FortisBC Energy Inc.

An indirect subsidiary of Fortis Inc.

Condensed Consolidated Interim Financial Statements
For the quarter and six months ended June 30, 2023 and 2022
(Unaudited)

FORTIS BC™

FortisBC Energy Inc.
Condensed Consolidated Balance Sheets (Unaudited)
As at
(in millions of Canadian dollars)

ASSETS	June 30, 2023	December 31, 2022
Current assets		
Cash	**$ 118**	$ 43
Accounts receivable and other current assets, net (note 9)	**189**	580
Inventories	**60**	121
Prepaid expenses	**40**	7
Regulatory assets (note 9)	**206**	220
Total current assets	**613**	971
Property, plant and equipment, net	**5,946**	5,839
Intangible assets, net	**125**	126
Regulatory assets	**1,001**	1,040
Other assets	**18**	20
Goodwill	**913**	913
TOTAL ASSETS	**$ 8,616**	$ 8,909
LIABILITIES AND EQUITY		
Current liabilities		
Credit facilities (note 10)	**$ -**	$ 203
Accounts payable and other current liabilities (note 9)	**620**	789
Regulatory liabilities	**92**	108
Total current liabilities	**712**	1,100
Long-term debt (note 9)	**3,273**	3,273
Regulatory liabilities	**459**	416
Deferred income tax	**656**	668
Other liabilities (note 9)	**97**	139
Total liabilities	**5,197**	5,596
Equity		
Common shares [1]	**1,741**	1,641
Additional paid-in capital	**1,245**	1,245
Retained earnings	**424**	418
Shareholder's equity	**3,410**	3,304
Non-controlling interests	**9**	9
Total equity	**3,419**	3,313
TOTAL LIABILITIES AND EQUITY	**$ 8,616**	$ 8,909

[1] 500 million authorized common shares with no par value; 366.0 million issued and outstanding at June 30, 2023 (December 31, 2022 – 357.2 million).

See accompanying notes to these Condensed Consolidated Interim Financial Statements.

FortisBC Energy Inc.
Condensed Consolidated Statements of Earnings (Unaudited)
For the quarter and six months ended June 30
(in millions of Canadian dollars)

	Quarter ended		Six months ended	
	2023	2022	**2023**	2022
Revenue (note 5)	**$ 358**	$ 396	**$ 1,108**	$ 1,090
Expenses				
Cost of natural gas	**141**	182	**516**	536
Operation and maintenance	**71**	69	**147**	134
Property and other taxes	**20**	19	**40**	37
Depreciation and amortization	**77**	76	**155**	152
Total expenses	**309**	346	**858**	859
Operating income	**49**	50	**250**	231
Other income	**94**	38	**101**	42
Finance charges (note 6)	**128**	68	**169**	104
Earnings before income taxes	**15**	20	**182**	169
Income tax (recovery) expense	**(29)**	(5)	**16**	26
Net earnings	**$ 44**	$ 25	**$ 166**	$ 143

FortisBC Energy Inc.
Condensed Consolidated Statements of Changes in Equity (Unaudited)
For the six months ended June 30
(in millions of Canadian dollars, except share numbers)

	Common Shares *(#millions)*	**Common Shares**	**Additional Paid-in Capital**	**Non-Controlling Interests**	**Retained Earnings**	**Total**
As at December 31, 2021	347.4	$ 1,491	$ 1,245	$ 9	$ 361	$ 3,106
Net earnings	-	-	-	-	143	143
Issuance of common shares	9.8	150	-	-	-	150
Dividends on common shares	-	-	-	-	(113)	(113)
As at June 30, 2022	357.2	1,641	1,245	9	391	3,286
As at December 31, 2022	**357.2**	**1,641**	**1,245**	**9**	**418**	**3,313**
Net earnings	**-**	**-**	**-**	**-**	**166**	**166**
Issuance of common shares	**8.8**	**100**	**-**	**-**	**-**	**100**
Dividends on common shares	**-**	**-**	**-**	**-**	**(160)**	**(160)**
As at June 30, 2023	**366.0**	**$ 1,741**	**$ 1,245**	**$ 9**	**$ 424**	**$ 3,419**

See accompanying notes to these Condensed Consolidated Interim Financial Statements.

