
FORTISBC INC.**MANAGEMENT DISCUSSION & ANALYSIS**

For the Year Ended December 31, 2022

February 9, 2023

The following FortisBC Inc. ("FBC" or the "Corporation") Management Discussion & Analysis ("MD&A") has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations. Financial information for 2022 and comparative periods contained in the following MD&A has been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and is presented in Canadian dollars. The MD&A should be read in conjunction with the Corporation's Annual Audited Consolidated Financial Statements and notes thereto for the year ended December 31, 2022 and 2021, prepared in accordance with US GAAP.

In this MD&A, FortisBC Pacific refers to the Corporation's parent, FortisBC Pacific Holdings Inc., FEI refers to FortisBC Energy Inc., FHI refers to FortisBC Holdings Inc., and Fortis refers to the Corporation's ultimate parent, Fortis Inc.

FORWARD-LOOKING STATEMENT

Certain statements in this MD&A contain forward-looking information within the meaning of applicable securities laws in Canada ("forward-looking information"). The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words.

The forward-looking information in this MD&A includes, but is not limited to, statements regarding the Corporation's expected level of capital expenditures, including forecasted project costs, and its expectations to finance those capital expenditures through credit facilities, equity injections from FortisBC Pacific, and debenture issuances; and the Corporation's estimated contractual obligations.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include but are not limited to: receipt of applicable regulatory approvals and requested rate orders (including absence of administrative monetary penalties); continued electricity demand; absence of climate change impacts; absence of adverse weather conditions and natural disasters; absence of environmental damage and health and safety issues; absence of asset breakdown; no weather related demand loss or significant and sustained loss of precipitation over the headwaters of the Kootenay River system; the ability to maintain and obtain applicable permits; the Indigenous engagement process will not delay or otherwise impact the Corporation's ability to obtain government or regulatory approvals; the adequacy of the Corporation's existing insurance arrangements; the ability to arrange sufficient and cost effective financing; no material adverse rating actions by credit rating agencies; that counterparties agree to renew power supply contracts; the ability of the Corporation to attract and retain a skilled workforce; the ability to maintain and renew collective bargaining agreements on acceptable terms; no material change in employee future benefit costs; absence of information technology infrastructure failure; absence of cybersecurity failure; absence of pandemic and public health crises impacts; the ability to continue to report under US GAAP beyond the Canadian securities regulators exemption to the end of 2027 or earlier; and the absence of legal, administrative and other proceedings.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory approval and rate orders risk (including the risk of imposition of administrative monetary penalties); competitiveness and commodity price risk; climate change risk; weather and natural disasters risk; environment, health and safety matters risk; asset breakdown, operation, maintenance and expansion risk; electricity supply risks; permits risk; risks related to Indigenous rights and engagement; underinsured and uninsured losses; capital resources and liquidity risk; interest rates risk; impact of changes in economic conditions risk; power purchase and capacity sale contracts risk; human resources risk; labour relations risk; employee future benefits risk; information technology infrastructure risk; cybersecurity risk; pandemic and public health crises risk; continued reporting in accordance with US GAAP risk; legal, administrative and other proceedings risk; and other risks described in the Corporation's most recent Annual Information Form ("AIF").

For additional information with respect to these risk factors, reference should be made to the “Business Risk Management” section of this MD&A.

All forward-looking information in this MD&A is qualified in its entirety by this cautionary statement and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

CORPORATE OVERVIEW

The Corporation is an integrated, regulated electric utility operating in the southern interior of British Columbia (“BC”), serving approximately 187,900 customers directly and indirectly, focusing on the safe delivery of reliable and cost effective electricity. The Corporation’s business includes four hydroelectric generating plants, approximately 7,300 kilometers of transmission and distribution power lines, and a historical peak demand of 835 megawatts (“MW”), which occurred during the fourth quarter of 2022.

The Corporation is regulated by the British Columbia Utilities Commission (“BCUC”). Pursuant to the *Utilities Commission Act* (British Columbia), the BCUC regulates such matters as rates, construction plans, and financing.

The Corporation is an indirect, wholly-owned subsidiary of Fortis, a leader in the North American regulated electric and natural gas utility industry. Fortis shares are listed on both the Toronto Stock Exchange and the New York Stock Exchange.

REGULATION

Decision on Multi-Year Rate Plan (“MRP”) for 2020 to 2024

In June 2020, the BCUC issued its decision on FBC’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 forecast approach to growth and sustainment capital, 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 other revenue and certain components of 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 expenditures, are subject to flow-through treatment and refunded to or recovered from customers.

In December 2021, the BCUC approved a January 1, 2022 rate increase of 3.47 per cent over 2021 rates. This rate increase includes a 2022 forecast average rate base of \$1,583 million.

In December 2022, the BCUC approved permanent rates to be effective January 1, 2023. As part of the approval, FBC was directed to remove certain expenditures from rate base and to establish a rate base deferral account to capture any variances in the approved rate increase resulting from final determinations on Stage 1 of the BCUC’s current Generic Cost of Capital Proceeding (the “GCOC Proceeding”). FBC had requested an interim rate increase of 3.98 per cent over 2022 rates and a 2023 forecast average rate base of \$1,675 million. In January 2023, FBC filed an application to reconsider the BCUC’s decision to reduce its rate base, and to request that the BCUC maintain FBC’s 2023 rates as interim pending the outcome of Stage 1 of the GCOC Proceeding.

Allowed Return on Equity and Capital Structure

In January 2021, the BCUC announced that a GCOC Proceeding was being initiated, including a review of the deemed common equity component of total capital structure and the allowed ROE on common equity for regulated utilities in BC. The BCUC has determined the GCOC Proceeding will move forward in two stages. The first stage will address the allowed return on equity and deemed equity component of capital structure for FBC and FEI 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. During 2022, as part of Stage 1 of the GCOC Proceeding, FBC and FEI submitted evidence in support of their respective cost of capital, after which a regulatory review process took place which included various forms of evidence, an oral hearing, and a final argument, which was filed in December 2022. The final stages of argument will complete in February 2023. A decision from the BCUC is expected by mid-2023.

Customer Rates and Deferral Mechanisms

The Corporation's customer rates are based on estimates and forecasts. In order to manage the variances from forecast associated with some of these estimates and to manage volatility in rates, a number of regulatory deferral accounts are in place.

Variances from regulated forecasts used to set rates for electricity revenue and power purchase costs are flowed back to customers in future rates through approved regulatory deferral mechanisms and therefore these variances do not have an impact on net earnings for the years ended December 31, 2022 and 2021.

As part of the MRP for the years 2020 to 2024, the BCUC has approved certain regulatory deferral mechanisms, including those that capture revenue shortfalls and incremental costs incurred beyond the control of the Corporation. These deferral mechanisms capture variances from regulated forecasts and flow them through customer rates in subsequent years. Variances from the allowed ROE, including most components of operating and maintenance costs, as well as variances in the utility's regulated rate base amounts, are shared.

CONSOLIDATED RESULTS OF OPERATIONS

| Periods Ended December 31 | Quarter | | | Year | | |
|---|------------|------|----------|--------------|-------|----------|
| | 2022 | 2021 | Variance | 2022 | 2021 | Variance |
| Electricity sales (gigawatt hours) | 967 | 927 | 40 | 3,542 | 3,460 | 82 |
| <i>(\$ millions)</i> | | | | | | |
| Revenue | 132 | 129 | 3 | 474 | 454 | 20 |
| Power purchase costs | 44 | 41 | 3 | 141 | 136 | 5 |
| Operating costs | 30 | 33 | (3) | 106 | 101 | 5 |
| Property and other taxes | 4 | 4 | - | 17 | 17 | - |
| Depreciation and amortization | 17 | 16 | 1 | 67 | 65 | 2 |
| Total expenses | 95 | 94 | 1 | 331 | 319 | 12 |
| Operating income | 37 | 35 | 2 | 143 | 135 | 8 |
| Add: Other income | 1 | 1 | - | 6 | 5 | 1 |
| Less: Finance charges | 20 | 19 | 1 | 76 | 73 | 3 |
| Earnings before income taxes | 18 | 17 | 1 | 73 | 67 | 6 |
| Income tax expense | 6 | 4 | 2 | 12 | 11 | 1 |
| Net earnings | 12 | 13 | (1) | 61 | 56 | 5 |

