



FortisBC Energy Inc.

An indirect subsidiary of Fortis Inc.

Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2020 and 2019
(Unaudited)

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

ASSETS	June 30, 2020	December 31, 2019
Current assets		
Cash	\$ 8	\$ 3
Accounts receivable, net (notes 2, 9 and 11)	162	300
Inventories	42	36
Prepaid expenses	1	6
Regulatory assets (note 9)	65	47
Total current assets	278	392
Property, plant and equipment, net	5,031	4,959
Intangible assets, net	117	117
Regulatory assets	988	956
Other assets (note 9)	12	14
Goodwill	913	913
TOTAL ASSETS	\$ 7,339	\$ 7,351
LIABILITIES AND EQUITY		
Current liabilities		
Credit facilities (note 10)	\$ 85	\$ 138
Accounts payable and other current liabilities (note 9)	397	433
Current portion of finance lease and finance obligations	6	3
Regulatory liabilities (note 9)	36	62
Total current liabilities	524	636
Long-term debt (note 9)	2,774	2,774
Finance lease and finance obligations	34	39
Regulatory liabilities	174	161
Deferred income tax	587	551
Other liabilities (note 9)	268	268
Total liabilities	4,361	4,429
Equity		
Common shares	1,391	1,351
Additional paid-in capital	1,245	1,245
Retained earnings	333	316
Shareholder's equity	2,969	2,912
Non-controlling interests	9	10
Total equity	2,978	2,922
TOTAL LIABILITIES AND EQUITY	\$ 7,339	\$ 7,351

See accompanying notes to 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	
	2020	2019	2020	2019
Revenue (note 5)	\$ 248	\$ 235	\$ 714	\$ 720
Expenses				
Cost of natural gas	66	63	226	244
Operation and maintenance (note 11)	58	61	124	127
Property and other taxes	17	17	34	34
Depreciation and amortization	60	60	121	120
Total expenses	201	201	505	525
Operating income	47	34	209	195
Other income	14	27	16	30
Finance charges (note 6)	48	57	84	92
Earnings before income taxes	13	4	141	133
Income tax (recovery) expense	(6)	(12)	17	18
Net earnings	\$ 19	\$ 16	\$ 124	\$ 115

FortisBC Energy Inc.
Condensed Consolidated Statements of Changes in Equity (Unaudited)
For the six months ended June 30
(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	-	-	-	115	115
Net distribution to Mt. Hayes Storage LP Partners	-	-	(1)	-	(1)
Issuance of common shares	140	-	-	-	140
Dividends on common shares	-	-	-	(100)	(100)
As at June 30, 2019	1,351	1,245	9	299	2,904
As at December 31, 2019	1,351	1,245	10	316	2,922
Net earnings	-	-	-	124	124
Net distribution to Mt. Hayes Storage LP Partners	-	-	(1)	-	(1)
Issuance of common shares	40	-	-	-	40
Dividends on common shares	-	-	-	(107)	(107)
As at June 30, 2020	\$ 1,391	\$ 1,245	\$ 9	\$ 333	\$ 2,978

¹ 500 million authorized common shares with no par value; 341.2 million issued and outstanding at June 30, 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 and six months ended June 30
(in millions of Canadian dollars)

