FortisBC Energy Inc.

An indirect subsidiary of Fortis Inc.

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

FORTIS BC

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

ASSETS		**September 30, 2023**		December 31, 2022
Current assets				
Cash	**$**	**35**	$	43
Accounts receivable and other current assets, net (note 9)		**200**		580
Inventories		**93**		121
Prepaid expenses		**31**		7
Regulatory assets (note 9)		**176**		220
Total current assets		**535**		971
Property, plant and equipment, net		**6,054**		5,839
Intangible assets, net		**125**		126
Regulatory assets		**1,099**		1,040
Other assets		**36**		20
Goodwill		**913**		913
TOTAL ASSETS	**$**	**8,762**	$	8,909
LIABILITIES AND EQUITY				
Current liabilities				
Credit facilities (note 10)	**$**	**73**	$	203
Accounts payable and other current liabilities (note 9)		**632**		789
Regulatory liabilities		**80**		108
Total current liabilities		**785**		1,100
Long-term debt (note 9)		**3,274**		3,273
Regulatory liabilities		**427**		416
Deferred income tax		**706**		668
Other liabilities (note 9)		**107**		139
Total liabilities		**5,299**		5,596
Equity				
Common shares [1]		**1,741**		1,641
Additional paid-in capital		**1,245**		1,245
Retained earnings		**468**		418
Shareholder's equity		**3,454**		3,304
Non-controlling interests		**9**		9
Total equity		**3,463**		3,313
TOTAL LIABILITIES AND EQUITY	**$**	**8,762**	$	8,909

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

See accompanying notes to these Condensed Consolidated Interim Financial Statements.

FORTIS BC™

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

	Quarter ended		Nine months ended	
	2023	2022	**2023**	2022
Revenue (note 5)	**$ 291**	$ 269	**$ 1,399**	$ 1,359
Expenses				
Cost of natural gas	**65**	103	**581**	639
Operation and maintenance	**72**	71	**219**	205
Property and other taxes	**20**	17	**60**	54
Depreciation and amortization	**77**	75	**232**	227
Total expenses	**234**	266	**1,092**	1,125
Operating income	**57**	3	**307**	234
Other income	**99**	44	**200**	86
Finance charges (note 6)	**128**	74	**297**	178
Earnings (loss) before income taxes	**28**	(27)	**210**	142
Income tax (recovery) expense	**(17)**	(21)	**(1)**	5
Net earnings (loss)	**45**	(6)	**211**	137
Net earnings attributable to non-controlling interests	**1**	1	**1**	1
Net earnings (loss) attributable to controlling interest	**$ 44**	$ (7)	**$ 210**	$ 136

FortisBC Energy Inc.
Condensed Consolidated Statements of Changes in Equity (Unaudited)
For the nine months ended September 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	-	-	-	1	136	137
Net distribution to Mt. Hayes Storage LP Partners	-	-	-	(1)	-	(1)
Issuance of common shares	9.8	150	-	-	-	150
Dividends on common shares	-	-	-	-	(113)	(113)
As at September 30, 2022	357.2	$ 1,641	$ 1,245	$ 9	$ 384	$ 3,279
As at December 31, 2022	**357.2**	**$ 1,641**	**$ 1,245**	**$ 9**	**$ 418**	**$ 3,313**
Net earnings	**-**	**-**	**-**	**1**	**210**	**211**
Net distribution to Mt. Hayes Storage LP Partners	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Issuance of common shares	**8.8**	**100**	**-**	**-**	**-**	**100**
Dividends on common shares	**-**	**-**	**-**	**-**	**(160)**	**(160)**
As at September 30, 2023	**366.0**	**$ 1,741**	**$ 1,245**	**$ 9**	**$ 468**	**$ 3,463**

See accompanying notes to these Condensed Consolidated Interim Financial Statements.

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

	Quarter ended		Nine months ended	
	2023	2022	**2023**	2022
Operating activities				
Net earnings (loss)	**$ 45**	$ (6)	**$ 211**	$ 137
Adjustments to reconcile net earnings to cash from operating activities:				
Depreciation and amortization	**77**	75	**232**	227
Accrued employee future benefits	**(1)**	-	**(3)**	(2)
Equity component of allowance for funds used during construction	**(5)**	(3)	**(9)**	(8)
Deferred income tax, net of regulatory adjustments	**-**	(15)	**(1)**	(21)
Amortization of debt issue costs	**-**	1	**1**	1
Change in regulatory assets and liabilities	**(85)**	(28)	**23**	(11)
Change in working capital (note 8)	**(16)**	(87)	**155**	8
Cash from (used in) operating activities	**15**	(63)	**609**	331
Investing activities				
Property, plant and equipment additions (note 8)	**(148)**	(147)	**(374)**	(403)
Intangible asset additions	**(5)**	(4)	**(11)**	(11)
Contributions in aid of construction	**1**	2	**6**	13
Change in other assets and other liabilities	**(18)**	(18)	**(47)**	(55)
Cash used in investing activities	**(170)**	(167)	**(426)**	(456)
Financing activities				
Net (repayment of) proceeds from credit facility	**73**	238	**(130)**	91
Net change in finance leases	**-**	(1)	**-**	-
Issuance of common shares	**-**	-	**100**	150
Net distributions to non-controlling interests	**(1)**	(1)	**(1)**	(1)
Dividends on common shares	**-**	-	**(160)**	(113)
Cash (used in) from financing activities	**72**	236	**(191)**	127
Net change in cash	**(83)**	6	**(8)**	2
Cash at beginning of period	**118**	-	**43**	4
Cash at end of period	**$ 35**	$ 6	**$ 35**	$ 6

