



## **FortisBC Energy Inc.**

An indirect subsidiary of Fortis Inc.

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

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

| <b>ASSETS</b>  | <b>June 30, 2019</b> | December 31, 2018 |
|--|----------------------|-------------------|
| <b>Current assets</b>  |                      |                   |
| Cash   | \$ 5                 | \$ -              |
| Accounts receivable (note 8)                                       | 205                  | 277               |
| Inventories  | 39                   | 50                |
| Prepaid expenses   | 1                    | 4                 |
| Regulatory assets (note 8)   | 37                   | 50                |
| <b>Total current assets</b>  | <b>287</b>           | 381               |
| <b>Property, plant and equipment, net</b> (note 10)                | <b>4,750</b>         | 4,658             |
| <b>Intangible assets, net</b>                                      | <b>117</b>           | 119               |
| <b>Regulatory assets</b>   | <b>849</b>           | 781               |
| <b>Other assets</b> (notes 8 and 10)                               | <b>17</b>            | 14                |
| <b>Goodwill</b>  | <b>913</b>           | 913               |
| <b>TOTAL ASSETS</b>  | <b>\$ 6,933</b>      | \$ 6,866          |
| <b>LIABILITIES AND EQUITY</b>                                      |                      |                   |
| <b>Current liabilities</b>   |                      |                   |
| Credit facility (note 9)   | \$ 170               | \$ 199            |
| Accounts payable and other current liabilities (notes 8 and 10)    | 287                  | 401               |
| Current portion of finance lease and finance obligations (note 10) | 16                   | 16                |
| Regulatory liabilities (note 8)                                    | 61                   | 44                |
| <b>Total current liabilities</b>                                   | <b>534</b>           | 660               |
| <b>Long-term debt</b> (note 8)                                     | <b>2,575</b>         | 2,575             |
| <b>Finance lease and finance obligations</b> (note 10)             | <b>40</b>            | 42                |
| <b>Regulatory liabilities</b>                                      | <b>149</b>           | 145               |
| <b>Deferred income taxes</b>                                       | <b>531</b>           | 503               |
| <b>Other liabilities</b> (notes 8 and 10)                          | <b>200</b>           | 191               |
| <b>Total liabilities</b>   | <b>4,029</b>         | 4,116             |
| <b>Equity</b>  |                      |                   |
| Common shares  | 1,351                | 1,211             |
| Additional paid-in capital   | 1,245                | 1,245             |
| Retained earnings  | 299                  | 284               |
| Shareholder's equity   | 2,895                | 2,740             |
| Non-controlling interests  | 9                    | 10                |
| <b>Total equity</b>  | <b>2,904</b>         | 2,750             |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                | <b>\$ 6,933</b>      | \$ 6,866          |

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

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

|                                     | Three months ended |              | Six months ended |               |
|-------------------------------------|--------------------|--------------|------------------|---------------|
|                                     | 2019               | 2018         | 2019             | 2018          |
| <b>Revenue</b> (note 5)             | \$ 235             | \$ 227       | \$ 720           | \$ 655        |
| <b>Expenses</b>                     |                    |              |                  |               |
| Cost of natural gas                 | 63                 | 51           | 244              | 185           |
| Operation and maintenance           | 61                 | 59           | 127              | 117           |
| Property and other taxes            | 17                 | 17           | 34               | 34            |
| Depreciation and amortization       | 60                 | 56           | 120              | 112           |
| <b>Total expenses</b>               | <b>201</b>         | <b>183</b>   | <b>525</b>       | <b>448</b>    |
| <b>Operating income</b>             | <b>34</b>          | <b>44</b>    | <b>195</b>       | <b>207</b>    |
| Other income                        | 27                 | 45           | 30               | 61            |
| Finance charges                     | 57                 | 78           | 92               | 126           |
| <b>Earnings before income taxes</b> | <b>4</b>           | <b>11</b>    | <b>133</b>       | <b>142</b>    |
| Income tax (recovery) expense       | (12)               | (7)          | 18               | 23            |
| <b>Net earnings</b>                 | <b>\$ 16</b>       | <b>\$ 18</b> | <b>\$ 115</b>    | <b>\$ 119</b> |

