FortisBC Energy Inc.
An indirect subsidiary of Fortis Inc.

Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2020 and 2019
(Unaudited)

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

ASSETS	March 31, 2020	December 31, 2019
Current assets		
Cash	$ 20	$ 3
Accounts receivable , net (notes 2, 9, 11 and 12)	271	300
Inventories	17	36
Prepaid expenses	3	6
Regulatory assets (notes 9 and 12)	50	47
Total current assets	361	392
Property, plant and equipment, net	4,989	4,959
Intangible assets, net	115	117
Regulatory assets	953	956
Other assets (note 9)	12	14
Goodwill	913	913
TOTAL ASSETS	$ 7,343	$ 7,351
LIABILITIES AND EQUITY		
Current liabilities		
Credit facilities (note 10)	$ 132	$ 138
Accounts payable and other current liabilities (notes 9 and 10)	340	433
Current portion of finance lease and finance obligations	6	3
Regulatory liabilities (note 9)	43	62
Total current liabilities	521	636
Long-term debt (note 9)	2,774	2,774
Finance lease and finance obligations	35	39
Regulatory liabilities	171	161
Deferred income tax	560	551
Other liabilities (note 9)	268	268
Total liabilities	4,329	4,429
Equity		
Common shares	1,391	1,351
Additional paid-in capital	1,245	1,245
Retained earnings	368	316
Shareholder’s equity	3,004	2,912
Non-controlling interests	10	10
Total equity	3,014	2,922
TOTAL LIABILITIES AND EQUITY	$ 7,343	$ 7,351

See accompanying notes to Condensed Consolidated Interim Financial Statements.

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

	2020	2019
Revenue (note 5)	$ 466	$ 485
Expenses		
Cost of natural gas	160	181
Operation and maintenance (note 11)	66	66
Property and other taxes	17	17
Depreciation and amortization	61	60
Total expenses	304	324
Operating income	162	161
Other income	2	3
Finance charges (note 6)	36	35
Earnings before income taxes	128	129
Income tax expense	23	30
Net earnings	$ 105	$ 99

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

	Common Shares [1]	Additional Paid-in Capital	Non-Controlling Interests	Retained Earnings	Total
As at December 31, 2018	$ 1,211	$ 1,245	$ 10	$ 284	$ 2,750
Net earnings	-	-	-	99	99
Dividends on common shares	-	-	-	(50)	(50)
As at March 31, 2019	1,211	1,245	10	333	2,799
As at December 31, 2019	1,351	1,245	10	316	2,922
Net earnings	-	-	-	105	105
Issuance of common shares	40	-	-	-	40
Dividends on common shares	-	-	-	(53)	(53)
As at March 31, 2020	$ 1,391	$ 1,245	$ 10	$ 368	$ 3,014

[1] 500 million authorized common shares with no par value; 341.2 million issued and outstanding at March 31, 2020 (December 31, 2019 – 338.9 million issued and outstanding).

See accompanying notes to Condensed Consolidated Interim Financial Statements.

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

	2020	2019
Operating activities		
Net earnings	$ 105	$ 99
Adjustments to reconcile net earnings to cash from operating activities:		
Depreciation and amortization	61	60
Accrued employee future benefits	2	1
Equity component of allowance for funds used during construction	-	(1)
Change in regulatory assets and liabilities	(7)	(21)
Change in working capital (note 8)	7	(118)
Cash from operating activities	168	20
Investing activities		
Property, plant and equipment additions (note 8)	(118)	(67)
Intangible asset additions	(2)	(2)
Contributions in aid of construction	1	2
Change in other assets and other liabilities	(12)	(10)
Cash used in investing activities	(131)	(77)
Financing activities		
Net (repayment of) proceeds from credit facility	(6)	110
Deposit received for development expenditures	-	5
Repayment of finance lease and finance obligations	(1)	(1)
Issuance of common shares	40	-
Dividends on common shares	(53)	(50)
Cash from (used in) financing activities	(20)	64
Net change in cash	17	7
Cash at beginning of period	3	-
Cash at end of period	$ 20	$ 7

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

See accompanying notes to Condensed Consolidated Interim Financial Statements.

1. DESCRIPTION OF THE BUSINESS

FortisBC Energy Inc. ("FEI" or the "Corporation") is a wholly-owned subsidiary of FortisBC Holdings Inc. ("FHI"), which is a wholly-owned subsidiary of Fortis Inc. ("Fortis"). Fortis shares are listed on both the Toronto Stock Exchange and the New York Stock Exchange.