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the quarter ended December 31, 2022 as compared to December 31, 2021:

| Quarter | | |
|--------------|---|--|
| Item | Increase (Decrease) (\$ millions) | Explanation |
| Net earnings | (1) | Net earnings for the quarter ended December 31, 2022 were \$12 million compared to \$13 million for the same period in 2021. The decrease was primarily due to lower favourable variances attributable to operating costs incurred, as compared to those allowed in rates, net of amounts shared with customers, partially offset by a higher investment in regulated assets. Both 2022 and 2021 net earnings are based on an allowed ROE of 9.15 per cent and a deemed equity component of capital structure of 40 per cent. |
| Revenue | 3 | The increase in revenue was primarily due to: <ul style="list-style-type: none"> an increase in electricity sales volumes, an increase in revenues approved for rate-setting purposes resulting from a higher investment in regulated assets, revenue from the sale of carbon credits that didn't exist in the prior year, and an increase in surplus power sales, partially offset by a decrease in revenue associated with third party contract work, and |

| Quarter | | |
|----------------------|---|--|
| Item | Increase (Decrease) (\$ millions) | Explanation |
| | | <ul style="list-style-type: none"> a decrease in revenue associated with regulatory deferrals. <p>Electricity sales volumes were higher primarily due to increased consumption by residential, commercial and wholesale customers due to colder weather, as well as higher industrial loads. The colder weather experienced during December resulted in a new historical peak demand of 835 MW, surpassing the previous peak demand of 777 MW set in December 2021.</p> <p>Variances between revenues associated with actual consumption and those revenues forecast for rate-setting purposes are captured in a regulatory deferral flow-through account, for which the income statement offset is recognized in alternative revenues, resulting in no net impact on total revenues compared to what is approved in rates.</p> |
| Power purchase costs | 3 | The increase was primarily due to higher purchase volumes driven by an increase in electricity sales, partially offset by lower average power purchase prices. |
| Operating costs | (3) | The decrease was primarily due to lower costs associated with third party contract work due to timing of work performed, partially offset by inflationary increases contributing to an overall increase in expenses. |
| Income tax expense | 2 | The increase was primarily due to lower taxable temporary differences associated with property, plant and equipment and certain regulatory deferral accounts, and higher earnings before income tax. |

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the year ended December 31, 2022 as compared to December 31, 2021:

| Year | | |
|-------------------------------|---|---|
| Item | Increase (Decrease) (\$ millions) | Explanation |
| Net earnings | 5 | Net earnings for the year ended December 31, 2022 were \$61 million compared to \$56 million for the same period in 2021. The increase was primarily due to a higher investment in regulated assets. |
| Revenue | 20 | <p>The increase in revenue was primarily due to:</p> <ul style="list-style-type: none"> an increase in electricity sales volumes, an increase in revenues approved for rate-setting purposes resulting from a higher investment in regulated assets, revenue from the sale of carbon credits that didn't exist in the prior year, and an increase in surplus power sales, partially offset by a decrease in revenue associated with regulatory deferrals. <p>Electricity sales volumes were higher primarily due to higher residential and industrial loads.</p> <p>Variances between revenues associated with actual consumption and revenues forecast for rate-setting purposes are captured in a regulatory deferral flow-through account, for which the income statement offset is recognized in alternative revenues, resulting in no net impact on total revenues compared to what is approved in rates.</p> |
| Power purchase costs | 5 | The increase was primarily due to the same reasons as identified in the quarter. |
| Operating costs | 5 | The increase was primarily due to inflationary increases contributing to an overall increase in expenses, as well as an increase in water fees and wheeling charges. |
| Depreciation and amortization | 2 | The increase was primarily due to a higher depreciable asset base compared to the prior year. |

| Year | | |
|-----------------|---|---|
| Item | Increase (Decrease) (\$ millions) | Explanation |
| Finance charges | 3 | The increase was primarily due to the issuance of Medium Term Note ("MTN") Debentures during the first quarter of 2022, which was used to repay credit facilities carrying lower interest rates, a higher interest rate on borrowings on credit facilities compared to the prior year, and higher interest on finance leases. |

SUMMARY OF QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended March 31, 2021 through December 31, 2022. The information has been obtained from the Corporation's Unaudited Condensed Consolidated Interim Financial Statements. Past operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

| Quarter Ended (\$ millions) | Revenue | Net Earnings |
|--------------------------------|---------|--------------|
| December 31, 2022 | 132 | 12 |
| September 30, 2022 | 112 | 13 |
| June 30, 2022 | 104 | 19 |
| March 31, 2022 | 126 | 17 |
| December 31, 2021 | 129 | 13 |
| September 30, 2021 | 104 | 11 |
| June 30, 2021 | 105 | 17 |
| March 31, 2021 | 116 | 15 |

A summary of the past eight quarters reflects the seasonality associated with the Corporation's business. The 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 increase in 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, interim net earnings are not indicative of net earnings on an annual basis.

December 2022/2021 – Net earnings decreased primarily due to lower favourable variances attributable to operating costs incurred, as compared to those allowed in rates, net of amounts shared with customers, partially offset by a higher investment in regulated assets.

September 2022/2021 - Net earnings increased primarily due to higher investment in regulated assets.

June 2022/2021 - Net earnings increased primarily due to higher investment in regulated assets and higher favourable variances attributable to timing of operating costs incurred, as compared to those allowed in rates, net of amounts shared with customers.

March 2022/2021 – Net earnings increased primarily due to higher investment in regulated assets and higher favourable variances attributable to timing of operating costs incurred, as compared to those allowed in rates, net of amounts shared with customers.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the Consolidated Balance Sheets between December 31, 2022 and December 31, 2021:

| Balance Sheet Account | Increase (Decrease) <i>(\$ millions)</i> | Explanation |
|---|--|--|
| Regulatory assets (current and long-term) | (11) | The decrease was primarily due to: <ul style="list-style-type: none"> an increase in net unrecognized actuarial gains for pension and other post-employment benefits ("OPEB"), the offset of which moved from a regulatory asset position as at December 31, 2021 to a regulatory liability position as at December 31, 2022, partially offset by an increase in regulated deferred income tax liabilities and changes in the Brilliant Power Purchase Agreement ("BPPA") asset and obligation under finance lease, the offsets of which are deferred as regulatory assets, and an increase in Demand Side Management ("DSM") expenditures. |
| Property, plant and equipment, net | 64 | The increase was primarily due to capital expenditures of \$122 million and \$1 million in equity allowance for funds used during construction ("AFUDC"), less: <ul style="list-style-type: none"> depreciation expense, excluding net salvage provision, of \$42 million, contributions in aid of construction ("CIAC") of \$9 million, costs of removal of \$7 million incurred, which are recognized against the net salvage provision in regulatory liabilities, and \$1 million of net adjustments in finance leases, the offset of which has been recognized in regulatory assets. |
| Credit facilities | (51) | The decrease was primarily a result of net repayments with proceeds from the issuance of \$100 million of MTN Debentures during the first quarter of 2022, partially offset by borrowings used to fund working capital. |
| Regulatory liabilities (current and long-term) | 27 | The increase was primarily due to: <ul style="list-style-type: none"> a higher flow-through deferral account balance owing to customers, an increase in the net salvage provision, and recognition of actuarial gains for pension and OPEB, the offset of which was deferred as a regulatory liability. |
| Long-term debt (current and long-term) | 99 | The increase was due to the issuance of \$100 million of unsecured MTN Debentures during the first quarter of 2022, net of debt issuance costs, the proceeds of which were used to repay existing credit facilities in support of the debt component of FBC's capital expenditure program. |
| Deferred income taxes | 14 | The increase was primarily due to higher deductible temporary differences associated with property, plant and equipment and intangible assets, partially offset by higher taxable temporary differences associated with certain regulatory liabilities. |
| Other liabilities (long-term) | (45) | The decrease was primarily due to a decrease in the unfunded status of the Corporation's defined benefit pension and OPEB plans, which was primarily driven by an increase in the discount rate used to measure the projected benefit obligation. |

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Requirements and Liquidity

In the normal course of operations, the Corporation's cash flow requirements fluctuate seasonally based on the demand for electricity and the timing of power purchases. The Corporation maintains a committed credit facility that adequately meets any working capital deficiencies not funded through cash flow from operations, and for financing the debt component of the Corporation's capital expenditure program.

It is expected that operating expenses, interest costs, and other working capital will generally be paid out of operating cash flows, with varying levels of residual cash available for capital expenditures and dividend payments. Cash flow is also required to fund capital expenditure programs; regulated deferral accounts, and

those regulatory mechanisms that capture revenue shortfalls and incremental costs incurred beyond the control of the Corporation; and investments in DSM. Funding requirements are expected to be financed from a combination of cash flow from operations, borrowings under the credit facility, equity injections from FortisBC Pacific, and long-term debenture issuances in accordance with the deemed regulatory capital structure approved by the BCUC of 40 per cent equity and 60 per cent debt. The approved capital structure could change depending on the outcome of the GCOC Proceeding discussed in the "Regulation" section of this MD&A, however the size of the Corporation's existing operating credit facility is considered adequate to accommodate changes to the approved capital structure.

