



**FortisBC Energy Inc.**

An indirect subsidiary of Fortis Inc.

Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2021 and 2020  
(Unaudited)

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

<b>ASSETS</b>	<b>March 31, 2021</b>	December 31, 2020
<b>Current assets</b>		
Cash	\$ 44	\$ 9
Accounts receivable, net (note 9)	320	295
Inventories	21	58
Prepaid expenses	3	6
Regulatory assets (note 9)	72	68
<b>Total current assets</b>	<b>460</b>	436
<b>Property, plant and equipment, net</b>	<b>5,233</b>	5,203
<b>Intangible assets, net</b>	<b>117</b>	118
<b>Regulatory assets</b>	<b>1,055</b>	1,054
<b>Other assets (note 9)</b>	<b>13</b>	14
<b>Goodwill</b>	<b>913</b>	913
<b>TOTAL ASSETS</b>	<b>\$ 7,791</b>	\$ 7,738
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Credit facilities (note 10)	\$ 147	\$ 258
Accounts payable and other current liabilities (note 9)	354	379
Current portion of finance lease and finance obligations	32	35
Regulatory liabilities (note 9)	27	32
<b>Total current liabilities</b>	<b>560</b>	704
<b>Long-term debt (note 9)</b>	<b>2,973</b>	2,973
<b>Finance lease and finance obligations</b>	<b>4</b>	5
<b>Regulatory liabilities</b>	<b>188</b>	159
<b>Deferred income tax</b>	<b>628</b>	616
<b>Other liabilities (note 9)</b>	<b>294</b>	292
<b>Total liabilities</b>	<b>4,647</b>	4,749
<b>Equity</b>		
Common shares	1,491	1,391
Additional paid-in capital	1,245	1,245
Retained earnings	399	344
Shareholder's equity	3,135	2,980
Non-controlling interests	9	9
<b>Total equity</b>	<b>3,144</b>	2,989
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 7,791</b>	\$ 7,738

See accompanying notes to these Condensed Consolidated Interim Financial Statements.

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

	Quarter Ended	
	2021	2020
<b>Revenue</b> (note 5)	<b>\$ 586</b>	\$ 466
<b>Expenses</b>		
Cost of natural gas	255	160
Operation and maintenance	66	66
Property and other taxes	18	17
Depreciation and amortization	72	61
<b>Total expenses</b>	<b>411</b>	304
<b>Operating income</b>	<b>175</b>	162
Other income	2	2
Finance charges (note 6)	36	36
<b>Earnings before income taxes</b>	<b>141</b>	128
Income tax expense	31	23
<b>Net earnings</b>	<b>\$ 110</b>	\$ 105

**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 <sup>1</sup>	Additional Paid-in Capital	Non- Controlling Interests	Retained Earnings	Total
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
As at December 31, 2020	1,391	1,245	9	344	2,989
Net earnings	-	-	-	110	110
Issuance of common shares	100	-	-	-	100
Dividends on common shares	-	-	-	(55)	(55)
As at March 31, 2021	\$ 1,491	\$ 1,245	\$ 9	\$ 399	\$ 3,144

<sup>1</sup> 500 million authorized common shares with no par value; 347.4 million issued and outstanding at March 31, 2021 (December 31, 2020 – 341.2 million).

See accompanying notes to these Condensed Consolidated Interim Financial Statements.

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

	Quarter Ended	
	2021	2020
<b>Operating activities</b>		
Net earnings	\$ 110	\$ 105
Adjustments to reconcile net earnings to cash from operating activities:		
Depreciation and amortization	72	61
Accrued employee future benefits	3	2
Equity component of allowance for funds used during construction	(1)	-
Deferred income tax, net of regulatory adjustments	10	-
Change in regulatory assets and liabilities	17	(7)
Change in working capital (note 8)	10	7
<b>Cash from operating activities</b>	<b>221</b>	<b>168</b>
<b>Investing activities</b>		
Property, plant and equipment additions (note 8)	(91)	(118)
Intangible asset additions	(2)	(2)
Contributions in aid of construction	1	1
Change in other assets and other liabilities	(23)	(12)
<b>Cash used in investing activities</b>	<b>(115)</b>	<b>(131)</b>
<b>Financing activities</b>		
Net repayment of credit facility	(111)	(6)
Repayment of finance lease and finance obligations	(5)	(1)
Issuance of common shares	100	40
Dividends on common shares	(55)	(53)
<b>Cash used in financing activities</b>	<b>(71)</b>	<b>(20)</b>
<b>Net change in cash</b>	<b>35</b>	<b>17</b>
Cash at beginning of period	9	3
<b>Cash at end of period</b>	<b>\$ 44</b>	<b>\$ 20</b>

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

See accompanying notes to these Condensed Consolidated Interim Financial Statements.