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 1,080,000 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 October 26, 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 September 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 nine months ended September 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

Allowed Return on Equity and Capital Structure

In January 2021, the BCUC announced that a Generic Cost of Capital Proceeding (the "GCOC Proceeding") was being initiated, including a review of the deemed common equity component of total capital structure and the allowed Return on Equity ("ROE") on common equity for regulated utilities in BC. The BCUC determined the GCOC Proceeding would move forward in stages. The first stage addressed the allowed ROE and deemed equity component of capital structure for FEI and FBC and the effective date for any change, whether re-establishment of a formulaic ROE automatic adjustment mechanism is warranted and if so, what it would look like and when it would take effect, and the criteria or other triggers for a future cost of capital proceeding. Other utilities will be reviewed in Stage 2. The BCUC has also determined it will address deferral account financing costs after the completion of both Stages 1 and 2.

In September 2023, the BCUC issued its decision on Stage 1 of the 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 year-to-date net impact of the change in cost of capital has been recognized in the third quarter. 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.

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 approximately $5,945 million, which is inclusive of the Demand Side Management Expenditures Plan that was accepted by the BCUC in March 2023.

As part of the GCOC Stage 1 Decision, FEI was directed to file a Compliance Filing for permanent 2023 rates within thirty days. In late September 2023, FEI filed the Compliance Filing which included a deferral of the 2023 revenue deficiency resulting from the GCOC Stage 1 Decision, and a request for approval to make 2023 interim rates permanent. As part of the Compliance Filing, FEI has also proposed to refinance the capital structure in either the fourth quarter of 2023 or first quarter of 2024. The BCUC approved the Compliance Filing in October 2023. The Compliance Filing included a 2023 forecast average rate base of $5,945 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 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 September 30		Nine months ended September 30	
($ millions)	**2023**	2022	**2023**	2022
Residential	**107**	121	**710**	745
Commercial	**58**	71	**412**	422
Industrial	**21**	26	**100**	100
Transportation	**14**	16	**54**	62
Total natural gas revenue	**200**	234	**1,276**	1,329
Other contract revenue [1]	**-**	-	**1**	1
Total revenue from contracts with customers	**200**	234	**1,277**	1,330
Alternative revenue [2]	**37**	29	**45**	(2)
Other revenue [3]	**54**	6	**77**	31
Total revenue	**291**	269	**1,399**	1,359

[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 September 30		Nine months ended September 30	
($ millions)	**2023**	2022	**2023**	2022
Interest on long-term debt	**38**	37	**114**	110
Interest on short-term debt	**2**	1	**12**	3
Debt component of allowance for funds used during construction	**(1)**	(2)	**(4)**	(5)
Net interest on debt	**39**	36	**122**	108
Finance charges paid to FHI	**89**	38	**175**	70
Total finance charges	**128**	74	**297**	178

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 September 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)**	(12)	**-**	-
Amortization of actuarial (gains) losses	**(1)**	1	**-**	-
Amortization of past service credit	**-**	-	**-**	-
Regulatory adjustment	**2**	(2)	**-**	-
Net benefit cost	**2**	3	**2**	2

	Nine months ended September 30			
	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
($ millions)	**2023**	2022	**2023**	2022
Components of net benefit cost				
Service costs	**12**	24	**2**	3
Interest costs	**30**	23	**3**	3
Expected return on plan assets	**(39)**	(34)	**-**	-
Amortization of actuarial (gains) losses	**(1)**	3	**(2)**	-
Amortization of past service credit	**(1)**	(1)	**-**	-
Regulatory adjustment	**8**	(7)	**1**	-
Net benefit cost	**9**	8	**4**	6

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 September 30		Nine months ended September 30	
($ millions)	**2023**	2022	**2023**	2022
Change in working capital				
Accounts receivable and other current assets	**(16)**	18	**294**	153
Inventories	**(33)**	(52)	**28**	(72)
Prepaid expenses	**9**	(26)	**(24)**	(21)
Accounts payable and other current liabilities	**24**	(27)	**(143)**	(52)
Total change in working capital	**(16)**	(87)	**155**	8

Non-Cash Investing Activities

($ millions)	**2023**	2022
As at September 30		
Accrued capital expenditures	**54**	70

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)	**September 30, 2023**	December 31, 2022
Assets		
Current	**2**	47
Long-term	**3**	-
Total assets	**5**	47
Liabilities		
Current	**(60)**	(70)
Long-term	**(2)**	(37)
Total liabilities	**(62)**	(107)
Total liabilities, net	**(57)**	(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)	**September 30, 2023**	December 31, 2022
Unrealized loss recorded to current regulatory assets	**57**	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 September 30, 2023				
Accounts receivable and other current assets	**2**	**(1)**	**28**	**29**
Other assets	**3**	**(1)**	**-**	**2**
Accounts payable and other current liabilities	**(60)**	**1**	**-**	**(59)**
Other liabilities	**(2)**	**1**	**-**	**(1)**
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 2028. The volumes related to these natural gas derivatives are outlined below:

	As at	
(petajoules)	**September 30, 2023**	December 31, 2022
Natural gas physically-settled supply contracts	**166**	148
Natural gas financially-settled commodity swaps	**73**	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			
		September 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**	**2,962**	3,295	3,101

10. GUARANTEES

The Corporation had letters of credit outstanding at September 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.