The Corporation's ability to service its debt obligations and pay dividends on its common shares is dependent on the financial results of the Corporation. Depending on the timing of cash payments, borrowings under the Corporation's credit facility may be required from time to time to support the servicing of working capital deficiencies and payment of dividends. The Corporation may have to rely upon the proceeds of new debenture issuances to meet its principal debt obligations when they become due.

Summary of Consolidated Cash Flows

| Years Ended December 31 | 2022 | 2021 | Variance |
|---------------------------|-------|-------|----------|
| <i>(\$ millions)</i> | | | |
| Cash flows from (used in) | | | |
| Operating activities | 132 | 133 | (1) |
| Investing activities | (130) | (136) | 6 |
| Financing activities | (2) | 3 | (5) |
| Net change in cash | - | - | - |

Operating Activities

Cash from operating activities was \$1 million lower compared to the same period in 2021, primarily due to changes in working capital, partially offset by higher net earnings after non-cash adjustments and changes in regulatory assets and liabilities reflecting a higher flow-through deferral account balance owing to customers.

Investing Activities

Cash used in investing activities was \$6 million lower compared to the same period in 2021 primarily due to lower capital expenditures.

Financing Activities

Cash used in financing activities was \$2 million compared to the same period in 2021 when cash from financing activities was \$3 million. During 2022, net proceeds from a \$100 million MTN Debenture issuance were used to repay existing credit facilities and fund working capital, compared to the same period in 2021 where a \$30 million issuance of common shares and net proceeds from credit facilities were used to repay the \$25 million Series I Debenture.

During 2022, FBC paid common share dividends of \$49 million (December 31, 2021 - \$47 million) to its parent company, FortisBC Pacific.

Contractual Obligations

The following table sets forth the Corporation's estimated contractual obligations due in the years indicated:

| As at December 31, 2022 | Total | Due within 1 Year | Due in Year 2 | Due in Year 3 | Due in Year 4 | Due in Year 5 | Due after 5 Years |
|--|--------------|-------------------|---------------|---------------|---------------|---------------|-------------------|
| <i>(\$ millions)</i> | | | | | | | |
| Power purchase obligations (a) | 2,751 | 103 | 92 | 89 | 88 | 86 | 2,293 |
| Finance lease obligations (b) | 1,175 | 34 | 34 | 35 | 35 | 36 | 1,001 |
| Long-term debt ¹ | 885 | 25 | - | - | - | - | 860 |
| Interest obligations on long-term debt | 910 | 42 | 40 | 40 | 40 | 40 | 708 |
| Other (c) | 6 | 4 | 1 | 1 | - | - | - |
| Total | 5,727 | 208 | 167 | 165 | 163 | 162 | 4,862 |

¹ Excludes unamortized debt issuance costs.

(a) The Corporation's power purchase obligations consist of the following:

- Waneta Expansion Capacity Agreement ("WECA"): In 2010, FBC entered into an agreement to purchase capacity from the Waneta Expansion, a 335 MW hydroelectric generating facility adjacent to the existing Waneta Plant on the Pend d'Oreille River in BC. The WECA, which was accepted by the BCUC in May 2012, allows FBC to purchase capacity over 40 years, beginning April 1, 2015.
- BCH Power Purchase Agreement ("BCH PPA"): In 2013, FBC entered into the BCH PPA to purchase up to 200 MW of capacity and 1,752 GWh per year of associated energy for a 20-year term beginning October 1, 2013. The BCH PPA was approved by the BCUC in May 2014 and was effective July 1, 2014. The capacity and energy to be purchased under this agreement do not relate to a specific plant.
- Capacity and Energy Purchase and Sale Agreement ("CEPSA"): In 2015, FBC entered into the CEPSA which allows FBC to purchase all of its market energy requirements from Powerex which was accepted by the BCUC in April 2015. As at December 31, 2022, the total power purchase commitments outstanding under the CEPSA were approximately \$3 million through to the second quarter of 2023. The energy purchases under the CEPSA do not relate to specific plants and the output being purchased does not constitute a significant portion of the output of a specific plant.
- Brilliant Expansion Capacity and Energy Purchase Agreement: In 2017, FortisBC renewed an agreement to purchase capacity and energy from Columbia Power Corporation ("CPC"), acting on behalf of the Brilliant Expansion Power Corporation, from January 2018 through to December 2027. The agreement was accepted by the BCUC in October 2017.

(b) Finance lease obligations, which are inclusive of principal payments and imputed interest, are as follows:

- In 1996 an order was granted by the BCUC approving the 60-year BPPA for the purchase of the output of the Brilliant hydroelectric plant located near Castlegar, BC. The Brilliant plant is owned by the Brilliant Power Corporation ("BPC"), a corporation owned equally by CPC and Columbia Basin Trust ("CBT"). FBC operates and maintains the Brilliant plant for the BPC in return for a management fee. 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, which are both subject to fixed annual escalators, as well as sustaining capital charges. The BPPA includes a market related price adjustment after 30 years of the 60-year term. FBC has accounted for this arrangement as a finance lease asset and obligation in its financial statements and, as a result of adopting ASC 842 recognizes the payments, as approved for setting customer rates, within depreciation and finance charges.
- In 2003, the Corporation began operating the Brilliant Terminal Station ("BTS") under an agreement, the term of which expires in 2056. The agreement provides that FBC pay a charge related to the recovery of the capital cost of the BTS. FBC has accounted for this arrangement as a finance lease asset and obligation in its financial statements and, as a result of adopting ASC 842 recognizes the payments, as approved for setting customer rates, within depreciation and finance charges.

(c) Included in other contractual obligations are operating leases, defined benefit pension plan funding obligations, and an asset retirement obligation.

In addition to the items in the table above, the Corporation has issued commitment letters to customers who may meet the criteria to obtain energy efficiency funding under the DSM Expenditures Plan approved by the BCUC. As at December 31, 2022, the Corporation had issued \$5 million (December 31, 2021 - \$6 million) of commitment letters to these customers.

Off-Balance Sheet Arrangements

As at December 31, 2022, the Corporation had no material off-balance sheet arrangements.

Capital Structure

The Corporation's principal business of regulated electricity generation, transmission and distribution requires ongoing access to capital in order to allow the Corporation to fund the maintenance, replacement and expansion of infrastructure. The Corporation maintains a capital structure in line with the deemed regulatory capital structure approved by the BCUC at 40 per cent equity and 60 per cent debt. This capital structure excludes the financing of goodwill and other non-regulated items that do not impact the deemed capital structure. As part of the last review performed and the resulting 2016 decision, the BCUC determined that the common equity component of capital structure and ROE for FBC will remain in effect until otherwise determined by the

Commission. The BCUC is currently reviewing the cost of capital for regulated utilities in BC through a GCO Proceeding, which could affect FBC's capital structure and allowed ROE.

Credit Ratings

Debentures issued by the Corporation are rated by DBRS Morningstar and Moody's Investors Service ("Moody's"). The ratings assigned to the debentures issued by the Corporation are reviewed by these agencies on an ongoing basis and are summarized in the table below:

| Rating Agency | Credit Rating | Type of Rating | Outlook |
|------------------|---------------|----------------------------------|---------|
| DBRS Morningstar | A (low) | Secured and Unsecured Debentures | Stable |
| Moody's | Baa1 | Unsecured Debentures | Stable |

During 2022, Moody's issued an updated credit rating report and, in January 2023, DBRS Morningstar issued an updated credit rating report, both confirming the Corporation's debenture rating and outlook.

Credit Facilities and Debentures

Credit Facilities

As at December 31, 2022, the Corporation had a \$150 million operating credit facility in place, which matures in April 2027, and a \$10 million demand overdraft facility.

The following summary outlines the Corporation's credit facilities as at December 31:

| (\$ millions) | 2022 | 2021 |
|------------------------------------|------|-------|
| Operating credit facility | 150 | 150 |
| Demand overdraft facility | 10 | 10 |
| Draws on operating credit facility | (63) | (115) |
| Draws on overdraft facility | (2) | (1) |
| Credit facilities available | 95 | 44 |

Debentures

On March 10, 2022, FBC entered into an agreement with an affiliate of a Canadian Chartered Bank to sell \$100 million of unsecured MTN Debentures. The MTN Debentures bear interest at a rate of 4.16 per cent to be paid semi-annually and mature on March 14, 2052. The closing of the issuance occurred on March 14, 2022, with net proceeds being used to repay existing credit facilities.