FortisBC Energy Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)
For the quarter and six months ended June 30
(in millions of Canadian dollars)

	Quarter ended		Six months ended	
	2023	2022	**2023**	2022
Operating activities				
Net earnings	**$ 44**	$ 25	**$ 166**	$ 143
Adjustments to reconcile net earnings to cash from operating activities:				
Depreciation and amortization	**77**	76	**155**	152
Accrued employee future benefits	**(2)**	(2)	**(2)**	(2)
Equity component of allowance for funds used during construction	**(2)**	(3)	**(4)**	(5)
Deferred income tax, net of regulatory adjustments	**(1)**	(6)	**(1)**	(6)
Amortization of debt issue costs	**1**	-	**1**	-
Change in regulatory assets and liabilities	**(5)**	(23)	**108**	17
Change in working capital (note 8)	**89**	69	**171**	95
Cash from operating activities	**201**	136	**594**	394
Investing activities				
Property, plant and equipment additions (note 8)	**(115)**	(130)	**(226)**	(256)
Intangible asset additions	**(4)**	(4)	**(6)**	(7)
Contributions in aid of construction	**3**	2	**5**	11
Change in other assets and other liabilities	**(16)**	(20)	**(29)**	(37)
Cash used in investing activities	**(132)**	(152)	**(256)**	(289)
Financing activities				
Net (repayment of) proceeds from credit facility	**(25)**	53	**(203)**	(147)
Net change in finance leases	**-**	-	**-**	1
Issuance of common shares	**-**	-	**100**	150
Dividends on common shares	**(100)**	(56)	**(160)**	(113)
Cash used in financing activities	**(125)**	(3)	**(263)**	(109)
Net change in cash	**(56)**	(19)	**75**	(4)
Cash at beginning of period	**174**	19	**43**	4
Cash at end of period	**$ 118**	$ -	**$ 118**	$ -

Supplementary Information to Condensed Consolidated Statements of Cash Flows (note 8).

See accompanying notes to these Condensed Consolidated Interim Financial Statements.

1. DESCRIPTION OF THE BUSINESS

FortisBC Energy Inc. ("FEI" or the "Corporation") is a wholly-owned subsidiary of FortisBC Holdings Inc. ("FHI"), which is a wholly-owned subsidiary of Fortis Inc. ("Fortis"). Fortis shares are listed on both the Toronto Stock Exchange and the New York Stock Exchange.

FEI is the largest distributor of natural gas in British Columbia ("BC"), serving approximately 1,079,800 residential, commercial, industrial, and transportation customers through approximately 51,200 kilometers of natural gas pipelines. The Corporation provides transmission and distribution services to its customers and obtains natural gas and renewable gas supplies on behalf of most residential, commercial, and industrial customers. Gas supplies are sourced primarily from northeastern BC and, through the Corporation's Southern Crossing Pipeline, from Alberta.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These Condensed Consolidated Interim Financial Statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for Condensed Consolidated Interim Financial Statements and are presented in Canadian dollars unless otherwise specified. As a result, these Condensed Consolidated Interim Financial Statements do not include all of the information and disclosures required in the Annual Consolidated Financial Statements and should be read in conjunction with the Corporation's 2022 Annual Audited Consolidated Financial Statements. In management's opinion, the Condensed Consolidated Interim Financial Statements include all adjustments that are necessary to present fairly the consolidated financial position of the Corporation.

The accounting policies and methods of application used in the preparation of these Condensed Consolidated Interim Financial Statements are consistent with the accounting policies used in FEI's Annual Audited Consolidated Financial Statements as at December 31, 2022.

The Condensed Consolidated Interim Financial Statements include the accounts of the Corporation and its subsidiaries and its 85 per cent interest in the Mt. Hayes Storage Limited Partnership ("MHLP"). The Corporation consolidates 100 per cent of its subsidiaries and recognizes 15 per cent of the MHLP as non-controlling interests. All intercompany transactions and balances have been eliminated upon consolidation.

An evaluation of subsequent events through August 1, 2023, the date these Condensed Consolidated Interim Financial Statements were issued, was completed to determine whether any circumstances warranted recognition or disclosure of events or transactions in the Condensed Consolidated Interim Financial Statements as at June 30, 2023. No subsequent events have been identified for disclosure in these Condensed Consolidated Interim Financial Statements.

New Accounting Policies

FEI considers the applicability and impact of all Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board ("FASB"). During the six months ended June 30, 2023, there were no ASUs issued by FASB that have a material impact on these Condensed Consolidated Interim Financial Statements.

Future Accounting Pronouncements

Any ASUs issued by FASB that are not included in these Condensed Consolidated Interim Financial Statements were assessed and determined to be either not applicable to the Corporation or not expected to have a material impact on these Condensed Consolidated Interim Financial Statements.

