding rates for 2023 to 2025; the Corporation's operation under the Third Generation Performance-Based Regulation ("PBR") Plan; potential impact of government announcements regarding approvals of renewable electricity rates and emission standards; the completion of the Alberta Utilities Commission's ("AUC" or the "Commission") reconsideration of matters related to the Alberta Electric System Operator ("AESO") Customer Contribution Policy; the expectation that sufficient cash will be generated to pay all operating costs, interest expenses and other working capital from internally-generated funds; the Corporation's ability to service debt obligations and pay dividends, including the borrowings under the Corporation's credit facility, borrowing under demand notes and new debenture issuances by the Corporation may be required; 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, including equity contributions from Fortis via FAHI; the expectation that the Corporation will continue to have access to the required capital on reasonable market terms, including with related parties; expectations related to the Corporation's purchase of the Tomahawk Rural Electrification Association Ltd. distribution system transaction; the Corporation's ability to resolve ongoing income tax audits; expectations regarding updated accounting standards; and the Corporation's forecast of gross capital expenditures for 2025.

Certain forward-looking information in this MD&A relating to the Corporation's expected capital expenditures may be considered "financial outlook" or "future-oriented financial information" within the meaning of applicable securities laws in

Canada. Such future-oriented financial information has been approved by management of the Corporation as of the date of this MD&A, and has been included for the purposes of providing readers with information about the Corporation's current plans and expectations regarding capital expenditures and related aspects of the Corporation's business and operations. However, readers are cautioned that reliance on such future-oriented financial information for other purposes may not be appropriate.

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, financial impact of regulatory decisions for future periods not currently in effect and requested rate orders; the ability to continue to report under US GAAP beyond the Canadian securities regulators exemption to the end of 2027 or earlier; absence of 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; absence of severe and prolonged economic downturn; absence of significant variability in interest expense; sufficient liquidity and capital resources; maintenance of adequate insurance coverage; the ability to obtain licenses and permits; retention of existing service areas; continued maintenance of information and operations technology infrastructure; absence of cybersecurity events; successful mitigation of global supply chain shortages and rising inflation; absence of material impacts related to future processes unfolding with the tax authorities; favourable labour relations; and sufficient human resources to deliver, service and execute the capital expenditure 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 that could cause results or events to differ from current expectations are detailed in the "Business Risk Management" section of this MD&A 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 approval and rate orders; government policy developments; utility asset disposition risk; risk that the Corporation could be impacted by future regulated rate options; a downturn in economic conditions including the strength and operations of the oil and natural gas production industry and related commodity prices; risks relating to a public health crisis; supply chain risk; reduction in customer base; municipal annexation risks; the AUC's reconsideration of matters related to the AESO Customer Contribution Policy; competition with Rural Electrification Association ("REA"); change in government policies; capital resources and liquidity risks; interest and inflation risk; insurance coverage risk; continued reporting in accordance with US GAAP risk; operating and maintenance risks; risk of loss of permits and rights-of-way; environmental risk; regulatory risk; weather conditions and climate-change risk; wildfire risk; risk of failure of information and operations technology infrastructure; cybersecurity risk; labour relations risk; human resources risk; and other risks described in the Corporation's most recent Annual Information Form.

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 because of new information, future events or otherwise after the date hereof. All subsequent forward-looking statements, whether written or oral, attributable to the Corporation or persons acting on the Corporation's behalf, are expressly qualified in their entirety by these cautionary statements.

CORPORATE OVERVIEW

The Corporation is a regulated electric distribution utility that operates solely 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 is not involved in the generation of electricity. The Corporation does not own or operate generation or transmission assets and is not involved in the direct sale of electricity. Notwithstanding the foregoing, the Corporation is statutorily required to facilitate the interconnection of distributed generation ("DG") facilities and micro-generation ("MG") facilities to its distribution system.

The Corporation operates a largely rural and suburban low-voltage distribution network of approximately 133,000 kilometres that is primarily located in central and southern Alberta, which serves approximately 605,200 residential, commercial, farm, oil and gas, and industrial sites. The Corporation has facilitated the interconnection of approximately 9,700 customer generation sites to its distribution system, representing a combination of DG and MG facilities. Electricity from these facilities is generated from a variety of renewable sources, including solar photovoltaic, wind, and hydroelectric.