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

|  | Common<br>Shares | Additional<br>Paid-in<br>Capital | Non-<br>controlling<br>Interests | Retained<br>Earnings | Total           |
|--|------------------|----------------------------------|----------------------------------|----------------------|-----------------|
| As at December 31, 2017                              | \$ 1,171         | \$ 1,245                         | \$ 10                            | \$ 237               | \$ 2,663        |
| Net earnings   | -                | -                                | -                                | 119                  | 119             |
| Issuance of common shares                            | 40               | -                                | -                                | -                    | 40              |
| Dividends on common shares                           | -                | -                                | -                                | (95)                 | (95)            |
| As at June 30, 2018                                  | 1,211            | 1,245                            | 10                               | 261                  | 2,727           |
| As at December 31, 2018                              | <b>1,211</b>     | <b>1,245</b>                     | <b>10</b>                        | <b>284</b>           | <b>2,750</b>    |
| Net earnings   | -                | -                                | -                                | 115                  | 115             |
| Net distribution to Mt. Hayes<br>Storage LP Partners | -                | -                                | (1)                              | -                    | (1)             |
| Issuance of common shares                            | 140              | -                                | -                                | -                    | 140             |
| Dividends on common shares                           | -                | -                                | -                                | (100)                | (100)           |
| <b>As at June 30, 2019</b>                           | <b>\$ 1,351</b>  | <b>\$ 1,245</b>                  | <b>\$ 9</b>                      | <b>\$ 299</b>        | <b>\$ 2,904</b> |

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

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

|  | Three months ended |       | Six months ended |        |
|--|--------------------|-------|------------------|--------|
|  | 2019               | 2018  | 2019             | 2018   |
| <b>Operating activities</b>                                      |                    |       |                  |        |
| Net earnings   | \$ 16              | \$ 18 | \$ 115           | \$ 119 |
| Adjustments for non-cash items                                   |                    |       |                  |        |
| Depreciation and amortization                                    | 60                 | 56    | 120              | 112    |
| Accrued employee future benefits                                 | (1)                | 2     | -                | 2      |
| Equity component of allowance for funds used during construction | (2)                | -     | (3)              | (1)    |
| Change in regulatory assets and liabilities                      | 13                 | (26)  | (8)              | (17)   |
| Change in working capital (note 7)                               | 79                 | 84    | (39)             | 99     |
| <b>Cash from operating activities</b>                            | <b>165</b>         | 134   | <b>185</b>       | 314    |
| <b>Investing activities</b>                                      |                    |       |                  |        |
| Property, plant and equipment additions (note 7)                 | (100)              | (111) | (167)            | (194)  |
| Intangible asset additions                                       | (5)                | (4)   | (7)              | (6)    |
| Contributions in aid of construction                             | 1                  | 1     | 3                | 2      |
| Change in other assets and other liabilities                     | (12)               | (2)   | (22)             | (2)    |
| <b>Cash used in investing activities</b>                         | <b>(116)</b>       | (116) | <b>(193)</b>     | (200)  |
| <b>Financing activities</b>                                      |                    |       |                  |        |
| Net repayment of credit facility                                 | (139)              | (12)  | (29)             | (56)   |
| Contributions received for development expenditures              | -                  | 4     | 5                | 4      |
| Repayment of finance lease and finance obligations               | (1)                | (1)   | (2)              | (3)    |
| Net distributions to non-controlling interests                   | (1)                | -     | (1)              | -      |
| Issuance of common shares  | 140                | 40    | 140              | 40     |
| Dividends on common shares                                       | (50)               | (48)  | (100)            | (95)   |
| <b>Cash (used in) from financing activities</b>                  | <b>(51)</b>        | (17)  | <b>13</b>        | (110)  |
| <b>Net change in cash</b>  | <b>(2)</b>         | 1     | <b>5</b>         | 4      |
| Cash at beginning of period                                      | 7                  | 3     | -                | -      |
| <b>Cash at end of period</b>                                     | <b>\$ 5</b>        | \$ 4  | <b>\$ 5</b>      | \$ 4   |

Supplementary Information to Condensed Consolidated Statements of Cash Flows (note 7).

