FORTISBC ENERGY INC.

MANAGEMENT DISCUSSION & ANALYSIS

For the quarter and six months ended June 30, 2026

July 30, 2026

The following FortisBC Energy Inc. ("FEI" or the "Corporation") Management Discussion & Analysis ("MD&A") has been prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. Financial information for 2026 and comparative periods contained in the following MD&A has been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and is presented in Canadian dollars. The MD&A should be read in conjunction with the Corporation's Unaudited Condensed Consolidated Interim Financial Statements and notes thereto ("Interim Financial Statements") for the quarter and six months ended June 30, 2026, prepared in accordance with US GAAP and the Corporation's Annual Audited Consolidated Financial Statements and notes thereto together with the MD&A for the year ended December 31, 2025, with 2024 comparatives, prepared in accordance with US GAAP.

In this MD&A, FHI refers to the Corporation's parent, FortisBC Holdings Inc., FBC refers to FortisBC Inc., FAES refers to FortisBC Alternative Energy Services Inc, and Fortis refers to the Corporation's ultimate parent, Fortis Inc.

FORWARD-LOOKING STATEMENT

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

The forward-looking information in this MD&A includes, but is not limited to, statements regarding the Corporation's expected level of capital expenditures, including forecasted project costs and the potential impact of new or revised tariffs on forecast and actual capital expenditures, and its expectations to finance those capital expenditures through credit facilities, equity injections from FHI, and debenture issuances; the Corporation's estimated contractual obligations; a BCUC decision on the annual review filing for 2027 delivery rates; the expectation that the Environmental Assessment process for the Tilbury Phase 2 LNG Expansion Project will not have a material impact on the Corporation's 2026 projected capital expenditures; and the expectation that any applicable Accounting Standards Updates ("ASU") issued by the Financial Accounting Standards Board ("FASB") that are not included in the Corporation's Interim Financial Statements will not have a material impact.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include but are not limited to: receipt of applicable regulatory approvals and requested rate orders (including absence of administrative monetary penalties); the competitiveness of natural gas pricing when compared with alternate sources of energy; continued demand for natural gas; absence of significant climate change impacts; absence of adverse weather conditions and natural disasters; absence of environmental, health and safety issues; the ability to maintain, replace or expand the Corporation's assets at a cost that is not impacted by the potential of new or revised tariffs; the availability of natural gas supply; the ability to obtain and maintain applicable permits; that the Indigenous engagement process will not delay or otherwise impact the Corporation's ability to obtain government or regulatory approvals; the adequacy of the Corporation's existing insurance arrangements; the ability to arrange sufficient and cost effective financing (including absence of adverse rating actions by credit rating agencies); absence of significant interest costs; continued energy demand, population growth and new housing starts; the absence of significant counterparty credit issues resulting in non-performance by counterparties; the ability of the Corporation to attract and retain a skilled workforce; the ability to maintain and renew collective bargaining agreements on acceptable terms; no material change in employee future benefit costs; absence of significant information technology infrastructure failure; absence of cybersecurity failure; absence of pandemic and public health crises impacts; the ability to continue to report under US GAAP beyond the Canadian securities regulators exemption that expires January 1, 2031; and the absence of damages, fines, or penalties arising from legal, administrative and other proceedings.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory approval and rate orders risk (including the risk of imposition of administrative monetary penalties); natural gas competitiveness risk; commodity price risk; climate change risk; weather and natural disasters risk; environment, health and safety matters risk; asset breakdown, operation, maintenance and expansion risk; natural gas supply risk; permits risk; risks related to Indigenous rights and engagement; underinsured and uninsured losses; capital resources and liquidity risk; interest costs risk; impact of changes in economic conditions risk; counterparty credit risk; human resources risk; labour relations risk; employee future benefits risk; information technology infrastructure risk; cybersecurity risk; pandemic and public health crises risk; continued reporting in accordance with US GAAP risk; legal, administrative and other proceedings risk; and other risks described in the Corporation's most recent Annual Information Form ("AIF"). For additional information with respect to these risk factors, reference should be made to the "Business Risk Management" section of the Corporation's MD&A and AIF for the year ended December 31, 2025.

