



FortisBC Inc.

An indirect subsidiary of Fortis Inc.

Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2019 and 2018
(Unaudited)

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

ASSETS	June 30, 2019	December 31, 2018
Current assets		
Accounts receivable	\$ 46	\$ 53
Prepaid expenses	1	2
Other assets	1	1
Regulatory assets	6	6
Total current assets	54	62
Property, plant and equipment, net (note 11)	1,554	1,534
Intangible assets, net	57	57
Regulatory assets (note 11)	352	345
Other assets (note 11)	7	5
Goodwill	235	235
TOTAL ASSETS	\$ 2,259	\$ 2,238
LIABILITIES AND EQUITY		
Current liabilities		
Credit facilities	\$ 81	\$ 68
Accounts payable and other current liabilities	66	76
Current portion of finance leases (note 11)	1	1
Regulatory liabilities	9	14
Total current liabilities	157	159
Long-term debt	729	729
Finance leases (note 11)	322	322
Regulatory liabilities	31	19
Deferred income taxes	180	175
Other liabilities (note 11)	57	57
Total liabilities	1,476	1,461
Equity		
Common shares	219	219
Additional paid-in capital	322	322
Retained earnings	242	236
Total equity	783	777
TOTAL LIABILITIES AND EQUITY	\$ 2,259	\$ 2,238

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

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

	Three months ended		Six months ended	
	2019	2018	2019	2018
Revenue (note 5)	\$ 87	\$ 84	\$ 200	\$ 192
Expenses				
Power purchase costs	16	18	55	62
Operating costs	18	17	38	37
Property and other taxes	4	4	8	8
Depreciation and amortization	16	15	31	30
Total expenses	54	54	132	137
Operating income	33	30	68	55
Other income	1	-	2	1
Finance charges (note 6)	18	10	36	20
Earnings before income taxes	16	20	34	36
Income tax expense	1	5	5	8
Net earnings	\$ 15	\$ 15	\$ 29	\$ 28

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

	Common Shares	Additional Paid-in Capital	Retained Earnings	Total
As at December 31, 2017	\$ 219	\$ 322	\$ 230	\$ 771
Net earnings	-	-	28	28
Dividends on common shares	-	-	(22)	(22)
As at June 30, 2018	219	322	236	777
As at December 31, 2018	219	322	236	777
Net earnings	-	-	29	29
Dividends on common shares	-	-	(23)	(23)
As at June 30, 2019	\$ 219	\$ 322	\$ 242	\$ 783

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

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

	Three months ended		Six months ended	
	2019	2018	2019	2018
Operating activities				
Net earnings	\$ 15	\$ 15	\$ 29	\$ 28
Adjustments for non-cash items				
Depreciation and amortization	16	15	31	30
Accrued employee future benefits	(1)	-	(1)	-
Change in regulatory assets and liabilities	1	4	4	8
Change in working capital (note 8)	(6)	(4)	(3)	(1)
Cash from operating activities	25	30	60	65
Investing activities				
Property, plant and equipment additions (note 8)	(24)	(22)	(48)	(50)
Intangible asset additions	(2)	(3)	(3)	(3)
Contributions in aid of construction	2	4	4	7
Change in other long-term assets	(2)	-	(3)	-
Cash used in investing activities	(26)	(21)	(50)	(46)
Financing activities				
Net proceeds from credit facilities	11	2	13	3
Dividends on common shares	(11)	(11)	(23)	(22)
Cash used in financing activities	-	(9)	(10)	(19)
Net change in cash	(1)	-	-	-
Cash at beginning of period	1	-	-	-
Cash at end of period	\$ -	\$ -	\$ -	\$ -

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

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

FortisBC Inc.**Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and six months ended June 30, 2019 and 2018**

1. DESCRIPTION OF THE BUSINESS

FortisBC Inc. (“FBC” or the “Corporation”) is a wholly-owned subsidiary of FortisBC Pacific Holdings Inc. (“FortisBC Pacific”) which is an indirect wholly-owned subsidiary of Fortis Inc. (“Fortis”). Fortis shares are listed on both the Toronto Stock Exchange and the New York Stock Exchange.

FBC is an integrated, regulated electric utility operating in the southern interior of British Columbia (“BC”), serving approximately 177,100 customers directly and indirectly. The Corporation’s business includes four hydroelectric generating plants, approximately 7,300 kilometers of transmission and distribution power lines, and a peak demand of 746 MW.