3. REGULATORY MATTERS

Decision on Multi-Year Rate Plan ("MRP") for 2020 to 2024

In June 2020, the British Columbia Utilities Commission ("BCUC") issued its decision on FEI's MRP application for the years 2020 to 2024 ("MRP Decision"). The approved MRP includes, amongst other items, a level of operation and maintenance expense per customer indexed for inflation less a fixed productivity adjustment factor, a similar approach to growth capital, a forecast approach to sustainment capital, an innovation fund recognizing the need to accelerate investment in clean energy innovation, a number of service quality indicators designed to ensure the Corporation maintains service levels, and a 50/50 sharing between customers and the Corporation of variances from the allowed Return on Equity ("ROE").

Variances from the allowed ROE subject to sharing include certain components of other revenue and operating and maintenance costs, as well as variances in the utility's regulated rate base amounts, while variances associated with revenues and other expenses, including those that are not controllable or associated with clean growth capital expenditures, are subject to flow-through treatment and refunded to or recovered from customers.

In December 2022, the BCUC approved a delivery rate increase of 7.69 per cent over 2022 rates, on an interim basis, effective January 1, 2023, pending the outcomes of Stage 1 of the BCUC's current Generic Cost of Capital Proceeding (the "GCOC Proceeding"). The interim rate increase includes a 2023 forecast average rate base of $5,943 million, which is inclusive of the Demand Side Management Expenditures Plan that was accepted by the BCUC in March 2023.

4. SEASONALITY OF OPERATIONS

Interim results fluctuate due to the seasonal demands for natural gas, the movements of natural gas prices, and the timing and recognition of regulatory decisions. FEI's operations normally generate higher net earnings in the first and fourth quarters of the fiscal year and lower net earnings in the second quarter, which are partially offset by net losses in the third quarter. These fluctuations in quarterly net earnings are generally the result of changes in revenue from customer load as a result of weather, while certain expenses such as depreciation, interest and operating expenses remain more evenly distributed throughout the fiscal year. As a result of the seasonality, interim net earnings are not indicative of net earnings on an annual basis and could also be impacted by implementation of tax loss utilization plans.

5. REVENUE

Disaggregation of Revenue

The following table presents the disaggregation of the Corporation's revenue by type of customer:

	Quarter ended June 30		**Six months ended June 30**	
($ millions)	**2023**	2022	**2023**	2022
Residential	**179**	211	**603**	624
Commercial	**109**	125	**354**	351
Industrial	**29**	32	**79**	74
Transportation	**17**	19	**40**	46
Total natural gas revenue	**334**	387	**1,076**	1,095
Other contract revenue [1]	**1**	1	**1**	1
Total revenue from contracts with customers	**335**	388	**1,077**	1,096
Alternative revenue [2]	**24**	(5)	**8**	(31)
Other revenue [3]	**(1)**	13	**23**	25
Total revenue	**358**	396	**1,108**	1,090

[1] Other contract revenue includes utility customer connection fees and agreements with certain customers to provide transportation of natural gas over utility owned infrastructure.

[2] Alternative revenue includes the Earnings Sharing Mechanism, which recognizes the 50/50 sharing of variances from the allowed ROE, the Revenue Stabilization Adjustment Mechanism, and flow-through variances related to industrial and other customer revenue.

[3] Other revenue is primarily comprised of other flow-through and regulatory deferral adjustments resulting from cost recovery variances in regulated forecasts used to set gas delivery rates.

6. FINANCE CHARGES

	Quarter ended June 30		**Six months ended June 30**	
($ millions)	**2023**	2022	**2023**	2022
Interest on long-term debt	**38**	37	**76**	73
Interest on short-term debt	**6**	1	**10**	2
Debt component of allowance for funds used during construction	**(2)**	(2)	**(3)**	(3)
Net interest on debt	**42**	36	**83**	72
Finance charges paid to FHI	**86**	32	**86**	32
Total finance charges	**128**	68	**169**	104

7. EMPLOYEE FUTURE BENEFITS

The Corporation is a sponsor of pension plans for eligible employees. The plans include registered defined benefit pension plans and supplemental unfunded arrangements. In addition to pensions, the Corporation provides other post-employment benefits ("OPEB") for certain of its retired employees. The following table presents the net benefit cost for these plans.