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

CORPORATE OVERVIEW

The Corporation is the largest distributor of natural gas in British Columbia ("BC"), serving approximately 1,108,900 residential, commercial, industrial, and transportation customers through approximately 51,870 kilometers of natural gas pipelines. The Corporation provides transmission and distribution services to its customers and obtains natural gas and Renewable Natural Gas ("RNG") supplies on behalf of most residential, commercial, and industrial customers. Natural gas supplies are sourced primarily from northeastern BC and, through the Corporation's Southern Crossing Pipeline, from Alberta.

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

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

REGULATION

Rate Framework for 2025 to 2027 ("Rate Framework")

In March 2025, the BCUC issued its decision on FEI and FBC's application requesting approval of a Rate Framework for the years 2025 to 2027. The Rate Framework builds upon the 2020-2024 Multi-Year Rate Plan ("MRP") and for FEI includes, amongst other items, updates to depreciation and capitalized overhead rates, a revised 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 and other capital, continued collection of an innovation fund recognizing the need to accelerate investment in clean energy innovation, an updated set of service quality indicators designed to ensure the Corporation maintains service levels, and a continued 50/50 sharing between customers and the Corporation of variances from the allowed return on equity ("ROE"). The Rate Framework also includes a continuation of the main deferral mechanisms that were in place under the MRP.

In December 2025, the BCUC approved a 2026 delivery rate increase of 10.13 percent over 2025 rates, and a 2026 forecast average rate base of $6,838 million. In July 2026, FEI filed an annual review for 2027 delivery rates, requesting approval of a 2027 delivery rate increase of 3.43 percent over 2026 rates, and a 2027 forecast average rate base of $7,539 million. A decision is expected in the fourth quarter of 2026.

Customer Rates and Deferral Mechanisms

Customer rates include both the delivery charge and the cost of natural gas, consisting of the commodity cost, and the storage and transport cost. The Corporation's customer rates are based on estimates and forecasts. In order to manage the variances from forecast associated with some of these estimates and to manage volatility in rates, a number of regulatory deferral accounts are in place.

Variances from regulated forecasts used to set rates for natural gas revenue and cost of natural gas are flowed back to customers in future rates through approved regulatory deferral mechanisms and therefore these variances do not have an impact on net earnings for the periods ended June 30, 2026 and 2025.

FEI reviews the costs of natural gas with the BCUC either quarterly or annually to ensure the rates passed on to customers are fair and reflect actual costs. FEI has received approval to maintain the same commodity rate each quarter since January 1, 2024, and received approval to decrease the commodity rate effective April 1, 2026, which was maintained as of July 1, 2026. FEI received approval to increase the storage and transport rate effective January 1, 2026.

Under the Rate Framework for 2025-2027, the BCUC has approved certain regulatory deferral mechanisms, including those that capture revenue shortfalls and incremental costs incurred beyond the control of the Corporation. These deferral mechanisms capture variances from regulated forecasts and flow them through customer rates in subsequent years. Variances from the allowed ROE, including most components of operating and maintenance costs, as well as variances in the utility's regulated rate base amounts, are shared.

Directions to the BCUC

In July 2026, the BC provincial government amended an Order of the Lieutenant Governor in Council ("2013 OIC"), directing the BCUC to allow the Corporation to recover the costs associated with the Tilbury Phase 1B Expansion Project at Tilbury Island in Delta, BC. The amendments include, among other things, the ability for FEI to include capital costs up to $2,200 million in its rate base, the ability to include a marine jetty and a power line connection within the amount allowed to be included in FEI's rate base, a new marine rate schedule and the approvals necessary to implement an equity partnership with First Nations. The amendment continues to exempt FEI from the requirement to obtain a Certificate of Public Convenience and Necessity ("CPCN") for the Phase 1B Expansion.