PROJECTED CAPITAL EXPENDITURES

The Corporation continually updates its capital expenditure programs and assesses current and future operating, maintenance, replacement, expansion and removal expenditures that will be incurred in the ongoing operation of its business.

The initial approval from the BCUC to proceed with capital projects can occur through a number of processes, including revenue requirement applications and Certificate of Public Convenience and Necessity ("CPCN") applications. Once the projects are approved, the regulatory process allows for capital project costs to be reviewed by the BCUC subsequent to the capital project being completed and in service to confirm that all costs are recoverable in customer rates.

The 2023 projected capital expenditures are approximately \$132 million, inclusive of AFUDC and excluding customer CIAC, and are necessary to provide service, public and employee safety, and reliability of supply of electricity to the Corporation's customer base. In addition to the rate base amounts approved in annual regulatory decisions, multi-year projects under construction earn a regulated return. The 2022 capital expenditures were \$130 million, inclusive of AFUDC and excluding CIAC.

Energy Transition to Low Carbon Future

FBC and FEI have established a Clean Growth Pathway plan to reduce its customers' Greenhouse Gas ("GHG") emissions. For FBC, the plan includes investment in low and zero carbon vehicles and infrastructure in the transportation sector, and energy efficiency programs and developing innovative energy solutions for homes and businesses, and certain of these investments are part of the Corporation's projected capital expenditures.

DSM Expenditures Plan

In addition to the projected capital expenditures, FBC has a DSM Expenditures Plan which delivers a portfolio of energy efficiency and conservation measures and activities. In December 2022, the BCUC issued its decision and accepted FBC's DSM Expenditures Plan to incur approximately \$83 million of expenditures from 2023 through 2027 and include such expenditures as rate base additions.

BUSINESS RISK MANAGEMENT

The Corporation is subject to a variety of risks and uncertainties that may have a material adverse effect on the Corporation's results of operations and financial position.

Regulatory Approval and Rate Orders

The regulated operations of the Corporation are subject to the uncertainties faced by regulated companies. These uncertainties include the approval by the BCUC of customer rates that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing services, including a fair return on and of rate base. The ability of the Corporation to recover the actual costs of providing services and to earn the approved rates of return is impacted by achieving the forecasts established in the rate-setting process. The cost for upgrading existing facilities and adding new facilities requires the approval of the BCUC for inclusion in the rate base, at times through a CPCN if certain criteria are met. There is no assurance that CPCNs or capital projects perceived as required by the Corporation will be approved or that conditions to such approval will not be imposed.

Through the regulatory process, the BCUC approves the ROE that the Corporation is allowed to earn and the deemed capital structure. Fair regulatory treatment that allows the Corporation a reasonable opportunity to earn a fair risk adjusted rate of return comparable to that available on alternative, similar risk investments is essential for maintaining service quality as well as on-going capital attraction and growth. There can be no assurance that the rate orders issued by the BCUC will permit the Corporation to recover all costs actually incurred and to earn the expected or fair rate of return. The BCUC is reviewing the cost of capital for regulated utilities in BC through a GCOC Proceeding, which could affect FBC's capital structure and allowed ROE. The results of the GCOC Proceeding could materially impact the Corporation's earnings.

Rate applications that reflect cost of service and establish revenue requirements are subject to either a public hearing process which may be oral or written, or a negotiated settlement. The BCUC approved a rate -setting methodology for the Corporation for a term of 2020 through 2024 under the MRP. Rates during this term will be determined through a review process which will occur on an annual basis. There can be no assurance that the rate orders issued will permit the Corporation to recover all costs actually incurred and to earn the expected rate of return.

A failure to obtain rates that recover the costs of providing service, or provide a reasonable opportunity to earn an appropriate ROE and capital structure as applied for, may adversely affect the business carried on by the Corporation, the undertaking or timing of proposed upgrades or expansion projects, ratings assigned by rating agencies, the issue and sale of securities, and other matters which may, in turn, have a material adverse effect on the Corporation's results of operations and financial position.

There is legislation in BC which enables the BCUC to impose administrative monetary penalties on the Corporation, upon finding contravention of a BCUC order, rule, or standard. The penalty amount varies depending on the nature of the violation and it is not recoverable from customers.

Competitiveness and Commodity Price Risk

While the Corporation currently meets the majority of its current customer supply requirements from its own generation and long-term power purchase contracts, a portion of the customer load is supplied from the market in the form of short-term contracts and spot market power purchases. The commodity price associated with the cost of purchased power is affected by changes in world oil prices, natural gas prices and water levels on a regional basis. Power purchase cost variances from forecast for rate-setting purposes are recovered through future customer rates using a regulatory deferral account approved by the BCUC. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these costs to customers could have a material effect on the Corporation's results of operations and financial position. If the Corporation's price of electricity becomes uncompetitive with other electricity providers or the price of other forms of energy, the Corporation's ability to recover its cost of service may be negatively affected.

The Corporation's indirect customers are directly served by the Corporation's wholesale customers, who themselves are municipal utilities. Those utilities may be able to obtain alternate sources of energy supply which would result in decreased demand, higher rates and, in an extreme case, could ultimately lead to an inability to fully recover the Corporation's cost of service in rates charged to customers.

Climate Change

In addition to the seasonality of the Corporation's sales loads, climate change may cause more frequent and intense weather events, affect the temperature variability in the Corporation's service territory, and cause changes in the consumption pattern of the Corporation's customers, which in turn could have an impact on customer rates.

Weather-related events arising from climate change could affect the Corporation's operations and system reliability, further described under "Weather and Natural Disasters". Responding to these changes in weather events could lead to increased costs associated with the strengthening of infrastructure to ensure system reliability and resiliency, which in turn could have an impact on customer rates. An increase in the severity and frequency of weather-related events could impact future operating, maintenance, replacement, expansion and removal costs that will be incurred in the ongoing operation of its business. In addition, the ability of customers to receive service from the Corporation may be impacted by weather-related events or longer term environmental effects arising from climate change. This may impact revenues collected by the Corporation, which in turn could have an impact on customer rates.

Weather and Natural Disasters

The facilities of the Corporation could be exposed to the effects of severe weather conditions and other natural events, some of which could be caused by climate change. A major natural disaster, such as an earthquake, forest fire, flood, washout, landslide, avalanche or other similar natural event could severely damage the Corporation's electricity generation, transmission and distribution systems and access to electricity supply. Although the Corporation's facilities have been constructed, operated and maintained to withstand severe weather, there is no assurance that they will successfully do so in all circumstances. Furthermore, many of these facilities are located in remote or mountainous areas which make it more difficult to perform maintenance and repairs if such assets are damaged by weather conditions or other natural events.

The Corporation has limited insurance against storm damage and other natural disasters. In the event of a large uninsured loss caused by severe weather conditions, changes in climate, or other natural disasters, an application would be made to the BCUC for the recovery of these costs through higher rates to offset any loss. However, there can be no assurance that the BCUC would approve any such application. Losses resulting from repair costs and lost revenues could substantially exceed insurance coverage and any increased rates. Furthermore, the Corporation could be subject to claims from its customers for damages caused by the failure to transmit or distribute electricity to them in accordance with the Corporation's contractual obligations. Thus, any major damage to the Corporation's facilities could result in lost revenues, repair costs and customer claims that are substantial in amount and could have a material adverse effect on the Corporation's results of operations and financial position.

Environment, Health and Safety Matters

The Corporation is subject to numerous laws, regulations and guidelines governing the management, transportation and disposal of hazardous substances and other waste materials and otherwise relating to the protection of the environment and health and safety, for which the Corporation incurs compliance costs. The process of obtaining environmental permits and approvals, including any necessary environmental assessment, can be lengthy, contentious and expensive. In addition, an inability to acquire any necessary environmental approvals, especially those required for major projects needed to increase system capacity, could limit the Corporation's future growth opportunities. Potential environmental damage and costs could arise due to a variety of events, including severe weather and other natural disasters, human error or misconduct, or equipment failure. However, there can be no assurance that such costs will be recoverable through rates and, if substantial, unrecovered costs could have a material adverse effect on the Corporation's results of operations and financial position.

The Corporation is exposed to environmental risks that owners and operators of properties in BC generally face. These risks include the responsibility of any current or previous owner or operator of a contaminated site for remediation of the site, whether or not such person actually caused the contamination. In addition, environmental and safety laws make owners, operators and persons in charge of management and control of facilities subject to prosecution or administrative action for breaches of environmental and safety laws, including the failure to obtain certificates of approval. It is not possible to predict with absolute certainty the position that

a regulatory authority will take regarding matters of non-compliance with environmental and safety laws. Changes in environmental, health and safety laws could also lead to significant increases in costs to the Corporation.