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**FortisBC Energy Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)**  
**For the three months ended March 31, 2021 and 2020**

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## **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”), a Canadian public company. 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 1,058,500 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 2020 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, 2020.

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 4, 2021, 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, 2021. Subsequent events have been appropriately disclosed in these Condensed Consolidated Interim Financial Statements.

### **New Accounting Policies**

FEI considers the applicability and impact of all Accounting Standards Updates (“ASUs”) issued by the Financial Accounting Standards Board (“FASB”). During the first quarter of 2021, there were no ASUs issued by FASB and adopted by FEI that have a material impact on the Consolidated Financial Statements.

### **Future Accounting Pronouncements**

Any ASUs issued by FASB, but not yet adopted by FEI, that are not included in these Condensed Consolidated Interim Financial Statements were assessed and determined to be either not applicable to the Corporation or not expected to have a material impact on the Condensed Consolidated Interim Financial Statements.

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**FortisBC Energy Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)**  
**For the three months ended March 31, 2021 and 2020**

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### **3. REGULATORY MATTERS**

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

In June 2020, the British Columbia Utilities Commission (“BCUC”) issued its decision on FEI’s MRP application for the years 2020 to 2024 (“MRP Decision”). The approved MRP includes, amongst other items, a level of operation and maintenance expense per customer indexed for inflation less a fixed productivity adjustment factor, a similar approach to growth capital, a forecast approach to sustainment capital, an innovation fund recognizing the need to accelerate investment in clean energy innovation, a number of service quality indicators designed to ensure the Corporation maintains service levels, and a 50/50 sharing between customers and the Corporation of variances from the allowed Return on Equity (“ROE”).

Variances from the allowed ROE subject to sharing include certain components of other revenue and operating and maintenance costs, as well as variances in the utility’s regulated rate base amounts, while variances associated with revenues and other expenses, including those that are not controllable or associated with clean growth capital expenditures, are subject to flow-through treatment and refunded to or recovered from customers.

The MRP Decision approved updated FEI depreciation rates for property, plant and equipment and intangible assets, as well as updates to the provisions for removal costs collected as a component of depreciation on an accrual basis. These updates are effective for 2020 and have resulted in a net depreciation rate effect that is comparable to net depreciation rates previously in effect.

As part of the MRP Decision, FEI received approval to increase the allocation of overhead costs to property, plant and equipment and intangible assets, which relate to the overall capital expenditure program.

In December 2020, the BCUC approved a delivery rate increase of 6.62 per cent over 2020 rates, effective January 1, 2021. As part of this filing, a 2021 average rate base of \$5,212 million was approved.

### **4. SEASONALITY OF OPERATIONS**

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

**FortisBC Energy Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)**  
**For the three months ended March 31, 2021 and 2020**

**5. REVENUE**
**Disaggregation of Revenue**

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

<i>(\$ millions)</i>	<b>Quarter Ended March 31</b>	
	<b>2021</b>	2020
Residential	<b>342</b>	274
Commercial	<b>178</b>	143
Industrial	<b>32</b>	24
Transportation	<b>27</b>	28
<b>Total natural gas revenue</b>	<b>579</b>	469
Other contract revenue <sup>1</sup>	<b>1</b>	3
<b>Total revenue from contracts with customers</b>	<b>580</b>	472
Alternative revenue <sup>2</sup>	<b>(7)</b>	(6)
Other revenue <sup>3</sup>	<b>13</b>	-
<b>Total revenue</b>	<b>586</b>	466

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

<sup>2</sup> Alternative revenue includes the Earnings Sharing Mechanism, which recognizes the 50/50 sharing of variances from the allowed ROE, the Revenue Stabilization Adjustment Mechanism, and flow-through variances related to industrial and other customer revenue.

<sup>3</sup> 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**

<i>(\$ millions)</i>	<b>Quarter Ended March 31</b>	
	<b>2021</b>	2020
Interest on long-term debt	<b>36</b>	35
Interest on short-term debt	<b>1</b>	1
Debt component of allowance for funds used during construction	<b>(1)</b>	-
<b>Total finance charges</b>	<b>36</b>	36

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**7. EMPLOYEE FUTURE BENEFITS**

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

<i>(\$ millions)</i>	<b>Quarter Ended March 31</b>			
	<b>Defined Benefit Pension and Supplemental Plans</b>		<b>OPEB Plans</b>	
	<b>2021</b>	2020	<b>2021</b>	2020
<b>Components of net benefit cost</b>				
Service costs	<b>8</b>	7	<b>1</b>	1
Interest costs	<b>6</b>	7	<b>1</b>	1
Expected return on plan assets	<b>(10)</b>	(10)	-	-
Amortization of actuarial losses	<b>2</b>	2	-	-
Regulatory adjustment	-	(2)	-	-
<b>Net benefit cost</b>	<b>6</b>	4	<b>2</b>	2

The Corporation’s estimated 2021 contributions are \$13 million (2020 - \$12 million) for defined benefit pension plans and \$3 million (2020 - \$3 million) for OPEB plans.