The accompanying notes are an integral part of 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 and six months ended June 30, 2019 and 2018**

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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"). Fortis shares are listed on both the Toronto Stock Exchange and the New York Stock Exchange.

The Corporation is the largest distributor of natural gas in British Columbia ("BC"), serving approximately 1,032,600 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 2018 Annual Audited Consolidated Financial Statements. In management's opinion, the Condensed Consolidated Interim Financial Statements include all adjustments that are necessary to present fairly the consolidated financial position of the Corporation.

With the exception of the new accounting policies listed below, the accounting policies and methods of application used in the preparation of these Condensed Consolidated Interim Financial Statements are consistent with the accounting policies used in FEI's Annual Audited Consolidated Financial Statements as at December 31, 2018.

The Condensed Consolidated Interim Financial Statements include the accounts of the Corporation and its 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 August 1, 2019, the date these Condensed Consolidated Interim Financial Statements were issued, was completed to determine whether any circumstances warranted recognition or disclosure of events or transactions in the Condensed Consolidated Interim Financial Statements as at June 30, 2019. Subsequent events have been appropriately disclosed in these Condensed Consolidated Interim Financial Statements.

**New Accounting Policies****Leases**

Effective January 1, 2019, FEI adopted ASU No. 2016-02, *Leases* (ASC 842), that requires lessees to recognize a right-of-use asset and lease liability for all leases with a lease term greater than 12 months, along with additional quantitative and qualitative disclosures. The Corporation applied the transition provisions as of the adoption date and did not retrospectively adjust prior periods. FEI elected a package of implementation options, referred to as practical expedients, that allowed it to not reassess: (i) whether existing contracts, including land easements, are or contain a lease; (ii) the lease classification of existing leases; or (iii) the initial direct costs for existing leases. Also, the Corporation utilized the hindsight practical expedient to determine the lease term. Upon adoption, the Corporation did not identify or record an adjustment to the opening balance of retained earnings, and there was no impact on net earnings or cash flows.

When a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, a right-of-use asset and lease liability are recognized. At inception, the right-of-use asset and liability are both measured at the present value of future lease payments, excluding variable payments that are based on usage or performance. Future lease payments include both lease components (e.g., rent, real estate taxes and insurance costs) and non-lease components (e.g., common area maintenance costs), which FEI accounts for as a single lease component.

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

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The present value is calculated using the rate implicit in the lease or a lease-specific secured interest rate based on the remaining lease term. Renewal options are included in the lease term when it is reasonably certain that the option will be exercised.

Leases with a term of twelve months or less are not recorded on the balance sheet but are recognized as lease expense straight-line over the lease term.

As at June 30, 2019, the Corporation recognized \$6 million of right-of-use assets and lease liabilities related to office facilities. Refer to Note 10 for additional disclosure on FEI's leasing arrangements.

**Future Accounting Pronouncements**

FEI considers the applicability and impact of all ASUs issued by the Financial Accounting Standards Board ("FASB"). The following updates have been issued by FASB, but have not yet been adopted by FEI. Any ASUs not included below were assessed and determined to be either not applicable to the Corporation or are not expected to have a material impact on the Consolidated Financial Statements.

**Measurement of Credit Losses on Financial Instruments**

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, issued in June 2016, is effective for FEI January 1, 2020, and is to be applied on a modified retrospective basis. Principally, it requires entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to estimate credit losses. FEI does not expect the adoption of this ASU to have a material impact on the Consolidated Financial Statements and related disclosures.

