



FortisBC Energy Inc.

An indirect subsidiary of Fortis Inc.

Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2019 and 2018
(Unaudited)

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

ASSETS	March 31, 2019	December 31, 2018
Current assets		
Cash	\$ 7	\$ -
Accounts receivable (note 8)	380	277
Inventories	32	50
Prepaid expenses	2	4
Regulatory assets (note 8)	41	50
Total current assets	462	381
Property, plant and equipment, net (note 10)	4,679	4,658
Intangible assets, net	117	119
Regulatory assets	822	781
Other assets (notes 8 and 10)	18	14
Goodwill	913	913
TOTAL ASSETS	\$ 7,011	\$ 6,866
LIABILITIES AND EQUITY		
Current liabilities		
Credit facility (note 9)	\$ 309	\$ 199
Accounts payable and other current liabilities (notes 8, 9 and 10)	362	401
Current portion of finance lease and finance obligations (note 10)	16	16
Regulatory liabilities (note 8)	45	44
Total current liabilities	732	660
Long-term debt (note 8)	2,575	2,575
Finance lease and finance obligations (note 10)	41	42
Regulatory liabilities	147	145
Deferred income taxes	518	503
Other liabilities (notes 8 and 10)	199	191
Total liabilities	4,212	4,116
Equity		
Common shares	1,211	1,211
Additional paid-in capital	1,245	1,245
Retained earnings	333	284
Shareholder's equity	2,789	2,740
Non-controlling interests	10	10
Total equity	2,799	2,750
TOTAL LIABILITIES AND EQUITY	\$ 7,011	\$ 6,866

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

FortisBC Energy Inc.
Condensed Consolidated Statements of Earnings (Unaudited)
For the three months ended March 31
(in millions of Canadian dollars)

	2019	2018
Revenue (note 5)	\$ 485	\$ 428
Expenses		
Cost of natural gas	181	134
Operation and maintenance	66	58
Property and other taxes	17	17
Depreciation and amortization	60	56
Total expenses	324	265
Operating income	161	163
Other income	3	16
Finance charges	35	48
Earnings before income taxes	129	131
Income tax expense	30	30
Net earnings	\$ 99	\$ 101

FortisBC Energy Inc.
Condensed Consolidated Statements of Changes in Equity (Unaudited)
For the three months ended March 31
(in millions of Canadian dollars)

	Common Shares	Additional Paid-in Capital	Non- controlling Interests	Retained Earnings	Total
As at December 31, 2017	\$ 1,171	\$ 1,245	\$ 10	\$ 237	\$ 2,663
Net earnings	-	-	-	101	101
Dividends on common shares	-	-	-	(47)	(47)
As at March 31, 2018	1,171	1,245	10	291	2,717
As at December 31, 2018	1,211	1,245	10	284	2,750
Net earnings	-	-	-	99	99
Dividends on common shares	-	-	-	(50)	(50)
As at March 31, 2019	\$ 1,211	\$ 1,245	\$ 10	\$ 333	\$ 2,799

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

FortisBC Energy Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)
For the three months ended March 31
(in millions of Canadian dollars)

	2019	2018
Operating activities		
Net earnings	\$ 99	\$ 101
Adjustments for non-cash items		
Depreciation and amortization	60	56
Accrued employee future benefits	1	-
Equity component of allowance for funds used during construction	(1)	(1)
Change in regulatory assets and liabilities	(21)	9
Change in working capital (note 7)	(118)	15
Cash from operating activities	20	180
Investing activities		
Property, plant and equipment additions (note 7)	(67)	(83)
Intangible asset additions	(2)	(2)
Contributions in aid of construction	2	1
Change in other assets and other liabilities	(10)	-
Cash used in investing activities	(77)	(84)
Financing activities		
Net proceeds from (repayment of) credit facility	110	(44)
Deposit received for development expenditures	5	-
Repayment of finance lease and finance obligations	(1)	(2)
Dividends on common shares	(50)	(47)
Cash from (used in) financing activities	64	(93)
Net change in cash	7	3
Cash at beginning of period	-	-
Cash at end of period	\$ 7	\$ 3

Supplementary Information to Condensed Consolidated Statements of Cash Flows (note 7).