The Corporation is a wholly-owned subsidiary of FAHI, which is an indirect wholly-owned subsidiary of Fortis, a well-diversified leader in the North American regulated electric and gas utility industry. Fortis shares are listed on both the Toronto Stock Exchange and the New York Stock Exchange.

The Corporation is regulated by the AUC pursuant to the *Alberta Utilities Commission Act* ("AUCA"). The AUC's jurisdiction, pursuant to the *Electric Utilities Act* ("EUA"), the *Public Utilities Act*, 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 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.

REGULATORY MATTERS

Third Generation Performance-Based Regulation ("PBR") Plan

From January 1, 2024, through December 31, 2028, the Corporation will operate under a third generation PBR plan. In October 2023, the AUC issued Decision 27388-D01-2023 for the 2024-2028 PBR plan for Alberta Electric and Gas Distribution Utilities, outlining the features of the third generation PBR plan. The third generation PBR plan will continue to be a price cap plan that will adjust FortisAlberta's distribution rates annually using an "I-X" escalation formula (the "formula") that incorporates an inflation factor ("I") and a productivity factor ("X") of 0.1%, as well as the inclusion of an X factor premium of 0.3%. The X factor premium is applied to base PBR rates and is intended to share efficiency benefits with customers on an annual basis. This formula will be applied to the preceding year's distribution rates at the end of each year of the PBR term to determine the subsequent year's PBR revenues.

The Corporation's base distribution rates for the third PBR term were determined using the 2023 Cost-of-Service ("COS") revenue requirement. In 2024, the Corporation updated its base distribution rates in accordance with directions provided in the Third Generation PBR Compliance Filing decision. The Corporation's 2023 COS revenue requirement, and corresponding base distribution rates for the third PBR term, will continue to be interim pending the initiation and completion of an AUC proceeding in which FortisAlberta will seek approval of an updated depreciation study. A decision on the depreciation study, and the associated changes to going-in rates, are expected to be received in 2025. The impacts of any changes to return on equity ("ROE"), cost of debt and capital structure during the PBR term applies 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 changes in these items are recoverable through annual true-ups associated with these mechanisms.

During the third 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 a K-bar mechanism, with limited opportunity for additional capital funding being made available through a capital tracker mechanism or "Type 1" capital. A K-bar amount is established for each year of the third PBR term based on the revenue requirement associated with the Corporation's approved interim 2023 COS rate base of approximately \$4,100 million, and a level of annual capital additions premised on 2018-2022 historical averages that are escalated as prescribed by the AUC. Ongoing escalation of K-bar amounts will incorporate I-X, exclusive of the X factor premium, and a customer growth escalator. The decision assumes that adequate future funding for certain capital expenditure programs approved on a forecast basis as part of the 2023 COS rebasing will be obtained from K-bar based on the escalated historical capital additions. Type 1 capital funding may be provided for capital expenditures that are material, not previously included in the utility's rate base, and are required by a third party. Eligible capital expenditures may include those related to net-zero objectives.

The third PBR term includes mechanisms for the recovery or settlement of items determined to flow through directly to customers ("Y factor") as well as a Z factor which permits an application for recovery of costs related to significant unforeseen events in excess of an established threshold. An asymmetrical earnings sharing mechanism ("ESM") is also included in the third generation PBR plan. The asymmetrical ESM incorporates a 200 basis point deadband above the approved ROE and two marginal sharing ranges. In the range of 200 bps to 400 bps, 60% of earnings will be retained by the utility. In the range of 400 bps to 500 bps, 20% of earnings are retained by the utility. Earnings in excess of 500 bps above the approved ROE may trigger a plan re-opener that would address specific problems with the design or operation of the PBR plan.

Appeal of Third Generation PBR Decision

In November 2023, the Corporation sought permission to appeal Decision 27388-D01-2023 to the Court of Appeal of Alberta (the "Court"). FortisAlberta's application for permission to appeal is based on the grounds that the AUC erred in law by: (i) failing to properly address the Corporation's unique circumstances in establishing the amount of the X factor premium; and (ii) basing the calculation of K-bar for the third PBR term on a five-year average of actual capital additions made between 2018 to 2022. The Corporation's application for permission to appeal this decision was heard by the Court on December 4, 2024. In March 2025, the Court granted the Corporation's application for permission to appeal the AUC's

2024-2028 PBR plan for Alberta electric and gas distribution utilities. The Corporation expects that its full appeal of the decision will be completed in the first quarter of 2026.