**8. SUPPLEMENTARY INFORMATION TO CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>(\$ millions)</i>	<b>Quarter Ended March 31</b>	
	<b>2021</b>	2020
<b>Change in working capital</b>		
Accounts receivable	<b>(20)</b>	26
Inventories	<b>37</b>	19
Prepaid expenses	<b>3</b>	3
Accounts payable and other current liabilities	<b>(10)</b>	(41)
	<b>10</b>	7
<b>Significant non-cash transactions</b>		
Change in accrued capital expenditures	<b>11</b>	48
Change in regulated asset for deferred income tax	<b>(2)</b>	(10)
Change in fair value of derivative instruments (note 9)	<b>(4)</b>	-

The following table presents the non-cash investing activities balances.

<i>(\$ millions)</i>	<b>2021</b>	2020
<b>As at March 31</b>		
Accrued capital expenditures	<b>28</b>	25



**FortisBC Energy Inc.**  
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## 9. FINANCIAL INSTRUMENTS

The Corporation has natural gas contracts subject to regulatory deferral, all of which are Level 2 of the fair value hierarchy. Under the hierarchy, fair value of Level 2 financial instruments is determined using pricing inputs that are observable in the marketplace.

### Recurring Fair Value Measures

The following table presents the fair value of assets and liabilities that are accounted for at fair value on a recurring basis. Contracts that are “in the money” are included in accounts receivable or other assets, and “out of the money” are included in accounts payable and other current liabilities or other liabilities.

(\$ millions)	As at	
	March 31, 2021	December 31, 2020
<b>Assets</b>		
Current	2	6
	2	6
<b>Liabilities</b>		
Current	(4)	(4)
	(4)	(4)
<b>Total (liabilities) assets, net</b>	<b>(2)</b>	<b>2</b>

Natural gas contracts held by FEI are not designated as hedges and any unrealized gains and losses arising from changes in fair value of these contracts are deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates, as permitted by the BCUC, as shown in the following table.

(\$ millions)	As at	
	March 31, 2021	December 31, 2020
Unrealized net (loss) gain recorded to current regulatory (assets) liabilities	(2)	2

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.

The Corporation has elected gross presentation for its derivative contracts under master netting agreements and collateral positions which are netted where the intent and legal right to offset exists. The following table presents the potential offset of counterparty netting.

(\$ millions)	Gross Amount Recognized on Balance Sheet	Counterparty Netting of Natural Gas Contracts	Cash Collateral Posted	Net Amount
<b>As at March 31, 2021</b>				
Accounts receivable	2	(1)	10	11
Accounts payable and other current liabilities	(4)	1	-	(3)
<b>As at December 31, 2020</b>				
Accounts receivable	6	(2)	10	14
Accounts payable and other current liabilities	(4)	2	-	(2)

**FortisBC Energy Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)**  
**For the three months ended March 31, 2021 and 2020**

**9. FINANCIAL INSTRUMENTS (continued)**
**Volume of Derivative Activity**

The Corporation had various natural gas derivative contracts subject to regulatory deferral that will settle on various expiration dates through 2025. The volumes related to these natural gas derivatives are outlined below.

<i>(petajoules)</i>	As at	
	March 31, 2021	December 31, 2020
Natural gas physically-settled supply contracts	179	203
Natural gas financially-settled commodity swaps	-	2

**Financial Instruments Not Carried At Fair Value**

The following table presents the carrying value, excluding unamortized debt issuance costs, and estimated fair value of the Corporation's long-term debt.

		As at			
		March 31, 2021		December 31, 2020	
<i>(\$ millions)</i>	Fair Value Hierarchy	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt	Level 2	2,995	3,590	2,995	3,933

**10. GUARANTEES**

The Corporation had letters of credit outstanding at March 31, 2021 totaling \$46 million (December 31, 2020 - \$46 million) primarily to support the funding of one of the Corporation's pension plans and have been applied against FEI's \$55 million uncommitted letter of credit facility.