



FortisBC Energy Inc.

An indirect subsidiary of Fortis Inc.

Condensed Consolidated Interim Financial Statements
For the quarter and six months ended June 30, 2022 and 2021
(Unaudited)

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

ASSETS	June 30, 2022	December 31, 2021
Current assets		
Cash	\$ -	\$ 4
Accounts receivable, net (note 9)	201	344
Inventories	94	74
Prepaid expenses	2	7
Regulatory assets (note 9)	156	133
Total current assets	453	562
Property, plant and equipment, net	5,623	5,480
Intangible assets, net	123	123
Regulatory assets	1,183	1,080
Other assets	16	15
Goodwill	913	913
TOTAL ASSETS	\$ 8,311	\$ 8,173
LIABILITIES AND EQUITY		
Current liabilities		
Credit facilities (note 10)	\$ 95	\$ 242
Accounts payable and other current liabilities (note 9)	518	530
Current portion of finance leases and finance obligation	4	4
Regulatory liabilities (note 9)	43	26
Total current liabilities	660	802
Long-term debt (note 9)	3,123	3,123
Finance leases and finance obligation	2	1
Regulatory liabilities	285	210
Deferred income tax	698	674
Other liabilities	257	257
Total liabilities	5,025	5,067
Equity		
Common shares	1,641	1,491
Additional paid-in capital	1,245	1,245
Retained earnings	391	361
Shareholder's equity	3,277	3,097
Non-controlling interests	9	9
Total equity	3,286	3,106
TOTAL LIABILITIES AND EQUITY	\$ 8,311	\$ 8,173

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	
	2022	2021	2022	2021
Revenue (note 5)	\$ 396	\$ 316	\$ 1,090	\$ 902
Expenses				
Cost of natural gas	182	106	536	361
Operation and maintenance	69	70	134	136
Property and other taxes	19	18	37	36
Depreciation and amortization	76	71	152	143
Total expenses	346	265	859	676
Operating income	50	51	231	226
Other income	38	3	42	5
Finance charges (note 6)	68	37	104	73
Earnings before income taxes	20	17	169	158
Income tax (recovery) expense	(5)	3	26	34
Net earnings	\$ 25	\$ 14	\$ 143	\$ 124

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

	Common Shares ¹	Additional Paid-in Capital	Non- Controlling Interests	Retained Earnings	Total
As at December 31, 2020	\$ 1,391	\$ 1,245	\$ 9	\$ 344	\$ 2,989
Net earnings	-	-	-	124	124
Issuance of common shares	100	-	-	-	100
Dividends on common shares	-	-	-	(110)	(110)
As at June 30, 2021	1,491	1,245	9	358	3,103
As at December 31, 2021	1,491	1,245	9	361	3,106
Net earnings	-	-	-	143	143
Issuance of common shares	150	-	-	-	150
Dividends on common shares	-	-	-	(113)	(113)
As at June 30, 2022	\$ 1,641	\$ 1,245	\$ 9	\$ 391	\$ 3,286

¹ 500 million authorized common shares with no par value; 357.2 million issued and outstanding at June 30, 2022 (December 31, 2021 – 347.4 million).

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	
	2022	2021	2022	2021
Operating activities				
Net earnings	\$ 25	\$ 14	\$ 143	\$ 124
Adjustments to reconcile net earnings to cash from operating activities:				
Depreciation and amortization	76	71	152	143
Accrued employee future benefits	(2)	2	(2)	5
Equity component of allowance for funds used during construction	(3)	(1)	(5)	(2)
Deferred income tax, net of regulatory adjustments	(6)	(1)	(6)	9
Amortization of debt issue costs	-	1	-	1
Change in regulatory assets and liabilities	(23)	(31)	17	(14)
Change in working capital (note 8)	69	105	95	115
Cash from operating activities	136	160	394	381
Investing activities				
Property, plant and equipment additions (note 8)	(130)	(94)	(256)	(185)
Intangible asset additions	(4)	(5)	(7)	(7)
Contributions in aid of construction	2	2	11	3
Change in other assets and other liabilities	(20)	(21)	(37)	(44)
Cash used in investing activities	(152)	(118)	(289)	(233)
Financing activities				
Net proceeds from (repayment of) credit facility	53	(147)	(147)	(258)
Proceeds from issuance long-term debt	-	150	-	150
Proceeds from (repayment of) finance leases and finance obligation	-	-	1	(5)
Debt issuance costs	-	(1)	-	(1)
Issuance of common shares	-	-	150	100
Dividends on common shares	(56)	(55)	(113)	(110)
Cash used in financing activities	(3)	(53)	(109)	(124)
Net change in cash	(19)	(11)	(4)	24
Cash at beginning of period	19	44	4	9
Cash at end of period	\$ -	\$ 33	\$ -	\$ 33

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, 2022 and 2021

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 1,068,700 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 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 2021 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, 2021.