CONSOLIDATED RESULTS OF OPERATIONS

	Quarter ended			Six months ended		
Periods ended June 30	**2026**	2025	Variance	**2026**	2025	Variance
Gas sales *(petajoules)*	**39**	42	(3)	**115**	123	(8)
($ millions)						
Revenue	**388**	367	21	**1,078**	1,007	71
Cost of natural gas	**91**	96	(5)	**325**	316	9
Operation and maintenance	**91**	81	10	**175**	164	11
Property and other taxes	**22**	22	-	**44**	44	-
Depreciation and amortization	**103**	89	14	**206**	178	28
Total expenses	**307**	288	19	**750**	702	48
Operating income	**81**	79	2	**328**	305	23
Add: Other income	**14**	12	2	**26**	23	3
Less: Finance charges	**37**	37	-	**75**	77	(2)
Earnings before income taxes	**58**	54	4	**279**	251	28
Income tax expense	**10**	9	1	**61**	52	9
Net earnings	**48**	45	3	**218**	199	19
Net earnings attributable to non-controlling interests	**1**	1	-	**1**	1	-
Net earnings attributable to controlling interest	**47**	44	3	**217**	198	19

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the quarter ended June 30, 2026 as compared to June 30, 2025:

Quarter		
Item	**Increase (Decrease)** *($ millions)*	**Explanation**
Net earnings attributable to controlling interest	**3**	Net earnings attributable to controlling interest for the quarter ended June 30, 2026 was $47 million compared to $44 million for the same period in 2025. The increase was primarily due to a higher investment in regulated assets, partially offset by higher operating costs compared to the same period in 2025, the variances of which are retained by the utility. Both 2026 and 2025 net earnings are based on an allowed ROE of 9.65 percent and a deemed equity component of capital structure of 45 percent.

Quarter		
Item	**Increase (Decrease)** *($ millions)*	**Explanation**
Revenue	**21**	The increase in revenue was primarily due to: • an increase in delivery revenue approved for rate-setting purposes, partially resulting from a higher investment in regulated assets, • an increase in the recovery of the Midstream Cost Reconciliation Account (“MCRA”) gas storage and transport cost regulatory liability, as approved by the BCUC, compared to the prior year, and • an increase in revenue associated with regulatory deferrals, partially offset by • a lower cost of natural gas recovered from customers, as approved by the BCUC. Gas sales volumes were lower than the same quarter in the previous year primarily due to lower consumption by transportation, residential, and commercial customers, partially offset by higher consumption by LNG customers. Variances between revenue associated with actual consumption and revenue forecasted for rate-setting purposes are captured either in the Revenue Stabilization Adjustment Mechanism (“RSAM”) deferral account or the flow-through deferral account, for which the income statement offsets are recognized in alternative revenue and other revenue, resulting in no net impact on total revenue compared to what is approved in rates in the current year.
Cost of natural gas	**(5)**	The decrease was primarily due to: • a lower commodity cost, approved by the BCUC, of $1.660 per GJ for the second quarter of 2026, as compared to $2.230 per GJ for the second quarter of 2025, and • a decrease in total consumption by those customers receiving bundled natural gas services from FEI, which includes both delivery service and the supply of gas commodity, partially offset by • an increase in the recovery of the MCRA gas storage and transport cost regulatory liability, as approved by the BCUC, compared to the prior year, and, • a higher storage and transport cost, approved by the BCUC, of $1.347 per GJ for the second quarter of 2026, as compared to $1.260 per GJ for the second quarter of 2025. Customers that purchase bundled services from FEI require the Corporation to not only provide delivery service, but also provide the gas commodity, which entails managing the commodity portfolio including the costs to procure, store and transport the gas. During the second quarter of 2026, volumes provided to customers under bundled services and customers that received only delivery service were both lower compared to the same quarter in 2025. Although total sales volumes were lower, only the lower volumes provided to customers under bundled services drove a lower cost of natural gas in the second quarter of 2026.