**Fair Value Measurement Disclosures**

ASU No. 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement*, issued in August 2018, is effective for 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. FEI does not expect the adoption of this ASU to have a material impact on the Consolidated Financial Statements and related disclosures.

**Pensions and Other Postretirement Plan Disclosures**

ASU No. 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans*, issued in August 2018, is effective for FEI January 1, 2021 and is to be applied on a retrospective basis for all periods presented. Principally, it modifies the disclosure requirements for employers with defined pension or other post-retirement plans and clarifies disclosure requirements. In addition, the amendments remove (a) the amounts in accumulated other comprehensive income expected to be recognized as components of net period benefit costs over the next fiscal period, (b) the amount and timing of plan assets expected to be returned to the employer, and (c) the effects of a one-percentage-point change on the assumed health care costs and the change in rates on service cost, interest cost and the benefit obligation for post-retirement health care benefits. FEI does not expect the adoption of this ASU to have a material impact on the Consolidated Financial Statements and related disclosures.

**FortisBC Energy Inc.**
**Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)  
For the three and six months ended June 30, 2019 and 2018**
**3. REGULATORY MATTERS**
**Performance Based Ratemaking Plan for 2014 to 2019**

In September 2014, the British Columbia Utilities Commission ("BCUC") issued its decision on FEI's Performance Based Ratemaking Plan setting out the rate-setting framework for the years 2014 to 2019.

In the first quarter of 2019, the BCUC issued its decision on FEI's 2019 delivery rates. The decision resulted in a 2019 average rate base of approximately \$4,497 million, excluding the rate base of approximately \$12 million for Fort Nelson (2018 - \$4,370 million, excluding the rate base of approximately \$11 million for Fort Nelson) and an increase to the delivery rate of 1.1 per cent effective January 1, 2019.

**4. SEASONALITY OF OPERATIONS**

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

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

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

| (\$ millions)                                | Three months ended<br>June 30 |      | Six months ended<br>June 30 |      |
|--|-------------------------------|------|-----------------------------|------|
|  | 2019                          | 2018 | 2019                        | 2018 |
| Residential                                  | 117                           | 112  | 411                         | 369  |
| Commercial                                   | 59                            | 55   | 205                         | 180  |
| Industrial                                   | 10                            | 7    | 22                          | 15   |
| Transportation                               | 29                            | 30   | 66                          | 70   |
| <b>Total natural gas revenue</b>             | <b>215</b>                    | 204  | <b>704</b>                  | 634  |
| Other contract revenue <sup>1</sup>          | 3                             | 4    | 7                           | 8    |
| <b>Revenue from contracts with customers</b> | <b>218</b>                    | 208  | <b>711</b>                  | 642  |
| Alternative revenue                          | 16                            | 12   | 7                           | 6    |
| Other revenue <sup>2</sup>                   | 1                             | 7    | 2                           | 7    |
| <b>Total revenue</b>                         | <b>235</b>                    | 227  | <b>720</b>                  | 655  |

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

<sup>2</sup> Other revenue is primarily comprised of regulatory deferral adjustments.

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

**6. 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 the three months ended June 30 was as follows:

| (\$ millions)                  | <b>Defined Benefit Pension<br/>and Supplemental Plans</b> |      | <b>OPEB Plans</b> |      |
|--------------------------------|---|------|-------------------|------|
|                                | <b>2019</b>   | 2018 | <b>2019</b>       | 2018 |
| Service costs                  | <b>5</b>  | 5    | <b>1</b>          | 1    |
| Interest costs                 | <b>7</b>  | 6    | <b>1</b>          | 1    |
| Expected return on plan assets | <b>(10)</b>   | (9)  | -                 | -    |
| Amortization:                  |   |      |                   |      |
| Actuarial losses               | <b>1</b>  | 1    | -                 | -    |
| Past service credit            | <b>(1)</b>  | (1)  | -                 | -    |
| Regulatory adjustment          | <b>1</b>  | -    | -                 | -    |
| <b>Net benefit cost</b>        | <b>3</b>  | 2    | <b>2</b>          | 2    |