	Quarter ended June 30			
	Defined Benefit Pension and Supplemental Plans		**OPEB Plans**	
($ millions)	**2023**	2022	**2023**	2022
Components of net benefit cost				
Service costs	**4**	8	**1**	1
Interest costs	**10**	8	**1**	1
Expected return on plan assets	**(13)**	(11)	**-**	-
Amortization of actuarial (gains) losses	**-**	1	**(1)**	-
Amortization of past service credit	**(1)**	(1)	**-**	-
Regulatory adjustment	**2**	(3)	**-**	-
Net benefit cost	**2**	2	**1**	2

	Six months ended June 30			
	Defined Benefit Pension and Supplemental Plans		**OPEB Plans**	
($ millions)	**2023**	2022	**2023**	2022
Components of net benefit cost				
Service costs	**8**	16	**1**	2
Interest costs	**20**	15	**2**	2
Expected return on plan assets	**(26)**	(22)	**-**	-
Amortization of actuarial (gains) losses	**-**	2	**(2)**	-
Amortization of past service credit	**(1)**	(1)	**-**	-
Regulatory adjustment	**6**	(5)	**1**	-
Net benefit cost	**7**	5	**2**	4

The Corporation's estimated 2023 contributions are $14 million (2022 - $15 million) for defined benefit pension plans and $3 million (2022 - $3 million) for OPEB plans.

8. SUPPLEMENTARY INFORMATION TO CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Quarter ended June 30		Six months ended June 30	
($ millions)	**2023**	2022	**2023**	2022
Change in working capital				
Accounts receivable and other current assets	**235**	183	**310**	135
Inventories	**(10)**	(64)	**61**	(20)
Prepaid expenses	**(37)**	1	**(33)**	5
Accounts payable and other current liabilities	**(99)**	(51)	**(167)**	(25)
Total change in working capital	**89**	69	**171**	95

Non-Cash Investing Activities

($ millions)	**2023**	2022
As at June 30		
Accrued capital expenditures	**45**	56

9. FINANCIAL INSTRUMENTS

The Corporation has natural gas contracts subject to regulatory deferral, all of which are Level 2 of the fair value hierarchy. Under the hierarchy, fair value of Level 2 financial instruments is determined using pricing inputs that are observable in the marketplace.

Recurring Fair Value Measures

The following table presents the fair value of assets and liabilities that are accounted for at fair value on a recurring basis. Contracts that are "in the money" are included in accounts receivable and other current assets or in long-term other assets, and "out of the money" are included in accounts payable and other current liabilities or in long-term other liabilities.

	As at	
($ millions)	**June 30, 2023**	December 31, 2022
Assets		
Current	**1**	47
Total assets	**-**	47
Liabilities		
Current	**(86)**	(70)
Long-term	**-**	(37)
Total liabilities	**(86)**	(107)
Total liabilities, net	**(85)**	(60)

Natural gas contracts held by FEI are not designated as hedges and any unrealized gains and losses arising from changes in fair value of these contracts are deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates, as permitted by the BCUC, as shown in the following table.

	As at	
($ millions)	**June 30, 2023**	December 31, 2022
Unrealized loss recorded to current regulatory assets	**85**	60

Cash inflows and outflows associated with the settlement of all derivative instruments are included in operating cash flows on the Corporation's Condensed Consolidated Statements of Cash Flows.

9. FINANCIAL INSTRUMENTS (continued)

The Corporation has elected gross presentation for its derivative contracts under master netting agreements and collateral positions which are netted where the intent and legal right to offset exists. The following table presents the potential offset of counterparty netting.

($ millions)	**Gross Amount Recognized on Balance Sheet**	**Counterparty Netting of Natural Gas Contracts**	**Cash Collateral Posted**	**Net Amount**
As at June 30, 2023				
Accounts receivable and other current assets	**1**	**-**	**28**	**29**
Accounts payable and other current liabilities	**(86)**	**-**	**-**	**(86)**
As at December 31, 2022				
Accounts receivable and other current assets	47	(15)	28	60
Accounts payable and other current liabilities	(70)	15	-	(55)
Other liabilities	(37)	-	-	(37)

Volume of Derivative Activity

The Corporation had various natural gas derivative contracts subject to regulatory deferral that will settle on various expiration dates through 2025. The volumes related to these natural gas derivatives are outlined below:

	As at	
(petajoules)	**June 30, 2023**	December 31, 2022
Natural gas physically-settled supply contracts	**134**	148
Natural gas financially-settled commodity swaps	**37**	51

Financial Instruments Not Carried at Fair Value

The following table presents the carrying value, excluding unamortized debt issuance costs, and estimated fair value of the Corporation's long-term debt.

		As at			
		June 30, 2023		December 31, 2022	
($ millions)	Fair Value Hierarchy	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long-term debt	Level 2	**3,295**	**3,204**	3,295	3,101

10. GUARANTEES

The Corporation had letters of credit outstanding at June 30, 2023 totaling $36 million (December 31, 2022 - $54 million) primarily to support the funding of one of the Corporation's pension plans and have been applied against FEI's $55 million uncommitted letter of credit facility.