	Three months ended		Six months ended	
	2020	2019	2020	2019
Operating activities				
Net earnings	\$ 19	\$ 16	\$ 124	\$ 115
Adjustments for reconcile net earnings to cash from operating activities:				
Depreciation and amortization	60	60	121	120
Accrued employee future benefits	-	(1)	2	-
Equity component of allowance for funds used during construction	(1)	(2)	(1)	(3)
Deferred income tax, net of regulatory adjustments	(1)	-	(1)	-
Amortization of debt issue costs	1	-	1	-
Change in regulatory assets and liabilities	(22)	13	(29)	(8)
Change in working capital (note 8)	144	79	151	(39)
Cash from operating activities	200	165	368	185
Investing activities				
Property, plant and equipment additions (note 8)	(91)	(100)	(209)	(167)
Intangible asset additions	(5)	(5)	(7)	(7)
Contributions in aid of construction	2	1	3	3
Change in other assets and other liabilities	(15)	(12)	(27)	(22)
Cash used in investing activities	(109)	(116)	(240)	(193)
Financing activities				
Net repayment of credit facility	(47)	(139)	(53)	(29)
Deposit received for development expenditures	-	-	-	5
Repayment of finance lease and finance obligations	(1)	(1)	(2)	(2)
Net distributions to non-controlling interests	(1)	(1)	(1)	(1)
Issuance of common shares	-	140	40	140
Dividends on common shares	(54)	(50)	(107)	(100)
Cash (used in) from financing activities	(103)	(51)	(123)	13
Net change in cash	(12)	(2)	5	5
Cash at beginning of period	20	7	3	-
Cash at end of period	\$ 8	\$ 5	\$ 8	\$ 5

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

See accompanying notes to Condensed Consolidated Interim Financial Statements.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and six months ended June 30, 2020 and 2019

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 1,046,100 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 July 29, 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 June 30, 2020. Subsequent events have been appropriately disclosed in these Condensed Consolidated Interim Financial Statements.

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.

The Corporation records an allowance for credit losses to reduce accounts receivable for amounts estimated to be uncollectible. The credit loss allowance is estimated based on historical experience, current conditions, reasonable and supportable economic forecasts and accounts receivable aging. In addition to historical collection patterns, the Corporation considers customer class, customer size, economic indicators and certain other risk characteristics when evaluating the credit loss allowance. The Corporation’s change in the allowance for credit losses is described in note 11. Accounts receivable are written-off in the period in which the receivable is deemed uncollectible.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and six months ended June 30, 2020 and 2019

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

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 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 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. FEI will be filing an updated 2020 rate filing during the third quarter of 2020 reflecting the impacts of the MRP Decision. Interim rates will remain in place pending a final determination on 2020 rates by the BCUC. When combined with a decrease to FEI's midstream rates that was also approved in November 2019, residential rates decreased by 2.0 per cent effective January 1, 2020.

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 and six months ended June 30, 2020 and 2019

5. REVENUE
Disaggregation of Revenue

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

<i>(\$ millions)</i>	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Residential	130	117	404	411
Commercial	61	59	204	205
Industrial	17	10	41	22
Transportation	23	29	51	66
Total natural gas revenue	231	215	700	704
Other contract revenue ¹	3	3	6	7
Total revenue from contracts with customers	234	218	706	711
Alternative revenue	-	16	(6)	7
Other revenue ²	14	1	14	2
Total revenue	248	235	714	720

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

<i>(\$ millions)</i>	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Interest on long-term debt	35	33	70	67
Interest on short-term debt	1	2	2	4
Debt component of allowance for funds used during construction	(1)	(1)	(1)	(2)
Net interest on debt	35	34	71	69
Finance charges paid to FHI	13	23	13	23
Total finance charges	48	57	84	92

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and six months ended June 30, 2020 and 2019

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:

(\$ millions)	Three months ended June 30			
	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2020	2019	2020	2019
Service costs	8	5	1	1
Interest costs	6	7	1	1
Expected return on plan assets	(10)	(10)	-	-
Amortization:				
Actuarial losses	2	1	-	-
Past service credit	(1)	(1)	-	-
Regulatory adjustment	(1)	1	-	-
Net benefit cost	4	3	2	2

(\$ millions)	Six months ended June 30			
	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2020	2019	2020	2019
Service costs	15	10	2	2
Interest costs	13	13	2	2
Expected return on plan assets	(20)	(19)	-	-
Amortization:				
Actuarial losses	4	1	-	-
Past service credit	(1)	(1)	-	-
Regulatory adjustment	(3)	1	-	1
Net benefit cost	8	5	4	5