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

| (\$ millions)                  | <b>Defined Benefit Pension<br/>and Supplemental Plans</b> |      | <b>OPEB Plans</b> |      |
|--------------------------------|---|------|-------------------|------|
|                                | <b>2019</b>   | 2018 | <b>2019</b>       | 2018 |
| Service costs                  | <b>10</b>   | 10   | <b>2</b>          | 2    |
| Interest costs                 | <b>13</b>   | 12   | <b>2</b>          | 2    |
| Expected return on plan assets | <b>(19)</b>   | (17) | -                 | -    |
| Amortization:                  |   |      |                   |      |
| Actuarial losses               | <b>1</b>  | 2    | -                 | -    |
| Past service credit            | <b>(1)</b>  | (1)  | -                 | -    |
| Regulatory adjustment          | <b>1</b>  | (1)  | <b>1</b>          | -    |
| <b>Net benefit cost</b>        | <b>5</b>  | 5    | <b>5</b>          | 4    |

During 2019, the Corporation expects to contribute \$13 million for defined benefit pension plans and make payments of \$3 million for OPEB plans.



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

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

The supplementary information to the Condensed Consolidated Statements of Cash Flows was as follows:

**Significant Non-Cash Transactions**

| (\$ millions)   | Three months ended<br>June 30 |      | Six months ended<br>June 30 |      |
|---|-------------------------------|------|-----------------------------|------|
|   | 2019                          | 2018 | 2019                        | 2018 |
| Change in fair value of derivative instruments (note 8) | <b>3</b>                      | 16   | <b>20</b>                   | 49   |
| Change in accrued capital expenditures                  | <b>(18)</b>                   | 2    | <b>(20)</b>                 | (4)  |
| Change in regulated asset for deferred income taxes     | <b>(14)</b>                   | (5)  | <b>(29)</b>                 | (7)  |

**Change in Working Capital**

| (\$ millions)  | Three months ended<br>June 30 |      | Six months ended<br>June 30 |      |
|--|-------------------------------|------|-----------------------------|------|
|  | 2019                          | 2018 | 2019                        | 2018 |
| Accounts receivable                                    | <b>178</b>                    | 126  | <b>76</b>                   | 114  |
| Inventories  | <b>(6)</b>                    | (9)  | <b>11</b>                   | 21   |
| Prepaid expenses                                       | <b>1</b>                      | 1    | <b>3</b>                    | 2    |
| Accounts payable and other current liabilities         | <b>(94)</b>                   | (43) | <b>(129)</b>                | (39) |
| Net current regulatory assets and liabilities          | <b>-</b>                      | 9    | <b>-</b>                    | 1    |
| Change in working capital per Statements of Cash Flows | <b>79</b>                     | 84   | <b>(39)</b>                 | 99   |

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

| (\$ millions)                | 2019      | 2018 |
|------------------------------|-----------|------|
| Accrued capital expenditures | <b>35</b> | 19   |

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

## 8. 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)   | June 30, 2019 | December 31, 2018 |
|---|---------------|-------------------|
| <b>Assets</b>   |               |                   |
| <i>Current</i>  |               |                   |
| Natural gas contracts subject to regulatory deferral <sup>1</sup> | 12            | 5                 |
| <i>Long-term</i>  |               |                   |
| Natural gas contracts subject to regulatory deferral <sup>1</sup> | 6             | 9                 |
| <b>Total assets</b>   | <b>18</b>     | 14                |
| <b>Liabilities</b>  |               |                   |
| <i>Current</i>  |               |                   |
| Natural gas contracts subject to regulatory deferral <sup>1</sup> | (5)           | (22)              |
| <i>Long-term</i>  |               |                   |
| Natural gas contracts subject to regulatory deferral <sup>1</sup> | (2)           | (1)               |
| <b>Total liabilities</b>  | <b>(7)</b>    | (23)              |
| <b>Total assets (liabilities), net</b>                            | <b>11</b>     | (9)               |