Although most of the Corporation's generating and transmission facilities have been in place for many years with no apparent adverse environmental impact, environmental assessments and approvals may be required in the ordinary course of business for existing and future facilities.

Extreme climatic factors could potentially cause government authorities to adjust water flows on the Kootenay River, on which the Corporation's dams and related facilities are located, in order to protect the environment. This adjustment could affect the amount of water available for generation at the Corporation's plants or at plants operated by parties contracted to supply energy to the Corporation.

The trend in environmental regulation has been to impose more restrictions and limitations on activities that may impact the environment, including the generation and disposal of wastes, the use and handling of chemical substances, environmental management for sensitive species and their habitat and conducting environmental impact assessments and remediation. It is possible that other developments may lead to increasingly strict environmental and safety laws, regulations and enforcement policies and claims for damages to property or persons resulting from the Corporation's operations, any one of which could result in substantial costs or liabilities to the Corporation. Any regulatory changes that impose additional environmental restrictions or requirements on the Corporation or its customers could adversely affect the Corporation through increased operating and capital costs.

Scientists and public health experts in Canada, the United States and other countries are studying the possibility that exposure to electro-magnetic fields from power lines, household appliances and other electricity sources may cause health problems. If it were to be concluded that electro-magnetic fields present a health hazard, litigation could result, and the Corporation could be required to take mitigation measures on its facilities. The costs of litigation, damages awarded, and mitigation measures could be material.

Spills and leaks can occur in the operation of electricity generation and transmission facilities, including, primarily the release of substances such as oil into water or onto land. In addition, historical spills may result in the accumulation of hydrocarbons and polychlorinated biphenyls ("PCB") contaminants in land primarily at substation sites. The Corporation responds to spills and leaks and takes remedial steps in accordance with environmental regulations and standards and sound industry practice; however, there can be no assurance that the Corporation will not be obligated to incur further expenses in connection with changes in environmental regulations and standards or as a result of historical contamination.

Electricity transmission and distribution facilities have the potential to cause fires as a result of equipment failure, trees falling on a transmission or distribution line or lightning strikes to wooden poles. Risks associated with fire damage are related to weather, the extent of forestation, habitation, third party facilities located near the land on which the transmission facilities are situated and third party claims for fire-fighting costs and other damages. Such claims could have a material adverse effect on the Corporation's results of operations and financial position.

Electricity transmission and distribution has inherent potential risks and there can be no assurance that substantial costs and liabilities will not be incurred. Potential environmental damage and costs could materialize due to some type of severe weather event or major equipment failure and there can be no assurance that such costs would be recoverable. Unrecovered costs could have a material adverse effect on the Corporation's results of operations and financial position.

While the Corporation maintains insurance, the insurance is subject to coverage limits as well as time sensitive claims discovery and reporting provisions which could result in delays between the occurrence of an insured loss and recovery through insurance proceeds. In addition, there can be no assurance that the possible types of liabilities that may be incurred by the Corporation will be covered by insurance as further described under "Underinsured and Uninsured Losses".

Asset Breakdown, Operation, Maintenance and Expansion

The Corporation's assets require ongoing maintenance, replacement and expansion. Accordingly, to ensure the continued performance of the physical assets, the Corporation determines expenditures that should be made to maintain, replace and expand the assets. The Corporation could experience service disruptions and increased costs if it is unable to maintain, replace or expand its asset base. The inability to recover, through approved rates, the costs of capital expenditures that the Corporation believes are necessary to maintain, replace, expand

and remove its assets, the failure by the Corporation to properly implement or complete approved capital expenditure programs or the occurrence of significant unforeseen equipment failures could have a material adverse effect on the Corporation's results of operations and financial position.

The Corporation continually updates its capital expenditure programs and assesses current and future operating, maintenance, replacement, expansion and removal expenses that will be incurred in the ongoing operation of its business. Management's analysis is based on assumptions as to costs of services and equipment, regulatory requirements, revenue requirement approvals, and other matters, which involve some degree of uncertainty. It is uncertain whether capital expenditures will, in all cases, receive regulatory approval for recovery in future customer rates. The inability to recover these capital expenditures could have a material adverse effect on the Corporation's results of operations and financial position.

Electricity Supply Risk

Fluctuations in the amount of electricity used by customers can vary significantly in response to seasonal changes in weather. Electricity demand of customers that is in excess of that generated by the Corporation or contracted through long-term power purchase agreements is sourced from the wholesale energy market. A disruption in the wholesale energy market could result in the Corporation not being able to source the required electricity demand of its customers. Increasingly warm summers will increase air-conditioning demand, while increasingly cold winters will increase electric heating load for which electricity supply may not be available. Power purchase cost variances from forecast for rate-setting purposes are recovered through future rates using regulatory deferral accounts approved by the BCUC. There can be no assurance that the current BCUC approved deferral mechanisms allowing for the flow through of electricity supply costs will continue in the future, as they are dependent on future regulatory decisions and orders. An inability to flow through the full cost of electricity supply could have a material adverse effect on the Corporation's results of operations and financial position.

Prolonged adverse weather conditions could lead to a significant and sustained loss of precipitation over the headwaters of the Kootenay River system, which could reduce the Corporation's entitlement to capacity and energy under the Canal Plant Agreement.

Permits

The acquisition, ownership and operation of electricity businesses and assets require numerous permits, approvals and certificates from federal, provincial and local government agencies and Indigenous Peoples. For various reasons, including increased engagement requirements and expectations, the Corporation may not be able to obtain or maintain all required regulatory approvals on terms satisfactory to the Corporation. The external environment has become more complex with heightened expectations from permitting agencies, local municipalities and Indigenous Peoples to be able to review and provide feedback on projects. Increased engagement is, in many cases, driven by policy responses to climate change, but the resulting increases in cost and review timelines could negatively impact the Corporation's ability to meet project budgets and schedules. If there is a delay in obtaining any required regulatory approval or if the Corporation fails to maintain or obtain any required approval or fails to comply with any applicable law, regulation or condition of an approval, the Corporation's ability to properly implement or complete approved capital expenditure programs could become limited and the operation of its assets and the distribution of electricity could be prevented or become subject to additional costs, any of which could have a material adverse effect on the Corporation's results of operations and financial position.

The Corporation's ability to generate electricity from its facilities on the Kootenay River and to receive its entitlement of capacity and energy under the second amended and restated Canal Plant Agreement (the "Canal Plant Agreement") depends upon the maintenance of its water licences issued under the *Water Act* (British Columbia). In addition, water flows in the Kootenay River are governed under the terms of the Columbia River Treaty between Canada and the United States as well as the International Joint Commission's order for Kootenay Lake. Government authorities in Canada and the United States have the power under the treaty and the International Joint Commission order to regulate water flows to protect environmental values in a manner that could adversely affect the amount of water available for the generation of power.

Indigenous Rights and Indigenous Engagement

The Corporation provides service to customers on Indigenous Peoples lands and maintains generation, transmission and distribution facilities on lands that are subject to land claims by various Indigenous Peoples. There are various treaty and other agreement negotiation processes involving Indigenous Peoples and the Governments of BC and Canada that are underway, but the basis upon which settlements might be reached in the Corporation's service area is not clear. Furthermore, not all Indigenous Peoples are participating in the processes. To date, the policy of the Government of BC has been to endeavour to structure settlements without

prejudicing existing rights held by third parties such as the Corporation. However, there can be no certainty that the settlement processes will not have a material adverse effect on the Corporation's results of operations and financial position.

Before issuing governmental or regulatory approvals, the regulatory or governmental decision-maker (such as the BCUC) will consider whether the Crown has a duty to consult Indigenous Peoples and, if necessary, to accommodate, and if so whether the consultation and accommodation have been adequate. In practice, the Crown often delegates procedural aspects of the duty to consult to the Corporation. If engagement and consultation with Indigenous groups are not addressed upfront, this may affect the timing, cost and likelihood of regulatory approval of certain of the Corporation's capital projects and result in higher costs to implement projects in the longer term. Indigenous groups are also participating in BCUC and other regulatory and governmental processes with increased regularity, with potentially opposing views, and the increased involvement can affect the time to obtain CPCN and other approvals.

The Province's *Declaration on the Rights of Indigenous Peoples Act* ("DRIPA") and the federal government's *United Nations Declaration on the Rights of Indigenous Peoples Act* set out a process by which the provincial and federal governments will review their laws to ensure they are consistent with the United Nations Declaration on the Rights of Indigenous Peoples ("UNDRIP") and require that the provincial and federal governments develop an action plan to achieve the objectives of UNDRIP. The legislative review and action plans may result in amendments to provincial and federal legislation or policy, which may affect the Corporation. DRIPA also empowers the Province to enter into agreements with Indigenous governing bodies to provide for joint-decision making or to require consent of an Indigenous governing body before certain decisions are made. Legislative amendments and case law may increase uncertainty in permitting and regulatory processes.