FEI is the largest distributor of natural gas in British Columbia ("BC"), serving approximately 1,043,700 residential, commercial, industrial, and transportation customers in more than 135 communities. The Corporation provides transmission and distribution services to its customers, and obtains natural gas supplies on behalf of most residential, commercial, and industrial customers. Gas supplies are sourced primarily from northeastern BC and, through the Corporation's Southern Crossing Pipeline, from Alberta.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These Condensed Consolidated Interim Financial Statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for Condensed Consolidated Interim Financial Statements and are presented in Canadian dollars unless otherwise specified. As a result, these Condensed Consolidated Interim Financial Statements do not include all of the information and disclosures required in the Annual Consolidated Financial Statements and should be read in conjunction with the Corporation's 2019 Annual Audited Consolidated Financial Statements. In management's opinion, the Condensed Consolidated Interim Financial Statements include all adjustments that are necessary to present fairly the consolidated financial position of the Corporation.

With the exception of the new accounting policies listed below, the accounting policies and methods of application used in the preparation of these Condensed Consolidated Interim Financial Statements are consistent with the accounting policies used in FEI's Annual Audited Consolidated Financial Statements as at December 31, 2019.

The Condensed Consolidated Interim Financial Statements include the accounts of the Corporation and its subsidiaries and its 85 per cent interest in the Mt. Hayes Storage Limited Partnership ("MHLP"). The Corporation consolidates 100 per cent of its subsidiaries and recognizes 15 per cent of the MHLP as non-controlling interests. All intercompany transactions and balances have been eliminated upon consolidation.

An evaluation of subsequent events through May 5, 2020, the date these Condensed Consolidated Interim Financial Statements were issued, was completed to determine whether any circumstances warranted recognition or disclosure of events or transactions in the Condensed Consolidated Interim Financial Statements as at March 31, 2020. Subsequent events have been appropriately disclosed in these Condensed Consolidated Interim Financial Statements, as described in note 12, Subsequent Event.

New Accounting Policies

Measurement of Credit Losses on Financial Instruments

Effective January 1, 2020, the Corporation adopted Accounting Standards Update ("ASU") No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, which requires the use of reasonable and supportable forecasts in the estimate of credit losses and the recognition of expected losses upon initial recognition of a financial instrument, in addition to using past events and current conditions. The new guidance also requires quantitative and qualitative disclosures regarding the activity in the allowance for credit losses for financial assets within the scope of the guidance (note 11).

The Corporation records an allowance for credit losses to reduce accounts receivable for amounts estimated to be uncollectible. The allowance for doubtful accounts that is estimated is based on historical experience, current conditions, reasonable and supportable economic forecasts and accounts receivable aging. It is evaluated based on historical and expected credit loss patterns, reasonable and supportable forecasts and customer type. The Corporation recognized an additional adjustment to allowance for trade receivables as a result of additional information around current conditions obtained after March 31, 2020 (note 12). Accounts receivable are written-off in the period in which the receivable is deemed uncollectible.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurement Disclosures

ASU No. 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement*, issued in August 2018, is effective for FEI January 1, 2020 and is to be primarily applied on a retrospective basis, with certain disclosures requiring prospective application. Principally, it improves the effectiveness of financial statement note disclosures by clarifying what is required and important to users of the financial statements. The adoption of this update did not change the Corporation's disclosures.

3. REGULATORY MATTERS

Multi-Year Rate Plan for 2020 to 2024

In March 2019, FEI filed an application with the British Columbia Utilities Commission ("BCUC") requesting approval of an MRP for the years 2020 to 2024. The regulatory process to review this application has concluded, with a decision expected by mid-2020. In November 2019, the BCUC approved a rate increase of 2.0 per cent over 2019 rates pursuant to the MRP, on an interim and refundable basis, effective January 1, 2020. Interim rates will remain in place pending a final determination on 2020 rates by the BCUC.

4. SEASONALITY OF OPERATIONS

Interim results fluctuate due to the seasonal demands for natural gas, the movements of natural gas prices, and the timing and recognition of regulatory decisions. FEI's operations generally produce higher net earnings in the first and fourth quarters of the fiscal year and lower net earnings in the second quarter, which are partially offset by net losses in the third quarter. These fluctuations in quarterly net earnings are generally the result of changes in revenue from customer load as a result of weather, while certain expenses such as depreciation, interest and operating expenses remain more evenly distributed throughout the fiscal year. As a result of the seasonality, interim net earnings are not indicative of net earnings on an annual basis.