<sup>1</sup> 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:

|   | Gross Amount<br>Recognized in<br>the Balance<br>Sheet | Gross Amount Not Offset in<br>the Balance Sheet                     |                              |               |
|---|---|---|------------------------------|---------------|
|   |   | Counterparty<br>Netting of<br>Natural Gas<br>Contracts <sup>1</sup> | Cash<br>Collateral<br>Posted | Net<br>Amount |
| <b>June 30, 2019</b>                                  |   |   |                              |               |
| (\$ millions)   |   |   |                              |               |
| Natural gas contracts subject to regulatory deferral: |   |   |                              |               |
| Accounts receivable                                   | 12  | (5)   | 20                           | 27            |
| Other assets  | 6   | (2)   | -                            | 4             |
| Accounts payable and other current liabilities        | (5)   | 5   | -                            | -             |
| Other liabilities                                     | (2)   | 2   | -                            | -             |

<sup>1</sup> Positions, by counterparty, are netted where the intent and legal right to offset exists.

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

**8. FINANCIAL INSTRUMENTS (continued)**

|  | Gross Amount<br>Recognized in<br>the Balance<br>Sheet | Gross Amount Not Offset in<br>the Balance Sheet                     |                              |               |
|--|---|---|------------------------------|---------------|
|  |   | Counterparty<br>Netting of<br>Natural Gas<br>Contracts <sup>1</sup> | Cash<br>Collateral<br>Posted | Net<br>Amount |
| December 31, 2018<br>(\$ millions)                       |   |   |                              |               |
| Natural gas contracts subject to regulatory<br>deferral: |   |   |                              |               |
| Accounts receivable                                      | 5   | (4)   | 16                           | 17            |
| Other assets   | 9   | (1)   | -                            | 8             |
| Accounts payable and other current liabilities           | (22)  | 4   | -                            | (18)          |
| Other liabilities  | (1)   | 1   | -                            | -             |

<sup>1</sup> 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 June 30, 2019, 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)   | June 30, 2019 | December 31, 2018 |
|---|---------------|-------------------|
| Unrealized net gain (loss) recorded to current regulatory<br>liabilities (assets) | <b>11</b>     | (9)               |

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.

In 2018, in addition to the physical natural gas supply contracts, FEI entered into financial commodity swap agreements to fix the effective purchase price of natural gas, as the majority of the natural gas supply contracts have floating, rather than fixed, prices. All financial commodity swap agreements expired in the first quarter of 2019.

**Volume of Derivative Activity**

As at June 30, 2019, 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)                                    | June 30, 2019 | December 31, 2018 |
|---|---------------|-------------------|
| Natural gas physically-settled supply contracts | <b>280</b>    | 266               |
| Natural gas financially-settled commodity swaps | -             | 17                |

**FortisBC Energy Inc.**
**Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)  
For the three and six months ended June 30, 2019 and 2018**
**8. 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:

| (\$ millions)               | Fair Value Hierarchy | June 30, 2019  |                      | December 31, 2018 |                      |
|-----------------------------|----------------------|----------------|----------------------|-------------------|----------------------|
|                             |                      | Carrying Value | Estimated Fair Value | Carrying Value    | Estimated Fair Value |
| <b>Liabilities</b>          |                      |                |                      |                   |                      |
| Long-term debt <sup>1</sup> | Level 2              | <b>2,595</b>   | <b>3,348</b>         | 2,595             | 2,994                |

<sup>1</sup> Carrying value excludes unamortized debt issuance costs.

**9. GUARANTEES**

The Corporation had letters of credit outstanding at June 30, 2019 totaling \$46 million (December 31, 2018 - \$48 million) primarily to support its unfunded supplemental pension benefit plans.