In 2020, the BCUC released its final report as part of its Indigenous Utilities Regulation Inquiry, with a number of recommendations that may enable the development of utilities controlled by Indigenous Peoples. As part of the report, the BCUC recommended that when considering a CPCN application, the economic development needs of Indigenous Peoples be considered, and that Indigenous Peoples may have the opportunity to acquire existing assets of incumbent utilities. If accepted by the BC Government, these recommendations could impact timing associated with obtaining CPCN approvals and the level of investment in utility assets.

Underinsured and Uninsured Losses

The Corporation maintains insurance coverage with respect to potential liabilities and the accidental loss of value of certain of its assets, in amounts and with such insurers as is considered appropriate, taking into account all relevant factors, including the practices of owners of similar assets and operations. It is anticipated that such insurance coverage will be maintained. However, there can be no assurance that the Corporation will be able to obtain or maintain adequate insurance in the future at rates it considers reasonable. Further, there can be no assurance that available insurance will cover all losses or liabilities that might arise in the conduct of the Corporation's business. The occurrence of a significant uninsured claim or a claim in excess of the insurance coverage limits maintained by the Corporation or a claim that falls within a significant self-insured retention could have a material adverse effect on the Corporation's results of operations and financial position.

In the event of an uninsured loss or liability, the Corporation would apply to the BCUC to recover the loss (or liability) through an increased tariff. However, there can be no assurance that the BCUC would approve any such application, in whole or in part. Additionally, delays between the occurrence of an uninsured loss (or liability) and recovery through an increased tariff could result in variability of results between periods. Any major damage to the Corporation's facilities could result in repair costs and customer claims that are substantial in amount and which could have a material adverse effect on the Corporation's results of operations and financial position.

Capital Resources and Liquidity

The Corporation's financial position could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The Corporation's ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the regulatory environment in BC, regulatory decisions regarding capital structure and ROE, the results of operations and financial position of the Corporation, conditions in the capital and bank credit markets, ratings assigned by rating agencies, and general economic conditions. Funds generated from operations, after payment of expected expenses (including interest payments on any outstanding debt), may not be sufficient to fund the repayment of all outstanding liabilities when due and anticipated capital expenditures. There can be no assurance that sufficient capital will be available on acceptable terms to fund capital expenditures and to repay existing debt.

Generally, the Corporation is subject to financial risk associated with changes in the credit ratings assigned by credit rating agencies. Credit ratings impact the level of credit risk spreads on new long-term debt issues and on the Corporation's credit facilities. A change in the credit ratings could potentially affect access to various sources of capital and increase or decrease the Corporation's finance charges. Certain of the Corporation's agreements could require additional credit collateral, such as letters of credit, should there be a deterioration in the Corporation's credit ratings or creditworthiness. Global financial crises have placed scrutiny on rating agencies and rating agency criteria that may result in changes to credit rating practices and policies.

Volatility in the global financial and capital markets may increase the cost of and affect the timing of issuance of long-term capital by the Corporation.

Interest Rates

The Corporation is exposed to interest rate risks associated with floating rate debt and refinancing of its long-term debt. Regulated interest rate variances from forecast for rate-setting purposes are recovered through future rates using a regulatory deferral account approved by the BCUC, while variances in volumes of short-term borrowings from those forecast for rate-setting purposes are subject to sharing between customers and the Corporation. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these costs could have a material adverse effect on the Corporation's results of operations and financial position.

Impact of Changes in Economic Conditions

A general and extended decline in BC's economy or in that of the Corporation's service area in particular, would be expected to have the effect of reducing demand for electricity over time. Electricity sales are influenced by economic factors such as changes in employment levels, personal disposable income, energy prices, housing starts and customer growth. In addition, electricity demand by some of the Corporation's industrial customers could exhibit variations in demand or load in such circumstances.

Regulated electricity revenue variances from forecast for rate-setting purposes are recovered through future rates using regulatory deferral accounts approved by the BCUC. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these variances could have a material adverse effect on the Corporation's results of operations and financial position.

A severe and prolonged downturn in economic conditions could have a material adverse effect on the Corporation despite regulatory measures available for compensating for reduced demand which could have a material adverse effect on the Corporation.

Power Purchase and Capacity Sale Contracts

The Corporation has entered into power purchase contracts and resale contracts for excess capacity. The Corporation may not be able to secure extensions of power purchase contracts at their expiration dates or, if the agreements are not extended, an alternate supply of similarly-priced electricity. In addition, the Corporation may not be able to secure additional capacity resale contracts. The Corporation is also exposed to risk in the event of non-performance by counterparties to the various power purchase and resale contracts.

Human Resources

The ability of the Corporation to deliver service in a cost-effective manner is dependent on the ability of the Corporation to attract, develop and retain skilled workforces. Competitive labour market conditions create challenges in attracting and retaining technical and professional staff. Like other utilities across Canada, the Corporation is faced with demographic challenges relating to such skilled workforces. The inability to attract, develop and retain skilled workforces could have a material adverse effect on the Corporation.

Labour Relations

The Corporation employs members of labour unions that have entered into collective bargaining agreements with the Corporation. The provisions of such collective bargaining agreements affect the flexibility and efficiency of the business carried on by the Corporation. There can be no assurance that current relations will continue in future negotiations or that the terms under the present collective bargaining agreements will be renewed.

The inability to maintain, or to renew, the collective bargaining agreements on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes, that are not provided for in approved rates and that could have a material adverse effect on the Corporation's results of operations and financial position.

Employee Future Benefits

The Corporation maintains defined benefit pension plans and supplemental pension arrangements. There is no certainty that the plan assets will be able to earn the assumed rate of returns. Market driven changes impacting the performance of the plan assets may result in material variations in actual return on plan assets from the assumed return on the assets causing material changes in net benefit costs. Net benefit cost is impacted by, among other things, the discount rate, changes in the expected mortality rates of plan members, the amortization of experience and actuarial gains or losses and expected return on plan assets. Market driven changes impacting other assumptions, including the assumed discount rate, may also result in future contributions to pension plans that differ significantly from current estimates as well as causing material changes in net benefit cost.

There is also measurement uncertainty associated with net benefit cost, future funding requirements, the net accrued benefit asset and projected benefit obligation due to measurement uncertainty inherent in the actuarial valuation process.

Net benefit cost variances from forecast for rate-setting purposes are recovered through future rates using regulatory deferral accounts approved by the BCUC. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these costs could have a material adverse effect on the Corporation's results of operations and financial position.

Information Technology Infrastructure

The ability of the Corporation to operate effectively is dependent upon managing and maintaining information systems and infrastructure that support the operation of distribution, transmission and generation facilities; provide customers with billing and consumption information; and support the financial and general operating aspects of the business. The reliability of the communication infrastructure and supporting systems are also necessary to provide important safety information. System failures could have a material adverse effect on the Corporation.

Cybersecurity

The Corporation operates critical energy infrastructure in its service territory and, as a result, is exposed to the risk of cybersecurity violations. Unauthorized access to corporate and information technology systems due to hacking, viruses and other causes could result in service disruptions and system failures. In addition, in the normal course of operation, the Corporation requires access to confidential customer data, including personal and credit information, which could be exposed in the event of a security breach. A security breach could have a material adverse effect on the Corporation's results of operations and financial position.

Pandemics and Public Health Crises

The Corporation could be negatively impacted by a widespread outbreak of communicable disease or other public health crisis that causes economic and/or other disruptions. Should a public health crisis occur, the efforts to reduce the health impact on populations and control the spread of communicable disease could lead to measures that restrict travel, workplace occupancy, business operations, and a prolonged reduction in economic activity within the service territory. These measures could lead to potential impacts on the Corporation's operations that may include, but are not limited to, availability of personnel, energy usage and revenues, customer retention, the timing of capital expenditures, supply chain disruptions, the amount and timing of operating and maintenance expenses, application of regulatory deferral mechanisms, disruptions to capital markets leading to liquidity issues, and the collectability of receivables from customers that are affected by the economic impact of the pandemic. The overall impact would depend on the duration and severity of the pandemic, potential government actions to mitigate public health impacts or aid economic recovery, and other factors beyond the Corporation's control. An extended period of economic disruption resulting from a pandemic or other public health crisis could have a material adverse effect on the Corporation.

Certain of these potential impacts are expected to be mitigated through the use of regulatory deferral mechanisms, including those that capture revenue shortfalls and incremental costs incurred beyond the control of the Corporation. The nature of the Corporation's regulatory deferral mechanisms allows for recovery through customer rates in subsequent years.