Type 1 Capital Tracker Application

In October 2024, the Corporation submitted an application (Proceeding 29513) seeking approval for Type 1 Capital Tracker treatment and associated funding for its advanced metering infrastructure and forestry protection programs. The Corporation has requested interim approval for forecast Type 1 Capital Tracker revenue of \$8 million for 2025, \$17 million for 2026, \$28 million for 2027 and \$38 million for 2028.

In November 2024, the AUC bifurcated the proceeding into two modules. In the first module, the AUC assessed whether the criteria established in Decision 27388-D01-2023 for Type 1 capital ("Type 1 Capital Criteria") were met. If the AUC determined that one or both of the applied-for programs met the Type 1 Capital Criteria, it would proceed to Module 2 to assess the reasonableness of the 2025-2028 forecast Type 1 capital revenue requirement for those programs.

In April 2025, the AUC issued Decision 29513-D01-2025, finding that neither of the applied-for programs met the Type 1 Capital Criteria and, consequently, denied the Corporation's application for Type 1 Capital Tracker treatment. The Corporation will, therefore, be required to support the execution of these programs using annual PBR revenues, including those provided by the K-bar mechanism. The Corporation is reviewing the decision and assessing whether to seek permission to appeal it to the Court.

2025 Annual Rates Application

In September 2024, the Corporation submitted its 2025 Annual Rates Application. In doing so, the Corporation also requested approval of a placeholder for additional revenues applied-for as part of its Type 1 capital tracker application. The applied-for 2025 PBR rates were subsequently updated in November 2024 to incorporate the AUC's approved ROE for 2025.

The AUC declined to approve the Corporation's applied-for Type 1 capital tracker placeholder amount. However, a \$nil placeholder was approved as part of the Corporation's 2025 Annual Rates Application to permit rates to be adjusted in the event that FortisAlberta's Type 1 capital tracker application is approved, in part or as-filed.

In December 2024, the AUC issued Decision 29297-D01-2024 approving the Corporation's 2025 rates and riders, on an interim basis for January 1, 2025, including an average increase of approximately 2.8% to the distribution component of customer rates. The increase in the distribution component of customer rates reflected:

- i. A collection of \$5 million to reflect the increase in the Corporation's interim 2023 going-in revenue requirement;
- ii. 2024 true-ups inclusive of:
 - a collection of \$5 million to reflect the impact of the updated interim 2023 going-in revenue requirement on 2024 base rates;
 - a refund of \$6 million to reflect the impact of a decrease of 0.82% in the I factor component of the 2024 placeholder I-X escalation; and
 - a collection of \$6 million for the true-up of the placeholder 2024 K-bar to reflect the updated 2024 placeholders for I-X escalation and cost of debt;
- iii. 2025 distribution rates inclusive of:
 - an I-X escalation of 2.80%, inclusive of the X factor premium of 0.03%;
 - an ROE of 8.97% for 2025 as approved in Decision 29586-D01-2024 issued in the fourth quarter of 2024;
 - a 2025 K-bar placeholder of \$31 million; and
 - a net collection of Y factor amounts of \$1 million.

Generic Cost of Capital ("GCOC") Proceeding for 2024 and Beyond

In October 2023, the AUC issued Decision 27084-D02-2023 for the determination of cost of capital parameters for 2024 and beyond. This decision also confirmed an equity thickness of 37% for all electric distribution utilities and approved the implementation of a formulaic Automatic Adjustment Mechanism ("AAM") for the annual determination of ROE. The AAM will adjust a notional going-in ROE of 9.0% by 50% of the difference between the forecasted long-term Government of Canada bond yield compared with the base value of 3.1% and 50% of the difference between the utility bond yield spread compared with the base value of 1.58%. Base values were established as at February 2023. The calculation is as follows:

$$ROE_t = 9.0\% + 0.5 \times (YLD_t - 3.10\%) + 0.5 \times (SPRD_t - 1.58\%)$$

YLD_t = forecast 30 year Government of Canada Bond Yield

$SPRD_t$ = the difference between the 30-year A-rated Canadian Utility Bond Yield and the 30 year Government of Canada Bond Yield over the October period of each preceding year

The AUC's AAM does not incorporate a minimum value or floor for the approved ROE in any given year. However, the AUC has committed to evaluating the effectiveness of its formula on a five year cadence, and is willing to permit mid-term re-openers of the AAM's operation at any time if a compelling reason to do so can be identified by a stakeholder, including the AUC. The approved AAM is used to set an adjusted ROE for the following year using data available in the fourth quarter of the preceding year. This approach will be used in each year of the 2024-2028 PBR term.

