



FortisBC Energy Inc.

An indirect subsidiary of Fortis Inc.

Condensed Consolidated Interim Financial Statements
For the quarter and six months ended June 30, 2024 and 2023
(Unaudited)

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

	June 30, 2024	December 31, 2023
ASSETS		
Current assets		
Cash	\$ 11	\$ 1
Accounts receivable and other current assets, net (note 9)	256	396
Inventories	45	80
Prepaid expenses	59	8
Regulatory assets (note 9)	215	219
Total current assets	586	704
Property, plant and equipment, net	6,471	6,185
Intangible assets, net	127	127
Regulatory assets	1,410	1,281
Other assets (note 9)	36	26
Goodwill	913	913
TOTAL ASSETS	\$ 9,543	\$ 9,236
LIABILITIES AND EQUITY		
Current liabilities		
Credit facilities (note 10)	\$ 501	\$ 65
Accounts payable and other current liabilities (note 9)	474	653
Regulatory liabilities	143	149
Total current liabilities	1,118	867
Long-term debt (note 9)	3,274	3,274
Regulatory liabilities	304	324
Deferred income tax	815	752
Other liabilities (note 9)	224	209
Total liabilities	5,735	5,426
Equity		
Common shares ¹	2,041	2,041
Additional paid-in capital	1,245	1,245
Retained earnings	513	515
Shareholder's equity	3,799	3,801
Non-controlling interests	9	9
Total equity	3,808	3,810
TOTAL LIABILITIES AND EQUITY	\$ 9,543	\$ 9,236

¹ 500 million authorized common shares with no par value; 391.6 million issued and outstanding at June 30, 2024 (December 31, 2023 – 391.6 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	
	2024	2023	2024	2023
Revenue (note 5)	\$ 332	\$ 358	\$ 888	\$ 1,108
Expenses				
Cost of natural gas	77	141	237	516
Operation and maintenance	77	71	150	147
Property and other taxes	21	20	42	40
Depreciation and amortization	84	77	168	155
Total expenses	259	309	597	858
Operating income	73	49	291	250
Other income	10	94	18	101
Finance charges (note 6)	40	128	79	169
Earnings before income taxes	43	15	230	182
Income tax expense (recovery)	13	(29)	56	16
Net earnings	30	44	174	166
Net earnings attributable to non-controlling interests	1	-	1	-
Net earnings	\$ 29	\$ 44	\$ 173	\$ 166

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, 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
As at December 31, 2023	391.6	\$ 2,041	\$ 1,245	\$ 9	\$ 515	\$ 3,810
Net earnings	-	-	-	1	173	174
Net distribution to Mt. Hayes Storage LP Partners	-	-	-	(1)	-	(1)
Dividends on common shares	-	-	-	-	(175)	(175)
As at June 30, 2024	391.6	\$ 2,041	\$ 1,245	\$ 9	\$ 513	\$ 3,808

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	
	2024	2023	2024	2023
Operating activities				
Net earnings	\$ 30	\$ 44	\$ 174	\$ 166
Adjustments to reconcile net earnings to cash from operating activities:				
Depreciation and amortization	84	77	168	155
Accrued employee future benefits	(4)	(2)	(8)	(2)
Equity component of allowance for funds used during construction	(6)	(2)	(10)	(4)
Deferred income tax, net of regulatory adjustments	(1)	(1)	5	(1)
Amortization of debt issue costs	1	1	1	1
Change in regulatory assets and liabilities	(26)	(5)	(40)	108
Change in working capital (note 8)	(9)	89	(71)	171
Cash from operating activities	69	201	219	594
Investing activities				
Property, plant and equipment additions (note 8)	(209)	(115)	(406)	(226)
Intangible asset additions	(6)	(4)	(8)	(6)
Contributions in aid of construction	2	3	3	5
Change in other assets and other liabilities	(24)	(16)	(57)	(29)
Cash used in investing activities	(237)	(132)	(468)	(256)
Financing activities				
Net proceeds from (repayment of) credit facility	222	(25)	436	(203)
Debt issuance costs	(1)	-	(1)	-
Net distributions to non-controlling interests	(1)	-	(1)	-
Issuance of common shares	-	-	-	100
Dividends on common shares	(50)	(100)	(175)	(160)
Cash from (used in) financing activities	170	(125)	259	(263)
Net change in cash	2	(56)	10	75
Cash at beginning of period	9	174	1	43
Cash at end of period	\$ 11	\$ 118	\$ 11	\$ 118

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

See accompanying notes to these Condensed Consolidated Interim Financial Statements.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the quarter and six months ended June 30, 2024 and 2023

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 a regulated gas utility and is the largest distributor of natural gas in British Columbia ("BC"), serving approximately 1,093,600 residential, commercial, industrial, and transportation customers through approximately 51,600 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 2023 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, 2023.

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 July 30, 2024, 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, 2024. 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 quarter ended June 30, 2024, there were no ASUs issued by FASB that have a material impact on these Condensed Consolidated Interim Financial Statements.

Future Accounting Pronouncements

The following updates have been issued by FASB but have not yet been adopted by the Corporation. 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.

Improvements to Reportable Segment Disclosures

ASU No. 2023-07, *Improvements to Reportable Segment Disclosures*, issued in December 2023, is effective for the Corporation's December 31, 2024 annual financial statements, and for interim periods beginning in 2025, on a retrospective basis. The ASU requires disclosure of incremental segment information, including those for single reportable segments, incorporating significant segment expenses and other items that are included in segment profit or loss. The Corporation is assessing the impact of adoption of this ASU on the disclosures to its consolidated financial statements.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the quarter and six months ended June 30, 2024 and 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Improvements to Income Tax Disclosures

ASU No. 2023-09, *Improvements to Income Tax Disclosures*, issued in December 2023, is effective for the Corporation January 1, 2025 on a prospective basis, with retrospective application and early adoption permitted. Principally, it 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 is assessing the impact of adoption of this ASU on the disclosures to its consolidated financial statements.