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

FortisBC Energy Inc.**Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three months ended March 31, 2019 and 2018**

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.

The Corporation is the largest distributor of natural gas in British Columbia ("BC"), serving approximately 1,033,000 residential, commercial, industrial, and transportation customers in more than 135 communities. The Corporation provides transmission and distribution services to its customers, and obtains natural 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 2018 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.

With the exception of the new accounting policies listed below, 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, 2018.

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 April 30, 2019, 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 March 31, 2019. Subsequent events have been appropriately disclosed in these Condensed Consolidated Interim Financial Statements.

New Accounting Policies**Leases**

Effective January 1, 2019, FEI adopted ASU No. 2016-02, *Leases* (ASC Topic 842), that requires lessees to recognize a right-of-use asset and lease liability for all leases with a lease term greater than 12 months, along with additional quantitative and qualitative disclosures. The Corporation applied the transition provisions as of the adoption date and did not retrospectively adjust prior periods. FEI elected a package of implementation options, referred to as practical expedients, that allowed it to not reassess: (i) whether existing contracts, including land easements, are or contain a lease; (ii) the lease classification of existing leases; or (iii) the initial direct costs for existing leases. Also, the Corporation utilized the hindsight practical expedient to determine the lease term. Upon adoption, the Corporation did not identify or record an adjustment to the opening balance of retained earnings, and there was no impact on net earnings or cash flows.

When a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, a right-of-use asset and lease liability are recognized. At inception, the right-of-use asset and liability are both measured at the present value of future lease payments, excluding variable payments that are based on usage or performance. For operating leases, the future lease payments include both lease components (e.g., rent, real estate taxes and insurance costs) and non-lease components (e.g., common area maintenance costs), which FEI accounts for as a single lease component. The Corporation has not elected to combine lease and non-lease components for the finance leases.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three months ended March 31, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The present value is calculated using the rate implicit in the lease or a lease-specific secured interest rate based on the remaining lease term. Renewal options are included in the lease term when it is reasonably certain that the option will be exercised.

Leases with a term of twelve months or less are not recorded on the balance sheet but are recognized as lease expense straight-line over the lease term.

As at March 31, 2019, the Corporation recognized \$7 million of right-of-use assets and lease liabilities related to office facilities. Refer to Note 10 for additional disclosure on FEI's leasing arrangements.

Future Accounting Pronouncements

FEI considers the applicability and impact of all ASUs issued by the Financial Accounting Standards Board ("FASB"). The following updates have been issued by FASB, but have not yet been adopted by FEI. Any ASUs not included below were assessed and determined to be either not applicable to the Corporation or are not expected to have a material impact on the Consolidated Financial Statements.

Measurement of Credit Losses on Financial Instruments

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, issued in June 2016, is effective for FEI January 1, 2020, and is to be applied on a modified retrospective basis. Principally, it requires entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to estimate credit losses. FEI does not expect the adoption of this ASU to have a material impact on the Consolidated Financial Statements and related disclosures.

Fair Value Measurement Disclosures

ASU No. 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement*, issued in August 2018, is effective for FEI January 1, 2020 and is to be primarily applied on a retrospective basis, with certain disclosures requiring prospective application. Principally, it improves the effectiveness of financial statement note disclosures by clarifying what is required and important to users of the financial statements. FEI does not expect the adoption of this ASU to have a material impact on the Consolidated Financial Statements and related disclosures.