In November 2023, the AUC issued Decision 28585-D01-2023 approving a 9.28% ROE for Alberta utilities, effective January 1 to December 31, 2024.

Similarly, in November 2024, the AUC issued Decision 29586-D01-2024 approving an 8.97% ROE for Alberta utilities, effective January 1 to December 31, 2025.

Appeal of Generic Cost of Capital Decision for 2024 and Beyond

In November 2023, the Corporation sought permission to appeal Decision 27084-D02-2023 to the Court. FortisAlberta alleged that the AUC erred in its decision to not adjust the Corporation's ROE, deemed equity ratio, or both, to address the incremental business risk resulting from increased competition from REAs located in the Corporation's service area, as well as heightened regulatory risk, as evidenced by the revenue removal directed in the AUC's 2022 Phase II Distribution Tariff Application decision, as discussed below. On March 4, 2025, the Court dismissed the Corporation's appeal on the basis that the AUC had not committed a reviewable error of law in its original decision.

Tariff Recovery Mechanism for AESO Customer Contributions

In 2021, the AUC issued Decision 24932-D01-2020, which directed a prospective change to the distribution facility owner ("DFO") tariff recovery mechanism applicable to payments required to be made by DFOs ("AESO contributions") under the AESO Customer Contribution Policy ("ACCP"). The new tariff recovery mechanism provides that AESO contributions required to be made by DFOs under the policy are to be expensed and collected from customers as a flow-through and that DFOs are no longer permitted to recover an equity return on these amounts. The AUC confirmed that any AESO contributions made prior to the release of the decision were to be treated as rate base additions in accordance with past practice, attracting both an equity and debt return.

In 2022, the Court, after considering applications that were brought by various parties in 2021, granted leave to appeal Decision 24932-D01-2020. The hearing of the appeal took place in February 2023 and a decision was issued in November 2023. The Court found that the AUC breached its duty to ensure procedural fairness during the process that led to the issuance of the decision and, therefore, remanded the entire matter back to the AUC for reconsideration.

In the second quarter of 2024, the AUC initiated a proceeding (Proceeding 29006) to reconsider matters related to the ACCP. On October 15, 2024, the AUC confirmed that the issues list for this proceeding would consist of: (i) is the long-established Commission customer contribution policy lawful? (ii) is the Commission compelled by the legislation to allow transmission system owners to pay or repay the Contributions in Aid of Construction, include the resulting costs in their capital base and earn a return on the expenditure? and (iii) are Contributions in Aid of Construction to be treated as expenditures, rather than as capital amounts on which some component of the utility system is entitled to earn a rate of return?

In December 2024 and the first quarter of 2025, the Corporation made submissions to the AUC confirming FortisAlberta's position that the ACCP is lawful. As part of the same process, AltaLink Management Ltd., a transmission facility owner, disputed the legality of the ACCP and took the position that all unamortized Contributions in Aid of Construction provided by FortisAlberta should be repaid to the Corporation and funded by AltaLink Management Ltd.

A determination in this proceeding may have an impact on the Corporation's going-in rates and K-bar amounts for the third PBR term. A decision is expected in the third quarter of 2025.

Electric Distribution System Transfer

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

In the fourth quarter of 2023, the Tomahawk Rural Electrification Association Ltd. ("TREA") membership approved the sale and transfer of the TREA electric distribution system and related assets (the "system") to the Corporation. On August 8, 2024, the Corporation paid \$11 million to TREA in consideration of the distribution system transfer.

In April 2024, TREA and the Corporation filed applications with the AUC seeking all regulatory approvals required to complete the transfer of TREA's distribution assets to FortisAlberta. On July 9, 2024, the AUC issued Decision 28988-D01-2024 approving TREA's application to cease and discontinue operations and FortisAlberta's application for approval to accept a transfer of distribution assets from TREA. In this decision, the AUC also directed the Corporation to file information supporting a prudence evaluation of the portion of the TREA purchase consideration to be included in the Corporation's rate base. The prudence evaluation was completed in a standalone module of the Corporation's 2025 Annual Rates Application. In this module, the Corporation requested approval to include approximately \$8 million in its rate base at the time of its next rebasing or COS proceeding. A determination with respect to the prudence evaluation is expected in the second quarter of 2025.