3. REGULATORY MATTERS

Allowed Return on Equity and Capital Structure

In September 2023, the BCUC issued its decision on Stage 1 of the Generic Cost of Capital ("GCOC") Proceeding ("GCOC Stage 1 Decision") for FEI and FBC. In its decision, the BCUC determined that FEI's deemed equity component of capital structure and allowed ROE will change from 38.5 per cent and 8.75 per cent to 45 per cent and 9.65 per cent, respectively, effective January 1, 2023. The 2023 year-to-date net impact of the change in cost of capital was recognized in the third quarter of 2023. The BCUC also determined that neither a formulaic ROE automatic adjustment mechanism nor specific criteria or other triggers for future cost of capital proceedings are warranted, and instead will remain in effect until otherwise determined by the BCUC.

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 2023, the BCUC approved a 2024 delivery rate increase of 8.00 per cent over 2023 rates, on an interim and refundable basis pending the outcome of the 2024-2027 Demand Side Management Expenditures Plan Application, which was subsequently approved in February 2024. As part of this decision, a further increase to the revenue deficiency deferral established in 2023 resulting from the GCOC Stage 1 Decision was approved for 2024. The 8.00 per cent rate increase includes a 2024 forecast average rate base of approximately \$5,817 million.

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.

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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)	2024	2023	2024	2023
Residential	161	179	488	603
Commercial	90	109	264	354
Industrial	27	29	61	79
Transportation	17	17	38	40
Total natural gas revenue	295	334	851	1,076
Other contract revenue ¹	1	1	1	1
Total revenue from contracts with customers	296	335	852	1,077
Alternative revenue ²	14	24	11	8
Other revenue ³	22	(1)	25	23
Total revenue	332	358	888	1,108

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, including other revenue recognized resulting from the GCOC Stage 1 Decision, 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)	2024	2023	2024	2023
Interest on long-term debt	39	38	77	76
Interest on short-term debt	4	6	7	10
Debt component of allowance for funds used during construction	(3)	(2)	(5)	(3)
Net interest on debt	40	42	79	83
Finance charges paid to FHI	-	86	-	86
Total finance charges	40	128	79	169

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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	
<i>(\$ millions)</i>	2024	2023	2024	2023
Components of net benefit cost				
Service costs	6	4	1	1
Interest costs	10	10	1	1
Expected return on plan assets	(14)	(13)	-	-
Amortization of actuarial gains	-	-	-	(1)
Amortization of past service credit	-	(1)	-	-
Regulatory adjustment	(1)	2	-	-
Net benefit cost	1	2	2	1

Six months ended June 30				
	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
<i>(\$ millions)</i>	2024	2023	2024	2023
Components of net benefit cost				
Service costs	11	8	2	1
Interest costs	20	20	2	2
Expected return on plan assets	(28)	(26)	-	-
Amortization of actuarial gains	-	-	(1)	(2)
Amortization of past service credit	-	(1)	-	-
Regulatory adjustment	(1)	6	-	1
Net benefit cost	2	7	3	2

The Corporation's estimated 2024 contributions are \$15 million (2023 - \$14 million) for defined benefit pension plans and \$3 million (2023 - \$3 million) for OPEB plans.

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8. SUPPLEMENTARY INFORMATION TO CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Quarter ended June 30		Six months ended June 30	
(\$ millions)	2024	2023	2024	2023
Change in working capital				
Accounts receivable and other current assets	123	235	85	310
Inventories	(7)	(10)	35	61
Prepaid expenses	(43)	(37)	(41)	(33)
Accounts payable and other current liabilities	(82)	(99)	(150)	(167)
Total change in working capital	(9)	89	(71)	171

Non-Cash Investing Activities

(\$ millions)	2024	2023
As at June 30		
Accrued capital expenditures	127	45

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, 2024	December 31, 2023
Assets		
Current	5	3
Long-term	1	-
Total assets	6	3
Liabilities		
Current	(58)	(81)
Long-term	(31)	(18)
Total liabilities	(89)	(99)
Total liabilities, net	(83)	(96)

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, 2024	December 31, 2023
Unrealized loss recorded to current regulatory assets	83	96

FortisBC Energy Inc.
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9. FINANCIAL INSTRUMENTS (continued)

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.

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.

	Gross Amount Recognized on Balance Sheet	Counterparty Netting of Natural Gas Contracts	Cash Collateral Posted	Net Amount
<i>(\$ millions)</i>				
As at June 30, 2024				
Accounts receivable and other current assets	5	(1)	15	19
Other assets	1	-	-	1
Accounts payable and other current liabilities	(58)	1	-	(57)
Other long-term liabilities	(31)	-	-	(31)
As at December 31, 2023				
Accounts receivable and other current assets	3	(2)	28	29
Accounts payable and other current liabilities	(81)	2	-	(79)
Other liabilities	(18)	-	-	(18)

Volume of Derivative Activity

The Corporation had various natural gas derivative contracts subject to regulatory deferral that will settle on various expiration dates through 2028. The volumes related to these natural gas derivatives are outlined below.

	As at June 30, 2024	December 31, 2023
<i>(petajoules)</i>		
Natural gas physically-settled supply contracts	113	134
Natural gas financially-settled commodity swaps	119	105

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, 2024		December 31, 2023	
<i>(\$ millions)</i>	Fair Value Hierarchy	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt	Level 2	3,295	3,139	3,295	3,245

10. GUARANTEES

The Corporation had letters of credit outstanding at June 30, 2024 totaling \$38 million (December 31, 2023 - \$36 million) which are 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.