Continued Reporting in Accordance with US GAAP

In May 2022, the Corporation's principal regulator, the British Columbia Securities Commission ("BCSC") approved the extension of the Corporation's exemptive relief order which permits the Corporation to continue reporting in accordance with US GAAP, until the earliest of: (i) January 1, 2027; (ii) the first day of the Corporation's financial year that commences after the Corporation ceases to have rate-regulated activities; and (iii) the first day of the Corporation's financial year that commences on or following the later of (a) the effective date prescribed by the International Accounting Standards Board ("IASB") for a Mandatory Rate-regulated Standard, and (b) two years after the IASB publishes the final version of a Mandatory Rate-regulated Standard.

In January 2021, the IASB issued an Exposure Draft which is expected to result in a permanent mandatory standard specific to entities with activities subject to rate regulation. If BCSC relief does not continue as detailed above, the Corporation would then be required to become a United States Securities and Exchange Commission registrant in order to continue reporting under US GAAP, otherwise the Corporation would be required to adopt International Financial Reporting Standards ("IFRS").

The ultimate timing and impact of a standard based on the IASB Exposure Draft is not yet known.

Legal, Administrative and Other Proceedings

Legal, administrative and other proceedings arise in the ordinary course of business and may include environmental and climate-related claims, employment-related claims, securities-based litigation, contractual disputes, personal injury or property damage claims, actions by regulatory or tax authorities, and other matters. There is no certainty any resulting judgments, settlements, or orders for monetary damages, fines or penalties will be recoverable from customers.

ACCOUNTING MATTERS

New Accounting Policies

FBC considers the applicability and impact of all Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board ("FASB"). During the year ended December 31, 2022, there were no ASUs issued by FASB that have a material impact on these Consolidated Financial Statements.

Future Accounting Pronouncements

Any ASUs issued by FASB that are not included in this MD&A were assessed and determined to be either not applicable to the Corporation or not expected to have a material impact on these Consolidated Financial Statements.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation's Consolidated Financial Statements in accordance with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates and judgments are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are recognized in the period in which they become known. The Corporation's critical accounting estimates are discussed below.

Regulation

Generally, the accounting policies of the Corporation's regulated operations are subject to examination and approval by the regulatory authority, the BCUC. These accounting policies may differ from those used by entities not subject to rate regulation. The timing of the recognition of certain assets, liabilities, revenues and expenses, as a result of regulation, may differ from that otherwise expected using US GAAP for entities not subject to rate regulation. Regulatory assets and regulatory liabilities arise as a result of the rate-setting process and have been recognized based on previous, existing or expected regulatory orders or decisions. Certain estimates are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other

regulatory proceedings. The final amounts approved by the regulatory authority for deferral as regulatory assets and regulatory liabilities and the approved recovery or settlement periods may differ from those originally expected. Any resulting adjustments to original estimates are recognized in earnings in the period in which they become known. In the event that a regulatory decision is received after the balance sheet date but before the consolidated financial statements are issued, the facts and circumstances are reviewed to determine whether it is a recognized subsequent event. As at December 31, 2022, the Corporation recognized \$420 million in current and long-term regulatory assets (December 31, 2021 - \$431 million) and \$66 million in current and long-term regulatory liabilities (December 31, 2021 - \$39 million).

Depreciation, Amortization and Removal Costs

Depreciation and amortization are estimates based primarily on the useful life of assets. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at December 31, 2022, the Corporation's property, plant and equipment and intangible assets were \$1,852 million, or approximately 71 per cent of total assets, compared to \$1,785 million, or approximately 70 per cent of total assets as at December 31, 2021. Changes in depreciation and amortization rates may have a significant impact on the Corporation's consolidated depreciation and amortization expense.

As approved by the BCUC, the net salvage provision is collected as a component of depreciation on an accrual basis, with actual removal costs incurred drawing down the accrual balance. Removal costs are the direct costs incurred by the Corporation in taking assets out of service.

As part of the customer rate-setting process, appropriate depreciation, amortization and net salvage provision rates are approved by the BCUC. The rates are reviewed on an ongoing basis to ensure they continue to be appropriate. From time to time, independent third-party depreciation studies are performed and based on the results of these studies, the impact of any over-or-under collection, as a result of actual experience differing from that expected and provided for in previous rates, is generally reflected in future rates and expenses.

Assessment for Impairment of Goodwill

The Corporation is required to perform, at least on an annual basis, an impairment test for goodwill, and any impairment provision has to be charged to earnings. In addition, the Corporation also performs an impairment test if any event occurs or if circumstances change that would indicate that the fair value was below its carrying value. No such event or change in circumstances occurred during 2022 or 2021.

As at December 31, 2022 goodwill totaled \$235 million (December 31, 2021 - \$235 million).

During 2022, the Corporation performed an annual assessment of goodwill and concluded that it is more likely than not that the fair value of the reporting unit was greater than the carrying value and that goodwill was not impaired.

Employee Future Benefits

The Corporation's defined benefit pension plans and supplemental pension arrangements and OPEB plan are subject to judgments utilized in the actuarial determination of the net benefit cost and related obligation. The main assumptions utilized by management in determining net benefit cost and obligation are the discount rate for the projected benefit obligation and the expected long-term rate of return on plan assets.

The assumed long-term rate of return on the defined benefit pension plan assets, for the purpose of determining pension net benefit cost for 2023, was 6.40 per cent which is an increase from the 5.70 per cent that was assumed in 2021. As two of the Corporation's defined benefit pension plans have excess interest indexing provisions, where a portion of investment returns are allocated to provide for indexing of pension benefits, the projected benefit obligations for these two plans may vary based on the expected long-term rate of return on plan assets.

The assumed discount rate, used to measure the projected pension benefit obligations on the measurement date of December 31, 2022, and to determine the pension net benefit cost for 2023, is 5.25 per cent. This is an increase from the discount rate of 3.00 per cent used to measure the projected benefit obligations as at December 31, 2021, and to determine the pension net benefit cost for 2022.

The long-term rate of return is based on the expected average return of the assets over a long period given the relative asset mix. The discount rate is determined with reference to the current market rate of interest on high quality debt instruments with cash flows that match the time and amount of expected benefit payments.

The Corporation expects net benefit cost for 2023 related to its defined benefit pension plans, prior to regulatory adjustments, to be a recovery of \$1 million, a decrease of \$4 million compared to 2022, which is primarily due to a decrease in current service costs, driven by the increased discount rate.

The following table provides the sensitivities associated with a 100 basis point change in the expected long-term rate of return on pension plan assets and the discount rate on 2022 net benefit pension cost, and the related projected benefit obligations recognized in the Corporation's consolidated financial statements:

| Increase (Decrease) <i>(\$ millions)</i> | Net Benefit Cost | Projected Benefit Obligation |
|--|-------------------------|-------------------------------------|
| 1% increase in the expected rate of return | 1 | 4 |
| 1% decrease in the expected rate of return | - | (14) |
| 1% increase in the discount rate | (2) | (29) |
| 1% decrease in the discount rate | 5 | 34 |

The above table reflects the changes before the effect of any regulatory deferral mechanism approved by the BCUC. The Corporation currently has in place BCUC approved mechanisms to defer variations in pension net benefit costs from forecast net benefit costs, used to set customer rates, as a regulatory asset or liability.

Other significant assumptions applied in measuring the pension net benefit cost and/or the projected benefit obligation include the average rate of compensation increase, average remaining service life of the active employee group, and employee and retiree mortality rates.

The Corporation's OPEB plan is also subject to judgments utilized in the actuarial determination of the OPEB net benefit cost and related projected benefit obligation. Except for the assumption of the expected long-term rate of return on plan assets, the above assumptions, along with health care cost trends, were also utilized by management in determining OPEB plan net benefit cost and projected benefit obligation. The Corporation currently has in place a BCUC approved mechanism to defer variations in OPEB net benefit cost from forecast OPEB net benefit cost, used to set customer rates, as a regulatory asset or liability.

As at December 31, 2022, the Corporation had a pension projected benefit net asset of \$12 million (a pension projected benefit net liability as at December 31, 2021 - \$23 million) and an OPEB projected benefit liability of \$20 million (December 31, 2021 - \$28 million liability). The decrease in the projected pension benefit net liability during 2022 was primarily a result of the 2.25 per cent increase in the discount rate used to measure the projected benefit liability, partially offset by a lower than expected return on plan assets. The decrease in the 2022 OPEB projected benefit liability was also driven by the increase in the discount rate. During 2022, the Corporation recorded pension and OPEB net benefit cost, inclusive of regulatory adjustments, of \$2 million (2021 - \$5 million).