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

**10. LEASES**
**Finance Leases**

FEI has finance leases related to vehicles.

**Office Facility Operating Leases**

The Corporation leases office facilities with remaining terms of 1 to 18 years. Most leases include renewal options with renewal terms that may extend the lease term from 1 to 20 years. Certain lease agreements include rental payments adjusted periodically for inflation or require the payment of real estate taxes, insurance, maintenance, or other operating expenses associated with the lease premises.

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

| (\$ millions)                  | Classification   | June 30, 2019 |
|--------------------------------|--|---------------|
| <b>Assets</b>                  |  |               |
| Long-term                      |  |               |
| Operating leases               | Other assets   | 6             |
| Finance leases                 | Property, plant and equipment, net                       | 2             |
| <b>Total leased assets</b>     |  | <b>8</b>      |
| <b>Liabilities</b>             |  |               |
| Current                        |  |               |
| Operating leases               | Accounts payable and other current liabilities           | 2             |
| Finance leases                 | Current portion of finance lease and finance obligations | 1             |
| Long-term                      |  |               |
| Operating leases               | Other liabilities  | 4             |
| Finance leases                 | Finance lease and finance obligations                    | 1             |
| <b>Total lease liabilities</b> |  | <b>8</b>      |

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

| (\$ millions)           | June 30, 2019 |
|-------------------------|---------------|
| Operating lease cost    | 1             |
| Finance lease cost      |               |
| Amortization            | 1             |
| Interest                | -             |
| <b>Total lease cost</b> | <b>2</b>      |

For the six months ended June 30, 2018, operating lease cost was \$1 million.

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

**10. LEASES (continued)**

As at June 30, 2019, the present value of the future cash flows required over the next five years and thereafter are as follows:

| (\$ millions)                               | Operating<br>Leases | Finance<br>Leases | Total |
|---|---------------------|-------------------|-------|
| 2019  | 1                   | 1                 | 2     |
| 2020  | 2                   | 1                 | 3     |
| 2021  | 1                   | -                 | 1     |
| 2022  | 1                   | -                 | 1     |
| 2023  | 1                   | -                 | 1     |
| Thereafter                                  | -                   | -                 | -     |
| Subtotal                                    | 6                   | 2                 | 8     |
| Less: amounts representing imputed interest | -                   | -                 | -     |
| Total operating and finance leases          | 6                   | 2                 | 8     |
| Less: current portion                       | 2                   | 1                 | 3     |
| Long-term portion                           | 4                   | 1                 | 5     |

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

| <b>Lease Term and Discount Rate</b>           | <b>June 30, 2019</b> |
|---|----------------------|
| Weighted-average remaining lease term (years) |                      |
| Operating leases                              | 4                    |
| Finance leases                                | 2                    |
| Weighted-average discount rate (%)            |                      |
| Operating leases                              | 3.0%                 |
| Finance leases                                | 4.3%                 |

| <b>Other Information</b>   | <b>June 30, 2019</b> |
|--|----------------------|
| (\$ millions)  |                      |
| Cash paid for amounts included in the measurement of lease liabilities   |                      |
| Operating cash flows from operating leases                               | (1)                  |
| Supplementary non-cash information                                       |                      |
| Right-of-use assets obtained in exchange for operating lease liabilities | 7                    |

In addition, the Corporation leases limited office facilities to others with remaining terms of 2 to 9 years. Most leases include one or more options to renew, with renewal terms that may extend the lease term for 5 to 10 years. These leases are classified as operating leases and income received is recorded to other revenue. Lease revenue received for the six months ended June 30, 2019 was not material to Consolidated Interim Financial Statements.

Lease payments to be received at June 30, 2019 are as follows:

| (\$ millions) | Operating Leases |
|---------------|------------------|
| 2019          | -                |
| 2020          | 1                |
| 2021          | 1                |
| 2022          | -                |
| 2023          | -                |
| Thereafter    | -                |
| Total         | 2                |