5. REVENUE

Disaggregation of Revenue

The following table presents the disaggregation of the Corporation's revenue by type of customer:

	Quarter Ended March 31	
($ millions)	**2020**	2019
Residential	**274**	294
Commercial	**143**	146
Industrial	**24**	12
Transportation	**28**	37
Total natural gas revenue	**469**	489
Other contract revenue [1]	**3**	4
Total revenue from contracts with customers	**472**	493
Alternative revenue	**(6)**	(9)
Other revenue [2]	**-**	1
Total revenue	**466**	485

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

[2] Other revenue is primarily comprised of other flow-through and regulatory deferral adjustments resulting from cost recovery variances in regulated forecasts used to set gas delivery rates.

6. FINANCE CHARGES

	Quarter Ended March 31	
($ millions)	**2020**	2019
Interest on long-term debt	**35**	34
Interest on short-term debt	**1**	2
Debt component of allowance for funds used during construction	**-**	(1)
Total finance charges	**36**	35

7. EMPLOYEE FUTURE BENEFITS

The Corporation is a sponsor of pension plans for eligible employees. The plans include registered defined benefit pension plans and supplemental unfunded arrangements. In addition to pensions, the Corporation provides other post-employment benefits ("OPEB") for certain of its retired employees. The net benefit cost for these plans was as follows:

	Quarter Ended March 31			
	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
($ millions)	**2020**	2019	**2020**	2019
Service costs	**7**	5	**1**	1
Interest costs	**7**	6	**1**	1
Expected return on plan assets	**(10)**	(9)	**-**	-
Amortization of actuarial losses	**2**	-	**-**	-
Regulatory adjustment	**(2)**	-	**-**	1
Net benefit cost	**4**	2	**2**	3

During 2020, the Corporation expects to contribute $12 million (2019 - $13 million) for defined benefit pension plans and make payments of $3 million (2019 - $3 million) for OPEB plans.

8. SUPPLEMENTARY INFORMATION TO CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Significant Non-Cash Transactions

	Quarter Ended March 31	
($ millions)	**2020**	2019
Change in accrued capital expenditures	**48**	(2)
Change in regulated asset for deferred income tax	**(10)**	(15)
Change in fair value of derivative instruments (note 9)	**-**	17

Change in Working Capital

	Quarter Ended March 31	
($ millions)	**2020**	2019
Accounts receivable	**26**	(102)
Inventories	**19**	17
Prepaid expenses	**3**	2
Accounts payable and other current liabilities	**(41)**	(35)
Change in working capital per Statements of Cash Flows	**7**	(118)

The period-end non-cash investing activities balances were as follows:

	As at March 31	
($ millions)	**2020**	2019
Accrued capital expenditures	**25**	17

9. FINANCIAL INSTRUMENTS

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

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

Financial Instruments Measured at Fair Value on a Recurring Basis

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

($ millions)	**March 31, 2020**	December 31, 2019
Assets		
Current		
Natural gas contracts subject to regulatory deferral [1]	**9**	11
Long-term		
Natural gas contracts subject to regulatory deferral [1]	**1**	2
Total assets	**10**	13
Liabilities		
Current		
Natural gas contracts subject to regulatory deferral [1]	**(9)**	(11)
Long-term		
Natural gas contracts subject to regulatory deferral [1]	**-**	(1)
Total liabilities	**(9)**	(12)
Total assets (liabilities), net	**1**	1

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

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

	March 31, 2020			
		Gross Amount Not Offset in Balance Sheet		
($ millions)	**Gross Amount Recognized in Balance Sheet**	**Counterparty Netting of Natural Gas Contracts [1]**	**Cash Collateral Posted**	**Net Amount**
Natural gas contracts subject to regulatory deferral:				
Accounts receivable	**9**	**(5)**	**10**	**14**
Other assets	**1**	**-**	**-**	**1**
Accounts payable and other current liabilities	**(9)**	**5**	**-**	**(4)**

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

9. FINANCIAL INSTRUMENTS (continued)

	December 31, 2019			
		Gross Amount Not Offset in Balance Sheet		
($ millions)	Gross Amount Recognized in Balance Sheet	Counterparty Netting of Natural Gas Contracts [1]	Cash Collateral Posted	Net Amount
Natural gas contracts subject to regulatory deferral:				
Accounts receivable	11	(8)	10	13
Other assets	2	(1)	-	1
Accounts payable and other current liabilities	(11)	(8)	-	(3)
Other liabilities	(1)	(1)	-	-

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

Derivative Instruments

Natural gas contracts held by FEI are subject to regulatory recovery through rates. As at March 31, 2020, these natural gas contracts were not designated as hedges and any unrealized gains or losses associated with changes in the fair value of the derivatives were deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates, as permitted by the BCUC, and as shown in the following table:

($ millions)	**March 31, 2020**	December 31, 2019
Unrealized net gain recorded to current regulatory liabilities	**1**	1

Cash inflows and outflows associated with the settlement of all derivative instruments are included in operating cash flows on the Corporation's Condensed Consolidated Statements of Cash Flows.