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 27, 2022, 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, 2022. Subsequent events have been appropriately disclosed 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, 2022, 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.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the quarter and six months ended June 30, 2022 and 2021

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 2021, the BCUC approved a delivery rate increase of 8.07 per cent over 2021 rates, effective January 1, 2022. As part of this filing, a 2022 average rate base of \$5,409 million was approved.

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:

(\$ millions)	Quarter ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Residential	211	155	624	497
Commercial	125	83	351	261
Industrial	32	23	74	55
Transportation	19	22	46	49
Total natural gas revenue	387	283	1,095	862
Other contract revenue ¹	1	-	1	1
Total revenue from contracts with customers	388	283	1,096	863
Alternative revenue ²	(5)	5	(31)	(2)
Other revenue ³	13	28	25	41
Total revenue	396	316	1,090	902

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.

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6. FINANCE CHARGES

<i>(\$ millions)</i>	Quarter ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Interest on long-term debt	37	37	73	73
Interest on short-term debt	1	-	2	1
Debt component of allowance for funds used during construction	(2)	-	(3)	(1)
Net interest on debt	36	37	72	73
Finance charges paid to FHI	32	-	32	-
Total finance charges	68	37	104	73

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.

<i>(\$ millions)</i>	Quarter ended June 30			
	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2022	2021	2022	2021
Components of net benefit cost				
Service costs	8	9	1	1
Interest costs	8	7	1	1
Expected return on plan assets	(11)	(10)	-	-
Amortization of actuarial losses	1	2	-	-
Amortization of past service credit	(1)	(1)	-	-
Regulatory adjustment	(3)	(1)	-	-
Net benefit cost	2	6	2	2

<i>(\$ millions)</i>	Six months ended June 30			
	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2022	2021	2022	2021
Components of net benefit cost				
Service costs	16	17	2	2
Interest costs	15	13	2	2
Expected return on plan assets	(22)	(20)	-	-
Amortization of actuarial losses	2	4	-	-
Amortization of past service credit	(1)	(1)	-	-
Regulatory adjustment	(5)	(1)	-	-
Net benefit cost	5	12	4	4

The Corporation's estimated 2022 contributions are \$15 million (2021 - \$13 million) for defined benefit pension plans and \$3 million (2021 - \$3 million) for OPEB plans.

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8. SUPPLEMENTARY INFORMATION TO CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(\$ millions)</i>	Quarter ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Change in working capital				
Accounts receivable	183	142	135	122
Inventories	(64)	(36)	(20)	1
Prepaid expenses	1	2	5	5
Accounts payable and other current liabilities	(51)	(3)	(25)	(13)
Total change in working capital	69	105	95	115

Non-Cash Investing Activities

<i>(\$ millions)</i>	2022	2021
As at June 30		
Accrued capital expenditures	56	29

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 or other assets, and "out of the money" are included in accounts payable and other current liabilities or other liabilities.

<i>(\$ millions)</i>	As at	
	June 30, 2022	December 31, 2021
Assets		
Current	2	4
Liabilities		
Current	(17)	(4)
Total liabilities, net	(15)	-

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.

<i>(\$ millions)</i>	As at	
	June 30, 2022	December 31, 2021
Unrealized net loss recorded to current regulatory assets	(15)	-

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.

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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.

<i>(\$ millions)</i>	Gross Amount Recognized on Balance Sheet	Counterparty Netting of Natural Gas Contracts	Cash Collateral Posted	Net Amount
As at June 30, 2022				
Accounts receivable	2	(1)	16	17
Accounts payable and other current liabilities	(17)	1	-	(16)
As at December 31, 2021				
Accounts receivable	4	-	7	11
Accounts payable and other current liabilities	(4)	-	-	(4)

Volume of Derivative Activity

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:

<i>(petajoules)</i>	As at	
	June 30, 2022	December 31, 2021
Natural gas physically-settled supply contracts	138	144
Natural gas financially-settled commodity swaps	2	2

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, 2022		December 31, 2021	
<i>(\$ millions)</i>	Fair Value Hierarchy	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt	Level 2	3,145	3,019	3,145	3,817

10. GUARANTEES

The Corporation had letters of credit outstanding at June 30, 2022 totaling \$39 million (December 31, 2021 - \$42 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.