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.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and six months ended June 30, 2020 and 2019

8. SUPPLEMENTARY INFORMATION TO CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Significant Non-Cash Transactions

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
<i>(\$ millions)</i>				
Change in accrued capital expenditures	1	(18)	49	(20)
Change in regulated asset for deferred income tax	(26)	(14)	(36)	(29)
Change in fair value of derivative instruments (note 9)	4	3	4	20

Change in Working Capital

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
<i>(\$ millions)</i>				
Accounts receivable	112	178	138	76
Inventories	(25)	(6)	(6)	11
Prepaid expenses	2	1	5	3
Accounts payable and other current liabilities	55	(94)	14	(129)
Change in working capital per Statements of Cash Flows	144	79	151	(39)

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

	As at June 30	
<i>(\$ millions)</i>	2020	2019
Accrued capital expenditures	25	35

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and six months ended June 30, 2020 and 2019

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)	June 30, 2020	December 31, 2019
Assets		
<i>Current</i>		
Natural gas contracts subject to regulatory deferral ¹	13	11
<i>Long-term</i>		
Natural gas contracts subject to regulatory deferral ¹	1	2
Total assets	14	13
Liabilities		
<i>Current</i>		
Natural gas contracts subject to regulatory deferral ¹	(9)	(11)
<i>Long-term</i>		
Natural gas contracts subject to regulatory deferral ¹	-	(1)
Total liabilities	(9)	(12)
Total assets, net	5	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:

(\$ millions)	June 30, 2020			
	Gross Amount Recognized in Balance Sheet	Gross Amount Not Offset in Balance Sheet		Net Amount
Counterparty Netting of Natural Gas Contracts ¹		Cash Collateral Posted		
Natural gas contracts subject to regulatory deferral:				
Accounts receivable	13	(8)	10	15
Other assets	1	-	-	1
Accounts payable and other current liabilities	(9)	8	-	(1)

¹ 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, 2020 and 2019

9. FINANCIAL INSTRUMENTS (continued)

<i>(\$ millions)</i>	December 31, 2019				
	Gross Amount Recognized in Balance Sheet	Gross Amount Not Offset in Balance Sheet			Net Amount
		Counterparty Netting of Natural Gas Contracts ¹	Cash Collateral Posted	-	
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 June 30, 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:

<i>(\$ millions)</i>	June 30, 2020	December 31, 2019
Unrealized net gain recorded to current regulatory liabilities	5	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 June 30, 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:

<i>(petajoules)</i>	June 30, 2020	December 31, 2019
Natural gas physically-settled supply contracts	231	241
Natural gas financially-settled commodity swaps	-	6

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and six months ended June 30, 2020 and 2019

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:

(\$ millions)	Fair Value Hierarchy	June 30, 2020		December 31, 2019	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt ¹	Level 2	2,795	3,698	2,795	3,527

¹ Carrying value excludes unamortized debt issuance costs.

10. GUARANTEES

The Corporation had letters of credit outstanding at June 30, 2020 totaling \$49 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. The uncommitted letter of credit facility was approved by the BCUC in February 2020 and executed in March 2020, and provides FEI with additional liquidity to issue letters of credit for general corporate purposes. The facility matures in March 2022.

11. ALLOWANCE FOR CREDIT LOSSES

Accounts receivable are recorded net of an allowance for credit losses. The credit loss allowance recorded for the six months ended June 30, 2020 took into account current and forecasted economic conditions. The Corporation has recognized approximately \$6 million in these Condensed Consolidated Interim Financial Statements as an additional adjustment to the allowance against accounts receivable, with an offsetting increase in regulatory assets.

The change in the allowance for credit losses balance is as follows:

(\$ millions)	Six months ended June 30
	2020
Beginning of period	(7)
Provision for expected credit losses	(8)
End of period	(15)