Asset Retirement Obligations ("AROs")

AROs are legal obligations associated with the retirement of long-lived assets. A liability is recorded in the period in which the obligation can be reasonably estimated at the present value of the estimated fair value of the future costs. The measurement of the fair value of AROs requires making reasonable estimates concerning the method of settlement and settlement dates associated with the legally obligated asset retirement costs. There are also uncertainties in estimating future asset-retirement costs due to potential external events, such as changing legislation or regulations and advances in remediation technologies. FBC has recorded an ARO associated with the removal of PCB contaminated oil from its electrical equipment. It is possible that volumes of contaminated assets, inflation assumptions, cost estimates to perform the work and the assumed pattern of annual cash flows may differ significantly from the Corporation's current assumptions. In addition, in order to remove certain PCB-contaminated oil, the ability to take maintenance outages in critical facilities may impact the timing of expenditures. The ARO may change from period to period because of the changes in the estimation of these uncertainties.

Excluding the ARO pertaining to PCBs, the nature, amount and timing of costs associated with land and other environmental remediation and/or removal of assets, cannot be reasonably estimated due to the nature of their operation; and applicable licences, permits and laws are reasonably expected to be renewed or extended indefinitely to maintain the integrity of the related assets and to ensure the continued provision of service to customers. In the event that environmental issues are identified, or the applicable licenses, permits, laws or agreements are terminated, AROs will be recorded at that time provided the costs can be reasonably estimated.

Revenue Recognition

The Corporation recognizes revenue on an accrual basis. Recording revenue on an accrual basis requires use of estimates and assumptions. Customer bills are issued throughout the month based on meter readings or estimates that establish electricity consumption by customers since the last meter reading. The unbilled revenue accrual for the period is based on estimated electricity sales to customers for the period since the last meter reading at the approved rates. The development of the sales estimates requires analysis of consumption on a historical basis in relation to key inputs, such as the current price of electricity, population growth, economic activity, weather conditions and system losses. The estimation process for accrued unbilled electricity consumption will result in adjustments to electricity revenue in the periods they become known when actual results differ from the estimates. As at December 31, 2022, the amount of accrued unbilled revenue recorded in accounts receivable was approximately \$43 million (December 31, 2021 - \$36 million) on annual electricity revenues of \$428 million (December 31, 2021 - \$405 million).

Income Taxes

Income taxes are determined based on estimates of the Corporation's current income taxes and estimates of deferred income taxes resulting from temporary differences between the carrying value of assets and liabilities in the consolidated financial statements and their tax values. A deferred income tax asset or liability is determined for each temporary difference based on enacted income tax rates and laws in effect when the temporary differences are expected to be recovered or settled. Deferred income tax assets are assessed for the likelihood that they will be recovered from future taxable income. To the extent recovery is not considered more likely than not, a valuation allowance is recognized against earnings in the period when the allowance is created or revised. Estimates of the provision for current income taxes, deferred income tax assets and liabilities, and any related valuation allowance, might vary from actual amounts incurred.

FINANCIAL INSTRUMENTS

Financial Instruments Not Measured At Fair Value

For long-term debt, 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.

The following table includes the carrying value, excluding unamortized debt issuance costs and including current and long-term portions, and estimated fair value of the Corporation's long-term debt as at December 31:

| (\$ millions) | Fair Value Hierarchy | 2022 | | 2021 | |
|----------------|----------------------|----------------|----------------------|----------------|----------------------|
| | | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| Long-term debt | Level 2 | 885 | 813 | 785 | 979 |

Power purchase contracts that have been designated as normal purchase or normal sale contracts are not reported at fair value under the accounting rules for derivatives. They are accounted for on an accrual basis.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table sets forth information derived from audited financial statements. These results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

| Years Ended December 31 | 2022 | 2021 | 2020 |
|---|--------------|-------|-------|
| (\$ millions) | | | |
| Revenue | 474 | 454 | 412 |
| Net earnings | 61 | 56 | 53 |
| Total assets | 2,595 | 2,537 | 2,437 |
| Long-term debt, excluding current portion | 853 | 779 | 779 |
| Dividends on common shares | 49 | 47 | 45 |

2022/2021 – Revenue increased \$20 million and net earnings increased \$5 million over 2021. The increase in revenue was primarily due to an increase in electricity sales volumes, an increase in revenues approved from rate-setting purposes resulting from a higher investment in regulated assets, and an increase in surplus power

sales, partially offset by a decrease in revenue associated with regulatory deferrals. The increase in net earnings was primarily due to a higher investment in regulated assets. The increase in total assets was mainly due to investment in DSM and the Corporation's capital expenditure program, which included sustainment capital as well as major project capital expenditures discussed further under "Projected Capital Expenditures". The increase in long-term debt was due to the issuance of \$100 million of unsecured MTN Debentures during the first quarter of 2022, partially offset by the reclass to current liabilities of \$25 million of secured Series G Debentures that mature in August 2023.

2021/2020 – Revenue increased \$42 million and net earnings increased \$3 million over 2020. The increase in revenue was primarily due to an increase in electricity sales volumes, an increase in revenues approved for rate-setting purposes resulting from higher investment in regulated assets, an increase in surplus power sales, and an increase in revenue associated with third party contract work, partially offset by a decrease in revenue associated with regulatory deferrals. The increase in net earnings was primarily due to higher favourable variances attributable to operating costs incurred, as compared to those allowed in rates, net of amounts shared with customers, as compared to the same period in 2020. The increase in total assets was mainly due to investment in DSM and the Corporation's capital expenditure program.

From 2020 to 2022, dividends were paid to assist in maintaining the BCUC approved capital structure of 40 per cent equity.

RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its parent, FortisBC Pacific, its ultimate parent, Fortis, and other related companies under common control, including FEI and FHI. The following transactions were measured at the exchange amount unless otherwise indicated.

Related Party Recoveries

The amounts charged to the Corporation's parent and other related parties under common control for the years ended December 31 were as follows:

| <i>(\$ millions)</i> | 2022 | 2021 |
|---|-------------|------|
| Operating costs charged to FortisBC Pacific (a) | 8 | 7 |
| Operating costs charged to FEI (b) | 7 | 6 |
| Operating costs charged to FHI (c) | 1 | 1 |
| Total related party recoveries | 16 | 14 |

(a) The Corporation charged its parent, FortisBC Pacific, for management services, labour, and materials.

(b) The Corporation charged FEI for electricity sales, management services, and other labour.

(c) The Corporation charged FHI for management services and other labour.

Related Party Costs

The amounts charged by related parties under common control for the years ended December 31 were as follows:

| <i>(\$ millions)</i> | 2022 | 2021 |
|------------------------------------|-------------|------|
| Operating costs charged by FEI (a) | 8 | 7 |
| Operating costs charged by FHI (b) | 5 | 5 |
| Total related party costs | 13 | 12 |

(a) FEI charged the Corporation for natural gas purchases, office rent, management services, and other labour.

(b) FHI charged the Corporation for management services and governance costs.

Balance Sheet Amounts

The amounts due from related parties, included in accounts receivable and other current assets on the Consolidated Balance Sheets, and the amounts due to related parties, included in accounts payable and other current liabilities on the Consolidated Balance Sheets, were as follows as at December 31:

| (\$ millions) | 2022 | | 2021 | |
|--|-----------------|---------------|-----------------|---------------|
| | Amount Due From | Amount Due To | Amount Due From | Amount Due To |
| FPHI | - | - | 1 | - |
| Fortis | - | - | 1 | - |
| FEI | - | - | - | (1) |
| FHI | - | (1) | - | (1) |
| Total (due to) due from related parties | - | (1) | 2 | (2) |

OTHER DEVELOPMENTS

Collective Agreements

There are two collective agreements between the Corporation and Local 378 of the Canadian Office and Professional Employees Union now referred to as MoveUP. The first collective agreement, representing employees in specified occupations in the areas of administration and operations support, expires on June 30, 2023. The second collective agreement, representing customer service employees, expired on March 31, 2022 and negotiations are ongoing.

The collective agreement between the Corporation and Local 213 of the International Brotherhood of Electrical Workers ("IBEW") expired on January 31, 2023 and is currently under negotiation. The IBEW represents employees in specified occupations in the areas of generation, transmission and distribution.

OUTSTANDING SHARE DATA

As at the filing date of this MD&A, the Corporation had issued and outstanding 2,991,510 common shares, all of which are owned by FortisBC Pacific, an indirect wholly-owned subsidiary of Fortis.

ADDITIONAL INFORMATION

Additional information about FBC, including its AIF, can be accessed at www.fortisbc.com or www.sedar.com. The information contained on, or accessible through, either of these websites is not incorporated by reference into this document.

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