RESULTS OF OPERATIONS

(\$ millions)	Three months ended March 31,		
	2025	2024	Variance
Total revenues	222	218	4
Operating expenses	71	67	4
Depreciation	69	64	5
Amortization	7	6	1
Other income	1	2	(1)
Interest expense	33	33	—
Income before income tax	43	50	(7)
Income tax expense	6	5	1
Net income	37	45	(8)

The following table outlines net income and significant variances in the Results of Operations for the three months ended March 31, 2025, as compared to March 31, 2024:

Item	Increase/ (Decrease) (\$ millions)	Explanation
Net income	(8)	<p>The decrease was primarily due to:</p> <ul style="list-style-type: none"> • a decrease in revenue related to a non-recurring true-up recognized in 2024 related to the 2023 COS revenue requirement to reflect the final 2022 rate base; • a decrease in revenue from an efficiency carry-over mechanism ("ECM") as this was a regulatory incentive that was only available to the end of 2024; • higher operating costs as a result of the timing of incurring operating costs in the quarter as well expanded operational requirements driven by customer growth and distribution system requirements, including higher labour costs; and • an increase in depreciation as a result of the timing of changes to depreciation rates; <p>partially offset by:</p> <ul style="list-style-type: none"> • an increase in formulaically-determined PBR revenue that incorporates (i) higher regulated rate base, to fund incremental depreciation, interest expense and income tax, and (ii) customer additions, net of the impacts of a decrease in the GCOC-determined ROE from 9.28% in 2024 to 8.97% in 2025.
Total revenues	4	<p>The increase was primarily due to:</p> <ul style="list-style-type: none"> • an increase in formulaically-determined PBR revenue that incorporates (i) higher regulated rate base, to fund incremental depreciation, interest expense and income tax, and (ii) customer additions, net of the impacts of a decrease in the GCOC-determined ROE from 9.28% in 2024 to 8.97% in 2025; <p>partially offset by:</p> <ul style="list-style-type: none"> • a decrease in revenue related to a non-recurring true-up recognized in 2024 related to the 2023 COS revenue requirement to reflect the final 2022 rate base; and • a decrease from an ECM as this was a regulatory incentive that was only available to the end of 2024. <p>The increase in revenue also included higher franchise fees, which are flowed through to customers and do not affect net income.</p>
Operating expenses	4	<p>The increase was primarily due to the timing of incurring operating costs in the quarter, expanded operational requirements driven by customer growth and distribution system requirements, including higher labour costs, and higher franchise fees which are flowed through to customers and do not affect net income.</p>
Depreciation	5	<p>The increase was primarily due to the timing of changes to depreciation rates and a higher depreciable asset base compared to the prior period driven by continued execution of the Corporation's capital expenditure program.</p>

SUMMARY OF QUARTERLY RESULTS

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

(\$ millions)	Total Revenues	Net Income
March 31, 2025	222	37
December 31, 2024	229	42
September 30, 2024	230	54
June 30, 2024	224	40
March 31, 2024	218	45
December 31, 2023	209	35
September 30, 2023	209	45
June 30, 2023	198	41

Changes in total revenues and net income quarter over quarter are a result of factors including, but not limited to, electricity deliveries, number of customer sites, regulatory decisions, ongoing investment in the distribution grid, inflation, and changes in income tax. While approximately 85% of the Corporation's distribution revenue is derived from largely fixed non-energy billing determinants, seasonality can affect the revenue recognized in the Corporation's quarterly operations.

March 31, 2025 / 2024

Net income for the three months ended March 31, 2025 decreased \$8 million compared to the same period in 2024. The decrease was primarily due to a decrease in revenue related to a non-recurring true-up recognized in 2024 related to the 2023 COS revenue requirement to reflect the final 2022 rate base, a decrease from an ECM as this was a regulatory incentive that was only available to the end of 2024, higher operating costs a result of the timing of incurring operating costs in the quarter as well as expanded operational requirements driven by customer growth and distribution system requirements, including higher labour costs and an increase in depreciation as a result of a the timing of changes to depreciation rates. This was partially offset by formulaically-determined PBR revenue that incorporates (i) higher regulated rate base, to fund incremental depreciation, interest expense and income tax, and (ii) customer additions, net of the impacts of a decrease in the GCOC-determined ROE from 9.28% in 2024 to 8.97% in 2025.