Pensions and Other Postretirement Plan Disclosures

ASU No. 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans*, issued in August 2018, is effective for FEI January 1, 2021 and is to be applied on a retrospective basis for all periods presented. Principally, it modifies the disclosure requirements for employers with defined pension or other post-retirement plans and clarifies disclosure requirements. In addition, the amendments remove (a) the amounts in accumulated other comprehensive income expected to be recognized as components of net period benefit costs over the next fiscal period, (b) the amount and timing of plan assets expected to be returned to the employer, and (c) the effects of a one-percentage-point change on the assumed health care costs and the change in rates on service cost, interest cost and the benefit obligation for post-retirement health care benefits. FEI does not expect the adoption of this ASU to have a material impact on the Consolidated Financial Statements and related disclosures.

FortisBC Energy Inc.
**Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three months ended March 31, 2019 and 2018**
3. REGULATORY MATTERS
Performance Based Ratemaking Plan for 2014 to 2019

In September 2014, the British Columbia Utilities Commission ("BCUC") issued its decision on FEI's Performance Based Ratemaking Plan setting out the rate-setting framework for the years 2014 to 2019.

In the first quarter of 2019, the BCUC issued its decision on FEI's 2019 delivery rates. The decision resulted in a 2019 average rate base of approximately \$4,497 million, excluding the rate base of approximately \$12 million for Fort Nelson (2018 - \$4,370 million, excluding the rate base of approximately \$11 million for Fort Nelson) and an increase to the delivery rate of 1.1 per cent effective January 1, 2019.

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 generally produce 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.

5. REVENUE
Disaggregation of Revenue

The following table presents the disaggregation of the Corporation's revenue by type of customer for the three months ended March 31:

(\$ millions)	2019	2018
Residential	294	257
Commercial	146	125
Industrial	12	8
Transportation	37	40
Total natural gas revenue	489	430
Other contract revenue ¹	4	4
Revenue from contracts with customers	493	434
Alternative revenue	(9)	(6)
Other revenue ²	1	-
Total revenue	485	428

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

² Other revenue is primarily comprised of regulatory deferral adjustments.

FortisBC Energy Inc.
**Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three months ended March 31, 2019 and 2018**
6. 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 net benefit cost for the three months ended March 31 was as follows:

(\$ millions)	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2019	2018	2019	2018
Service costs	5	5	1	1
Interest costs	6	6	1	1
Expected return on plan assets	(9)	(8)	-	-
Amortization:				
Actuarial losses	-	1	-	-
Regulatory adjustment	-	(1)	1	-
Net benefit cost	2	3	3	2

During 2019, the Corporation expects to contribute \$13 million for defined benefit pension plans and make payments of \$3 million for OPEB plans.

7. SUPPLEMENTARY INFORMATION TO CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

The supplementary information to the Condensed Consolidated Statements of Cash Flows for the three months ended March 31 was as follows:

Significant Non-Cash Transactions

(\$ millions)	2019	2018
Change in fair value of derivative instruments (note 8)	17	33
Change in accrued capital expenditures	(2)	(6)
Change in regulated asset for deferred income taxes	(15)	(2)

Change in Working Capital

(\$ millions)	2019	2018
Accounts receivable	(102)	(12)
Inventories	17	30
Prepaid expenses	2	1
Accounts payable and other current liabilities	(35)	4
Net current regulatory assets and liabilities	-	(8)
Change in working capital per Statements of Cash Flows	(118)	15

The non-cash investing activities balances as at March 31 were as follows:

(\$ millions)	2019	2018
Accrued capital expenditures	17	21

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three months ended March 31, 2019 and 2018

8. FINANCIAL INSTRUMENTS

The Corporation categorizes financial instruments into the three-level hierarchy based on inputs used to determine the fair value:

- Level 1: Fair value determined using unadjusted quoted prices in active markets;
- Level 2: Fair value determined using pricing inputs that are observable; and
- Level 3: Fair value determined using unobservable inputs only when relevant observable inputs are not available.