Quarter		
Item	**Increase (Decrease)** *($ millions)*	**Explanation**
Operation and maintenance	**10**	The increase was primarily due to inflationary increases and the timing of incurring operating costs that are shared with customers, as well as higher costs associated with LNG production and FEI's integrity management program, the variances of which are flowed through to customers, and higher costs, the variances of which are retained by the utility.
Depreciation and amortization	**14**	The increase was primarily due to higher amortization of regulatory assets and a higher depreciable asset base compared to 2025.

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the six months ended June 30, 2026 as compared to June 30, 2025:

Six Months		
Net earnings attributable to controlling interest	**19**	Net earnings attributable to controlling interest for the six months ended June 30, 2026 were $217 million compared to $198 million for the same period in 2025. The increase was primarily due to: • higher investment in regulated assets, and • higher favourable variances, primarily attributable to timing of operation and maintenance expenses as compared to those allowed in rates, net of amounts shared with customers, as compared to the same period in 2025, partially offset by • higher operating costs compared to the same period in 2025, which are retained by the utility. Both 2026 and 2025 net earnings are based on an allowed ROE of 9.65 percent and a deemed equity component of capital structure of 45 percent.
Revenue	**71**	The increase in revenue was primarily due to the same reasons as identified in the quarter. Gas sales volumes were lower compared to the same period in the previous year primarily due to the same reasons as identified in the quarter.
Cost of natural gas	**9**	The increase was primarily due to: • an increase in the recovery of the MCRA gas storage and transport cost regulatory liability, as approved by the BCUC, compared to the prior year, and • a higher storage and transport cost, approved by the BCUC, of $1.347 per GJ for the first six months of 2026, as compared to $1.260 per GJ for the first six months of 2025, partially offset by • a decrease in total consumption by those customers receiving bundled natural gas services from FEI, which includes both delivery service and the supply of gas commodity, and • a lower commodity cost, approved by the BCUC, of $1.660 per GJ for the second quarter of 2026, as compared to $2.230 per GJ for the second quarter of 2025.
Operation and maintenance	**11**	The increase was primarily due to the same reasons as identified in the quarter.

Six Months		
Depreciation and amortization	**28**	The increase was primarily due to the same reasons as identified in the quarter.
Income tax expense	**9**	The increase was primarily due to higher earnings before income taxes and higher taxable temporary differences associated with certain regulatory assets and liabilities, partially offset by higher deductible temporary differences associated with property, plant and equipment which were primarily driven by the March 2026 enactment of the Reaccelerated Investment Incentive ("RII") tax measure that enhances the first year Capital Cost Allowance ("CCA") deduction.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth quarterly information for each of the eight quarters ended September 30, 2024 through June 30, 2026. Past operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Quarter ended	Revenue	Net Earnings (Loss)[1]
($ millions)		
June 30, 2026	388	47
March 31, 2026	690	170
December 31, 2025	571	132
September 30, 2025	276	(1)
June 30, 2025	367	44
March 31, 2025	640	154
December 31, 2024	517	118
September 30, 2024	241	(6)

[1] Net earnings (loss) attributable to controlling interest.

A summary of the past eight quarters reflects the seasonality associated with the Corporation's business. Due to the seasonal nature of natural gas consumption patterns based on weather and its impact on revenues, the natural gas transmission and distribution operations of FEI normally generate 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. 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. From time to time the Corporation has implemented tax loss utilization plans ("TLUP"), which would have an impact on earnings recognized during interim periods depending on the timing of implementing such structures.

June 2026/2025 – Net earnings were higher primarily due to a higher investment in regulated assets, partially offset by higher operating costs, the variances of which are retained by the utility.

March 2026/2025 – Net earnings were higher primarily due to a higher investment in regulated assets, as well as timing of operating costs.