December 31, 2024 / 2023

Net income for the three months ended December 31, 2024 increased \$7 million compared to the same period in 2023. The increase was primarily due to formulaically-determined PBR revenue that incorporates (i) higher regulated rate base, to fund incremental depreciation, interest expense and income tax, (ii) customer additions, (iii) true-ups and adjustments related to the 2022 rate base and 2023 revenue requirement, and (iv) an increase in the GCOC-determined ROE from 8.50% in 2023 to 9.28% in 2024. This was partially offset by higher operating costs attributable to expanded operational requirements driven by customer growth and emerging industry trends, including higher labour costs.

September 30, 2024 / 2023

Net income for the three months ended September 30, 2024 increased \$9 million compared to the same period in 2023. The increase was primarily due to formulaically-determined PBR revenue that incorporates changes in billing determinants, other adjustments that result from the operation of the K-bar funding mechanism, and true-ups and adjustments related to 2022 rate base and 2023 revenue requirements; higher revenue from (i) regulated rate base growth, which funds incremental depreciation, interest expense and income tax and (ii) customer additions; and an increase in the GCOC-determined ROE from 8.50% in 2023 to 9.28% in 2024. This was partially offset by higher income tax expense due to higher income before taxes and changes in tax timing differences associated with property, plant and equipment; and higher operating costs attributable to inflationary increases and labour costs.

June 30, 2024 / 2023

Net income for the three months ended June 30, 2024 decreased \$1 million compared to the same period in 2023. This was primarily due to (i) the timing of income tax expense due to changes in tax timing differences associated with property, plant and equipment and (ii) higher operating costs attributable to inflationary increases, higher labour costs and timing of expenses. This was partially offset by (i) an increase in the GCOC-determined ROE from 8.50% in 2023 to 9.28% in 2024; (ii) higher revenue from regulated rate base growth, which funds incremental depreciation, interest expense and income tax; and (iii) formulaically-determined PBR revenue that incorporates changes in billing determinants, other adjustments that result from the operation of the K-bar funding mechanism, and true-ups and adjustments related to 2022 and 2023 rate base amounts.

FINANCIAL POSITION

The following table outlines the significant changes in the balance sheet between March 31, 2025 and December 31, 2024:

Item	Increase/ (Decrease) (\$ millions)	Explanation
Assets:		
Cash and cash equivalents	5	The increase was primarily driven by the timing of working capital receipts and disbursements.
Property, plant and equipment, net	39	The increase was primarily due to continued investment associated with the Corporation's capital expenditure program, partially offset by depreciation and customer contributions.
Liabilities and Shareholder's Equity:		
Deferred income tax	5	The increase was primarily due to higher deductible temporary differences related to capital asset expenditures and changes in regulatory deferral amounts.
Debt (including short-term borrowings)	35	The increase was primarily due to higher short-term borrowings under the credit facility to fund the Corporation's capital expenditure program.
Total shareholder's equity	6	The increase was due to earnings of \$37 million, less dividends paid of \$31 million.

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 credit facility; and
- equity contributions from the Corporation's parent company.

STATEMENTS OF CASH FLOWS

Cash Flow Requirements and Liquidity

The Corporation expects that operating costs, interest expense, and other working capital will generally be paid out of operating cash flows. Cash flow is also required to fund capital expenditure programs and it is expected that these will be financed from a combination of cash flows from operations, borrowings under the credit facility, equity contributions from Fortis via FAHI, long-term debenture issuances, and borrowing of demand notes from Fortis, as required.

The Corporation's ability to service its debt obligations and pay dividends is dependent on the financial results of the Corporation. Depending on the timing of cash payments, borrowings under the Corporation's credit facility, or demand notes from Fortis may be periodically required to support the servicing of working capital deficiencies. The Corporation may rely upon the proceeds of new debenture issuances to meet its principal obligations when they become due.