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 FBC’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 wholly-owned partnership and subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation.

An evaluation of subsequent events through August 1, 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 Financial Statements as at June 30, 2019. Subsequent events have been appropriately disclosed in these Condensed Consolidated Interim Financial Statements.

New Accounting Policies**Leases**

Effective January 1, 2019, FBC adopted ASU No. 2016-02, *Leases* (ASC 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. FBC 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. 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 FBC accounts for as a single lease component.

FortisBC Inc.**Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and six months ended June 30, 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 June 30, 2019, the Corporation recognized \$1 million of right-of-use assets and lease liabilities primarily related to office facilities. Refer to Note 11 for additional disclosure on FBC's leasing arrangements.

The adoption of ASC 842 has also resulted in finance lease costs previously recognized in power purchase costs and operating costs to be reclassified and presented within depreciation and finance charges, with no effect on net earnings.

During the second quarter, FBC identified a reclassification of the presentation of the Brilliant Power Purchase Agreement ("BPPA") and Brilliant Terminal Station ("BTS") leases in the Condensed Consolidated Statements of Earnings. The six months ended June 30, 2019 figures include restatements for the three months ended March 31, 2019 for this change resulting in a decrease in power purchase costs of \$7 million, decrease in operating costs of \$1 million and an increase in finance charges of \$8 million (see note 6).

Future Accounting Pronouncements

FBC 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 FBC. 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 FBC 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. FBC 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 FBC 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. FBC 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 FBC 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. FBC does not expect the adoption of this ASU to have a material impact on the Consolidated Financial Statements and related disclosures.

FortisBC Inc.
**Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and six months ended June 30, 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 FBC’s Performance Based Ratemaking Plan setting out the rate-setting framework for the years 2014 to 2019.

In the second quarter of 2019, the BCUC issued its decision on FBC’s 2019 rates. The decision resulted in a 2019 average rate base of approximately \$1,342 million and no increase to rates. 2019 rates would have otherwise decreased had FBC not requested in the application to defer a revenue surplus for the year, which will be refunded to customers in future rates.

4. SEASONALITY OF OPERATIONS

Interim results fluctuate due to the seasonal demands for electricity, the timing of incurring costs, the movements of electricity prices and the timing and recognition of regulatory decisions. FBC’s operations generally produce higher net earnings in the second quarter due to the timing of power purchases, lower net earnings in the third quarter and higher net earnings in the first and fourth quarters due to increased customer load as a result of cooler 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 and six months ended June 30:

(\$ millions)	Three months ended		Six months ended	
	2019	2018	2019	2018
Residential	39	39	97	95
Commercial	23	23	49	47
Wholesale	9	10	23	24
Industrial	8	7	16	14
Total electric revenue	79	79	185	180
Other contract revenue ¹	8	6	16	12
Revenue from contracts with customers	87	85	201	192
Alternative revenue	3	(3)	(5)	(7)
Other revenue ²	(3)	2	4	7
Total revenue	87	84	200	192

¹ Other contract revenue includes customer connection fees, surplus capacity sales, third party contract work and pole attachments.

² Other revenue is primarily comprised of regulatory deferral adjustments resulting primarily from cost recovery variances in regulated forecasts used to set rates for electricity revenue.

FortisBC Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and six months ended June 30, 2019 and 2018

6. FINANCE CHARGES

(\$ millions)	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Interest on long-term debt	10	9	19	19
Interest on short-term debt	-	1	1	1
Net interest on debt	10	10	20	20
Interest on finance leases ¹	8	-	16	-
Total finance charges	18	10	36	20

¹ In accordance with the adoption of ASC 842, interest on finance leases related to the Brilliant Power Purchase Agreement and the Brilliant Terminal Station have been reclassified from power purchase costs and operating costs, respectively, effective January 1, 2019.

7. EMPLOYEE FUTURE BENEFITS

The Corporation is a sponsor of pension plans for eligible employees. The plans include registered defined benefit pension plans, supplemental unfunded arrangements, and defined contribution plans. 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 June 30 was as follows:

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

The net benefit cost for the six months ended June 30 was as follows:

(\$ millions)	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2019	2018	2019	2018
Service costs	2	3	-	1
Interest costs	4	4	1	-
Expected return on plan assets	(6)	(6)	-	-
Amortization:				
Actuarial losses	1	1	-	1
Net benefit cost	1	2	1	2

During 2019, the Corporation expects to contribute \$5 million for defined benefit pension plans and make payments of \$1 million for OPEB plans.