December 2025/2024 – Net earnings were higher due to a higher investment in regulated assets, partially offset by lower favourable regulated variances, primarily attributable to operation and maintenance expenses, as compared to those allowed in rates, net of amounts shared with customers, as compared to the same period in 2024.

September 2025/2024 – Net loss was lower due to a higher investment in regulated assets, higher favourable regulated variances, primarily attributable to timing of operation and maintenance expenses as compared to those allowed in rates, net of amounts shared with customers, as compared to the same period in 2024, and lower operating costs, the variances of which are retained by the utility.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the Consolidated Balance Sheets between June 30, 2026 and December 31, 2025:

Balance Sheet Account	Increase (Decrease) *($ millions)*	Explanation
Accounts receivable and other current assets	**(139)**	The decrease was primarily due to lower trade receivables, primarily as a result of seasonality of revenues, as well as lower gas cost mitigation receivables, partially offset by a change in the fair value of natural gas derivatives.
Prepaid expenses	**45**	The increase was primarily due to the payment of annual property taxes during the second quarter of 2026.
Regulatory assets (current and long-term)	**50**	The increase was primarily due to: • an increase in regulated deferred income tax liabilities, the offset of which has been deferred as a regulatory asset, • a higher MCRA regulatory asset due to midstream costs exceeding amounts collected in customer rates offset by mitigation activities, • an increase in Demand Side Management ("DSM") due to expenditures during the period, and • an increase in the Rate Stabilization Adjustment Mechanism account ("RSAM") due to variances in gas use for residential and commercial customers, partially offset by • a decrease in the RNG variance account due to the transfer of RNG mitigation revenue from regulatory liabilities, and by amounts recovered in customer rates exceeding costs incurred to acquire RNG.
Property, plant and equipment, net	**252**	The increase was primarily due to capital expenditures of $846 million incurred, $17 million in equity AFUDC capitalized, and changes in accrued capital expenditures of $127 million, less: • depreciation expense, excluding net salvage provision, of $108 million, • contributions in aid of construction (“CIAC”) recognized, including certain amounts provided by Woodfibre LNG, of $492 million, • changes in deposits received from Woodfibre LNG, and allocated to property, plant and equipment, of $130 million, and • costs of removal of $8 million incurred, which are recognized against the net salvage provision in regulatory liabilities.

Balance Sheet Account	Increase (Decrease) *($ millions)*	Explanation
Credit facilities	**(70)**	The decrease was primarily a result of repayments on credit facilities using proceeds from a $100 million equity injection from the Corporation's parent company, FHI, as well as from proceeds from the receipt of cash deposits relating to construction costs to be incurred for the EGP Project, partially offset by borrowings on credit facilities to fund the debt component of the Corporation's capital expenditure program and to repay the $150 million Series 27 Debenture that matured in April 2026.
Accounts payable and other current liabilities	**149**	The increase was primarily due to: • an increase in accrued capital expenditures, • higher net cash deposits held relating to construction costs to be incurred for the EGP Project, and • higher income taxes payable, partially offset by • an decrease in gas cost payables, as a result of a lower cost of gas and a lower volume of natural gas purchased, and • a seasonal decrease in credit balances related to customer payment plan arrangements.
Long-term debt (current and long-term)	**(150)**	The decrease is a result of repayment of the $150 million Series 27 Debenture that matured in April 2026.
Regulatory liabilities (current and long-term)	**59**	The increase was primarily due to: • an increase in the net salvage provision, • an increase in the emissions regulations deferral account due to the sale of carbon credits generated under Clean Fuel Regulations, and • an increase in the flow-through deferral account related to variances from regulated forecast items, partially offset by • a decrease in the CCRA regulatory liability due to commodity costs exceeding costs recovered in customer rates.
Deferred income tax	**40**	The increase was primarily due to higher deductible temporary differences associated with property, plant and equipment, which were primarily driven by the March 2026 enactment of the RII tax measure that enhances the first year CCA deduction, and the utilization of carried-forward losses, partially offset by higher taxable temporary differences associated with certain regulatory assets and liabilities.
Common shares	**100**	The increase was due to a $100 million equity issuance during the first quarter of 2026, the proceeds of which were used to repay credit facilities in support of the equity component of FEI's capital expenditure program.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Requirements and Liquidity