(\$ millions)	Three months ended March 31,		
	2025	2024	Variance
Cash and cash equivalents, beginning of period	—	77	(77)
Cash and cash equivalents from (used in):			
Operating activities	119	15	104
Investing activities	(118)	(105)	(13)
Financing activities	4	26	(22)
Cash and cash equivalents, end of period	5	13	(8)

Operating Activities

For the three months ended March 31, 2025, net cash provided from operating activities increased by \$104 million compared to the same period in 2024. This was due to differences between the timing of the collection of accounts receivable from retailers for distribution revenue, including customer transmission amounts, and the remittance of transmission-related charges to the AESO, partially offset by lower net income after non-cash adjustments.

Investing Activities

For the three months ended March 31, 2025, net cash used in investing activities increased by \$13 million compared to the same period in 2024. The increase in investing activities was primarily due to executing the Corporation's capital expenditure program.

Financing Activities

For the three months ended March 31, 2025, cash from financing activities decreased by \$22 million compared to the same period in 2024. As a result of an increase in cash from operating activities, there were less financing requirements. For the three months ended March 31, 2025, the Corporation paid dividends of \$31 million (March 31, 2024 - \$29 million) to its parent company FAHI.

The following summary outlines the Corporation's credit facilities:

(\$ millions)	March 31,	December 31,
	2025	2024
Total credit facility	250	250
Credit facility utilized		
Draws on credit facility	(155)	(115)
Letters of credit outstanding	(2)	(2)
Credit facility unutilized	93	133

In April 2025, the Corporation increased the size of its syndicated operating credit facility from \$250 million to \$300 million at terms the same as before, with a revised maturity date from August 2029 to April 2030.

PROJECTED CAPITAL EXPENDITURES

The Corporation's 2025 projected gross capital expenditures (excluding customer contributions) are approximately \$590 million, inclusive of an allowance for funds used during construction, capitalized overheads, and changes in inventory and working capital. The 2025 projected 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 materials, including inflation, supply chain availability, general economic conditions, foreign exchange rates and other factors. These factors, including new or revised international trade tariffs, could change and cause actual expenditures to differ from forecast.

Included in the 2025 projected gross capital expenditure program are approximately \$13 million of expenditures to support the ongoing connection of distributed energy resources, such as solar photovoltaic and wind, to its electric distribution system, and advance its distribution voltage management program to manage line losses and provide support for existing and new DG sites.

CONTRACTUAL OBLIGATIONS

The Corporation's contractual obligations have not changed materially from those disclosed in the MD&A for the year ended December 31, 2024.

OFF-BALANCE SHEET ARRANGEMENTS

Except for letters of credit outstanding, the Corporation had no off-balance sheet arrangements as at March 31, 2025.

CREDIT RATINGS

Debentures issued by the Corporation are rated by Morningstar DBRS and Standard and Poor's ("S&P"). The ratings assigned to the debentures issued by the Corporation are reviewed by these agencies on an ongoing basis.

The table below summarizes the ratings assigned to the Corporation's debentures as at March 31, 2025:

Rating Agency	Credit Rating	Type of Rating	Outlook
Morningstar DBRS	A (low)	Senior Unsecured Debt	Stable
S&P	A-	Senior Unsecured Debt	Stable

During the first quarter of 2025, S&P issued an updated credit report confirming the Corporation's credit rating and revising its outlook to "stable" from "negative". S&P attributed the change in outlook to the Corporation's credit metrics and continued progress on wildfire mitigation strategies.

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.

Issued:

- 63 Class A common shares, with no par value.

RELATED PARTY TRANSACTIONS

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

(\$ millions)	March 31, 2025	December 31, 2024
Accounts payable and other current liabilities ⁽¹⁾	2	2

⁽¹⁾ Includes charges from related parties for information technology services and other general operating expenses.

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

Related party transactions included in operating expenses were measured at the exchange amount and were as follows:

(\$ millions)	Three months ended March 31,	
	2025	2024
Included in operating expenses ⁽¹⁾	2	2

⁽¹⁾ Includes charges from related parties for corporate governance and other general operating expenses.

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

FINANCIAL INSTRUMENTS

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

(\$ millions)	March 31, 2025	December 31, 2024
Senior Unsecured Debentures (\$ millions)		
Fair value ⁽¹⁾	2,822	2,816
Carrying value ⁽²⁾	2,834	2,834

⁽¹⁾ The fair value of the senior unsecured debentures was estimated using level 2 inputs and 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.

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 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, 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.