Volume of Derivative Activity

As at March 31, 2020, the Corporation had various natural gas derivative contracts subject to regulatory deferral that will settle on various expiration dates through 2024. The volumes related to these natural gas derivatives are outlined below:

(petajoules)	**March 31, 2020**	December 31, 2019
Natural gas physically-settled supply contracts	**230**	241
Natural gas financially-settled commodity swaps	**-**	6

9. FINANCIAL INSTRUMENTS (continued)

Financial Instruments Not Carried At Fair Value

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

- The carrying values of cash, accounts receivable, accounts payable, other current assets and liabilities and borrowings under the credit facility on the Condensed Consolidated Balance Sheets of the Corporation approximate their fair values due to short-term nature of these financial instruments. These items have been excluded from the table below.

- For long-term debt, the Corporation uses quoted market prices when available. When quoted market prices are not available, the fair value is determined by discounting the future cash flows of the specific debt instrument at an estimated yield to maturity equivalent to benchmark government bonds or treasury bills, with similar terms to maturity, plus a market credit risk premium equal to that of issuers of similar credit quality. Since the Corporation does not intend to settle the long-term debt prior to maturity, the fair value estimate does not represent an actual liability and, therefore, does not include exchange or settlement costs.

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

		March 31, 2020		December 31, 2019	
($ millions)	Fair Value Hierarchy	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long-term debt [1]	Level 2	**2,795**	**3,352**	2,795	3,527

[1] Carrying value excludes unamortized debt issuance costs.

10. GUARANTEES

The Corporation had letters of credit outstanding at March 31, 2020 totaling $47 million (December 31, 2019 - $47 million) primarily to support its unfunded supplemental pension benefit plans and have been applied against FEI's $55 million uncommitted letter of credit facility which was executed in March 2020.

11. ALLOWANCE FOR CREDIT LOSSES

Accounts receivable are recorded net of an allowance for credit losses. The credit loss expense incurred during the quarter took into account current conditions related to the Coronavirus Disease 2019 ("COVID-19") pandemic (note 12). The change in the allowance for credit losses balance from December 31, 2019 to March 31, 2020 is as follows:

	Quarter Ended March 31
($ millions)	**2020**
Beginning of period	**(7)**
Credit loss expense	**(3)**
Write-offs	**-**
Recoveries	**-**
End of period	**(10)**

12. SUBSEQUENT EVENT

COVID-19 Pandemic

In response to the rapidly growing impact of the global COVID-19 pandemic on British Columbians, FEI applied and received interim approval from the BCUC in April 2020 to provide the following deferral and relief offerings to its customers:

i. three-month bill payment deferral to residential customers, and to small commercial customers who have been directly impacted financially as a result of the COVID-19 pandemic;

ii. bill relief in the form of bill credits for three months to small commercial customers that have closed their businesses due to the COVID-19 pandemic; and

iii. establish a rate base deferral account for the COVID-19 Customer Recovery Fund to record and track unrecovered revenue resulting from customers being unable to pay their bills, any bill payment deferrals provided to customers and subsequent payments of those deferred amounts, and any bill credits provided to customers resulting from the COVID-19 pandemic.

This approval was granted on an interim basis to allow the BCUC to conduct its public review process before issuing a final decision.

The COVID-19 Customer Recovery Fund deferral account is expected to capture the otherwise uncollectible revenues associated with providing the deferral and relief offerings to the Corporation's customers, which could otherwise have an impact on net earnings.

Other than amounts that are captured in the COVID-19 Customer Recovery Fund deferral account, the Corporation's other regulatory mechanisms which were in place during previous rate-setting frameworks and have been proposed under the MRP Application effective 2020 include deferral accounts that capture revenue shortfalls and flow-through treatment for incremental costs that qualify as significant and beyond the control of the Corporation.

The disposition of the COVID-19 Customer Recovery Fund deferral account will be the subject of a future rate filing once the extent of the financial impact on customers due to the COVID-19 pandemic is known.

During April 2020, the Corporation has obtained additional information around the potential collectibility for certain of its accounts receivable as at March 31, 2020. As a result of this subsequent information, the Corporation has recognized approximately $2 million as an additional adjustment to accounts receivable, with an offsetting increase in the regulatory assets, associated with the COVID-19 Customer Recovery Fund deferral account, in these condensed consolidated interim financial statements. Accordingly, there has been no effect on net earnings for the quarter ended March 31, 2020.