FortisBC Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
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8. SUPPLEMENTARY INFORMATION TO CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

The supplementary information to the Condensed Consolidated Statements of Cash Flows for the three and six months ended June 30 was as follows:

Significant Non-Cash Transactions

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
(\$ millions)				
Change in capital expenditures	-	3	-	(1)
Change in regulated asset for deferred income taxes	(4)	(2)	(5)	(3)
Change in regulated asset for Brilliant Power Purchase Agreement lease costs	6	6	(3)	(3)

Change in Working Capital

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
(\$ millions)				
Accounts receivable	9	13	7	10
Prepaid expenses	3	2	1	-
Accounts payable and other current liabilities	(18)	(18)	(11)	(6)
Net income taxes receivable and payable	-	2	-	1
Net current regulatory assets and liabilities	-	(3)	-	(6)
Change in working capital per Statements of Cash Flows	(6)	(4)	(3)	(1)

The non-cash investing activities balances as at June 30 were as follows:

	2019	2018
(\$ millions)		
Accrued capital expenditures	12	12

FortisBC Inc.
**Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and six months ended June 30, 2019 and 2018**
9. FINANCIAL INSTRUMENTS

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 facilities on the Condensed Consolidated Balance Sheets of the Corporation approximate their fair values due to the 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 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 secured and unsecured long-term debt:

(\$ millions)	Fair Value Hierarchy	June 30, 2019		December 31, 2018	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current portion ¹	Level 2	735	954	735	848

¹ Carrying value excludes unamortized debt issuance costs.

10. GUARANTEES

The Corporation had letters of credit outstanding at June 30, 2019 totaling \$1 million (December 31, 2018 - \$1 million) primarily to support the funding of one of the Corporation's pension plans and a wheeling agreement.

11. LEASES
Finance Leases

The Corporation has recognized finance leases for the BPPA, which is an arrangement that contains a lease for the sale of the output of the Brilliant hydroelectric plant, and for the BTS. In exchange for the specified take-or-pay amounts of power, the BPPA requires semi-annual payments based on a return on capital, which is composed of the original plant capital charge and periodic upgrade capital charges, as well as sustaining capital charges, and related operating costs. Under the BTS, FBC pays semi-annual payments based on a charge related to the recovery of the capital cost of the BTS, and related operating costs. Given the impacts of accounting for regulated operations, the recognition of interest and amortization expense is equal to the amounts recovered in rates.

Office Facility Operating Lease

The Corporation leases an office facility from a related party, FortisBC Energy Inc., with a remaining term of 4 years and with no remaining options to extend the term of the agreement. The rental payment is fixed throughout the term of the lease with no escalating factors and there are no additional variable payments above the fixed monthly rent.

FortisBC Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and six months ended June 30, 2019 and 2018

11. LEASES (continued)

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

(\$ millions)	Classification	June 30, 2019
Assets		
Long-term		
Operating leases	Other assets	1
Finance leases	Property, plant and equipment, net	210
Finance lease deferral	Regulatory assets	113
Total lease assets		324
Liabilities		
Current		
Finance leases	Current portion of finance lease	1
Long-term		
Operating leases	Other liabilities	1
Finance leases	Finance lease	322
Total lease liabilities		324

The following table presents the components of the Corporation's lease cost for the six months ended June 30, 2019:

(\$ millions)	June 30, 2019
Finance lease cost - interest	16
Variable lease cost	8
Total lease cost	24

For the six months ended June 30, 2018, operating lease cost was not material to Consolidated Interim Financial Statements.

As at June 30, 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	-	16	16
2020	-	31	31
2021	-	32	32
2022	1	32	33
2023	-	33	33
Thereafter	-	1,109	1,109
Subtotal	1	1,253	1,254
Less: amounts representing imputed interest	-	930	930
Total operating and finance leases	1	323	324
Less: current portion	-	1	1
Long-term portion	1	322	323

FortisBC Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and six months ended June 30, 2019 and 2018

11. LEASES (continued)

The Corporation provides the following supplemental information related to its leases for the six months ended June 30, 2019:

Lease Term and Discount Rate	June 30, 2019
Weighted-average remaining lease term (years)	
Operating leases	3
Finance leases	36
Weighted-average discount rate (%)	
Operating leases	3.0%
Finance leases	5.1%

Other Information	June 30, 2019
(\$ millions)	
Supplementary non-cash information	
Right-of-use assets obtained in exchange for operating lease liabilities	1