CRITICAL ACCOUNTING ESTIMATES

In accordance with US GAAP, the preparation of the Corporation's 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. 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 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 critical accounting estimates for the three months ended March 31, 2025, from those disclosed in the MD&A for the year ended December 31, 2024.

CHANGES IN ACCOUNTING POLICIES

Income Tax Disclosures

ASU 2023-09 *Income Taxes (Topic 740), Improvements to Income Tax Disclosures*, is effective on January 1, 2025 on a prospective basis, with retrospective application permitted. The ASU requires additional disclosure of income tax information by jurisdiction to reflect an entity's exposure to potential changes in tax legislation and associated risks and opportunities. The Corporation does not expect that the adoption of this update will have a material impact on its disclosures. The updated disclosure will be reflected in the Corporation's annual financial statements.

FUTURE ACCOUNTING PRONOUNCEMENTS

The Corporation considers the applicability and impact of all Accounting Standards Updates ("ASU") issued by the Financial Accounting Standards Board ("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 not expected to have a material impact on the financial statements.

Disaggregation of Income Statement Expenses

ASU 2024-03 *Income Statement (Subtopic 220-40), Reporting Comprehensive Income, Expense Disaggregation Disclosures*, was issued in November 2024, is effective January 1, 2027 and will be applied on a prospective basis. This ASU requires additional disclosure of specific cost and expense information in the notes to the financial statements. The Corporation is assessing the impact of adoption.

GOVERNMENT POLICY DEVELOPMENTS

Government Policies Impacting the Electricity Industry

The regulatory framework under which the Corporation operates is impacted by significant shifts in government policy and/or changes in government, which creates uncertainty about public policy priorities and directions, particularly around electricity and environmental issues.

Restructured Energy Market ("REM")

On March 11, 2024, the Government of Alberta directed the AESO to work with industry and stakeholders to design and submit a draft REM design with the stated objectives of (i) generation reliability; (ii) customer affordability; (iii) decarbonization by 2050; and (iv) reasonable implementation. Industry and stakeholder consultations will incorporate the following topics: (i) day-ahead market; (ii) market power mitigation; (iii) pricing and reserve market; (iv) market clearing; (v) intertie participation; and (vi) shorter settlement. The Government of Alberta has directed that the REM be implemented by January 1, 2027. While the Corporation is not involved in the generation of electricity, FortisAlberta considers that the REM may have implications for the affordability of electricity in Alberta.

AESO Independent System Operator ("ISO") Tariff Engagement

In February 2025, the AESO initiated a stakeholder engagement to align the ISO tariff with changes to transmission and market policy so that clear and stable price signals provide investors with certainty and information needed for effective decision-making.

The AUC deadline for the AESO to file the bulk and regional rate updates is January 31, 2027, with new rates expected to take effect in 2029 following the AUC review process. While the Corporation is not involved in the transmission of electricity, FortisAlberta considers that changes to the ISO tariff will have impacts to customers.

OTHER DEVELOPMENTS

Collective Agreement

The Corporation entered into a three-year Collective Agreement with the United Utility Workers Association that was ratified on February 3, 2023, and expires on December 31, 2025. Collective bargaining is expected to commence in the fourth quarter of 2025.

Corporate Income Tax Audit

The Corporation is currently undergoing a corporate income tax audit of its 2020 tax year by the Canada Revenue Agency ("CRA"). The audits of the 2016, 2017, 2018 and 2019 tax years are generally complete, notwithstanding a limited number of pending tax matters. The Corporation is continuing to work with the CRA and the Alberta provincial tax authority towards the resolution of the tax matters identified in those audit years. As at March 31, 2025, there were no significant changes to the Corporation's existing tax positions. The Corporation will continue to assess whether there are material impacts to the financial statements as future processes unfold with the respective tax authorities.

BUSINESS RISK MANAGEMENT

The Corporation's business risks have not changed materially from those disclosed in the "Business Risk Management" section of the Corporation's MD&A for the year ended December 31, 2024, with the exception of the following update.

The Corporation's business could be negatively affected by import and export duties, international trade tariffs, barriers, or other protectionist measures imposed or increased, especially with respect to the United States. The change and continued uncertainty in export or import regulations, international trade tariffs or other protectionist measures, could adversely impact the Corporation's customer base and Alberta's economic activity and conditions generally reducing energy demand and sales and capital spending, which could further impact the Corporation's business and financial results, particularly to the extent that related customer and rate base growth are impacted.