Financial Instruments Measured at Fair Value on a Recurring Basis

The following table presents the Corporation's assets and liabilities accounted for at fair value on a recurring basis, all of which are Level 2 of the fair value hierarchy:

(\$ millions)	March 31, 2019	December 31, 2018
Assets		
<i>Current</i>		
Natural gas contracts subject to regulatory deferral ¹	9	5
<i>Long-term</i>		
Natural gas contracts subject to regulatory deferral ¹	6	9
Total assets	15	14
Liabilities		
<i>Current</i>		
Natural gas contracts subject to regulatory deferral ¹	(7)	(22)
<i>Long-term</i>		
Natural gas contracts subject to regulatory deferral ¹	-	(1)
Total liabilities	(7)	(23)
Total assets (liabilities), net	8	(9)

¹ Derivative contracts that are "in the money" are included in accounts receivable or other assets, and "out of the money" are included in accounts payable and other current liabilities or other liabilities.

The Corporation has elected gross presentation for its derivative contracts under master netting agreements, which applies only to its natural gas derivatives. The table below presents the potential offset of counterparty netting and cash collateral:

	Gross Amount Recognized in the Balance Sheet	Gross Amount Not Offset in the Balance Sheet		
		Counterparty Netting of Natural Gas Contracts ¹	Cash Collateral Posted	Net Amount
March 31, 2019				
(\$ millions)				
Natural gas contracts subject to regulatory deferral:				
Accounts receivable	9	(1)	56	64
Other assets	6	-	-	6
Accounts payable and other current liabilities	(7)	1	-	(6)

¹ Positions, by counterparty, are netted where the intent and legal right to offset exists.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three months ended March 31, 2019 and 2018

8. FINANCIAL INSTRUMENTS (continued)

	Gross Amount Recognized in the Balance Sheet	Gross Amount Not Offset in the Balance Sheet		
		Counterparty Netting of Natural Gas Contracts ¹	Cash Collateral Posted	Net Amount
December 31, 2018 (\$ millions)				
Natural gas contracts subject to regulatory deferral:				
Accounts receivable	5	(4)	16	17
Other assets	9	(1)	-	8
Accounts payable and other current liabilities	(22)	4	-	(18)
Other liabilities	(1)	1	-	-

¹ Positions, by counterparty, are netted where the intent and legal right to offset exists.

Derivative Instruments

Natural gas contracts held by FEI are subject to regulatory recovery through rates. As at March 31, 2019, these natural gas contracts were not designated as hedges and any unrealized gains or losses associated with changes in the fair value of the derivatives were deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates, as permitted by the BCUC, and as shown in the following table:

(\$ millions)	March 31, 2019	December 31, 2018
Unrealized net gain (loss) recorded to current regulatory liabilities (assets)	8	(9)

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.

Volume of Derivative Activity

As at March 31, 2019, the Corporation had various natural gas derivative contracts subject to regulatory deferral that will settle on various expiration dates through 2024. The volumes related to these natural gas derivatives are outlined below:

(petajoules)	March 31, 2019	December 31, 2018
Natural gas physically-settled supply contracts	245	266
Natural gas financially-settled commodity swaps	-	17

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three months ended March 31, 2019 and 2018

8. FINANCIAL INSTRUMENTS (continued)

Financial Instruments Not Carried At Fair Value

The fair value of a financial instrument is the market price to sell an asset or transfer a liability at the measurement date. The Corporation uses the following methods and assumptions for estimating the fair value of financial instruments:

- The carrying values of cash, accounts receivable, accounts payable, other current assets and liabilities and borrowings under the credit facility on the Condensed Consolidated Balance Sheets of the Corporation approximate their fair values due to short-term nature of these financial instruments. These items have been excluded from the table below.
- For long-term debt, the Corporation uses quoted market prices when available. When quoted market prices are not available, the fair value is determined by discounting the future cash flows of the specific debt instrument at an estimated yield to maturity equivalent to benchmark government bonds or treasury bills, with similar terms to maturity, plus a market credit risk premium equal to that of issuers of similar credit quality. Since the Corporation does not intend to settle the long-term debt prior to maturity, the fair value estimate does not represent an actual liability and, therefore, does not include exchange or settlement costs.

The use of different estimation methods and market assumptions may yield different estimated fair value amounts. The following table includes the carrying value and estimated fair value of the Corporation's long-term debt:

(\$ millions)	Fair Value Hierarchy	March 31, 2019		December 31, 2018	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Liabilities					
Long-term debt ¹	Level 2	2,595	3,202	2,595	2,994

¹ Carrying value excludes unamortized debt issuance costs.

9. GUARANTEES

The Corporation had letters of credit outstanding at March 31, 2019 totaling \$48 million (December 31, 2018 - \$48 million) primarily to support its unfunded supplemental pension benefit plans.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three months ended March 31, 2019 and 2018

10. LEASES
Finance Lease

FEI has a finance lease related to vehicles.

Office Facility Operating Leases

The Corporation leases office facilities with remaining terms of 1 to 18 years. Most leases include renewal options with renewal terms that may extend the lease term from 1 to 20 years. Certain lease agreements include rental payments adjusted periodically for inflation or require the payment of real estate taxes, insurance, maintenance, or other operating expenses associated with the lease premises.

The following table details supplemental balance sheet information related to the Corporation's leases:

(\$ millions)	Classification	March 31, 2019
Assets		
Long-term		
Operating leases	Other assets	7
Finance leases	Property, plant and equipment, net	2
Total leased assets		9
Liabilities		
Current		
Operating leases	Accounts payable and other current liabilities	2
Finance leases	Current portion of finance lease and finance obligations	1
Long-term		
Operating leases	Other liabilities	5
Finance leases	Finance lease and finance obligations	1
Total lease liabilities		9

The following table presents the components of the Corporation's lease cost:

(\$ millions)	Classification	March 31, 2019
Operating lease cost ¹	Operation and maintenance	1
Finance lease cost		
Amortization of leased assets	Depreciation and amortization	-
Interest on lease liabilities	Finance charges	-
Total lease cost		1

¹ Includes short-term leases and variable lease costs which are immaterial.

For the three months ended March 31, 2018, operating lease cost was \$1 million.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three months ended March 31, 2019 and 2018

10. LEASES (continued)

As at March 31, 2019, the present value of the future cash flows required over the next five years and thereafter are as follows:

(\$ millions)	Operating Leases	Finance Leases	Total
2019	2	1	3
2020	2	1	3
2021	1	-	1
2022	1	-	1
2023	1	-	1
Thereafter	-	-	-
Subtotal	7	2	9
Less: amounts representing imputed interest	-	-	-
Total operating and finance leases	7	2	9
Less: current portion	2	1	3
Long-term portion	5	1	6

The Corporation provides the following supplemental information related to its leases:

Lease Term and Discount Rate	March 31, 2019
Weighted-average remaining lease term (years)	
Operating leases	4
Finance leases	3
Weighted-average discount rate (%)	
Operating leases	3.0%
Finance leases	4.4%

Other Information	March 31, 2019
(\$ millions)	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from Operating leases	(1)
Supplementary non-cash information	
Right-of-use assets obtained in exchange for new operating lease liabilities	7

In addition, the Corporation leases limited office facilities to others with remaining terms of 2 to 9 years. Most leases include one or more options to renew, with renewal terms that may extend the lease term for 5 to 10 years. These leases are classified as operating leases and income received is recorded to other revenue. Lease revenue received for the three months ended March 31, 2019 was not material to Consolidated Interim Financial Statements.

Lease payments to be received at March 31, 2019 are as follows:

(\$ millions)	Operating Leases
2019	-
2020	1
2021	1
2022	-
2023	-
Thereafter	-
Total	2