In the normal course of operations, the Corporation’s cash flow requirements fluctuate seasonally based primarily on natural gas consumption. The Corporation maintains a committed credit facility that adequately meets any working capital deficiencies not funded through cash flow from operations, and for financing the debt component of the Corporation’s capital expenditure program.

It is expected that operating expenses, interest costs, and other working capital will generally be paid out of operating cash flows, with varying levels of residual cash available for capital expenditures and dividend payments. Cash flow is also required to fund capital expenditure programs; pre-development capital costs; regulated deferral accounts, and those regulatory mechanisms that capture revenue shortfalls and incremental costs incurred beyond the control of the Corporation; and investments in DSM. Funding requirements are expected to be financed from a combination of cash flow from operations, borrowings under the credit facility, equity injections from FHI and long-term debenture issuances in accordance with the deemed regulatory capital structure approved by the BCUC of 45 percent equity and 55 percent debt, and in certain circumstances, funding provided by CIAC for certain capital expenditures.

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

Summary of Consolidated Cash Flows

Six months ended June 30	**2026**	2025	Variance
($ millions)			
Cash flows from (used in)			
Operating activities	**674**	559	115
Investing activities	**(404)**	(407)	3
Financing activities	**(281)**	(158)	(123)
Net change in cash	**(11)**	(6)	(5)

Operating Activities
Cash from operating activities was $115 million higher compared to the same period in 2025, primarily due to higher net earnings after non-cash adjustments, and changes in working capital, driven primarily by changes in accounts payable due to timing of payments.

Investing Activities
Cash used in investing activities was $3 million lower compared to the same period in 2025 primarily due to lower net capital expenditures after CIAC, which was primarily a result of timing of sustaining capital expenditures, and changes in accrued capital expenditures during 2026 compared to the same period in 2025, partially offset by lower DSM expenditures. Construction costs on the EGP Project included in capital expenditures were funded through contributions received from Woodfibre LNG recognized as CIAC for no impact on investing activities in both 2026 and 2025.

Financing Activities
Cash used in financing activities was $123 million higher compared to the same period in 2025 primarily due to a smaller equity issuance between periods from a $100 million issuance of common shares during 2026 compared to a $225 million issuance of common shares during 2025, as well as repayment of the $150 million Series 27 Debenture that matured in April 2026, partially offset by lower net repayments on the credit facility.

During the six months ended June 30, 2026, FEI paid common share dividends of $160 million (2025 - $133 million) to its parent company, FHI.

Contractual Obligations
The Corporation's contractual obligations have not materially changed from those disclosed in the MD&A for the year ended December 31, 2025.

Credit Ratings
There have been no changes to the Corporation's credit ratings from those disclosed in the MD&A for the year ended December 31, 2025, which are summarized in the table below:

Rating Agency	Credit Rating	Type of Rating	Outlook
Morningstar DBRS	A	Unsecured Debentures	Stable
Moody's	A3	Unsecured Debentures	Stable

Credit Facilities and Debentures

Credit Facilities
In July 2026, the Corporation extended the maturity date of its $900 million syndicated operating credit facility to July 2031 and removed the Sustainability Linked Loan component from the operating credit facility. In March 2026, the Corporation amended its uncommitted letter of credit facility to $40 million, and extended the maturity date to March 2027.

The following summary outlines the Corporation's credit facilities:

($ millions)	**June 30, 2026**	December 31, 2025
Operating credit facility	**900**	900
Letter of credit facility	**40**	55
Draws on operating credit facility	**(325)**	(395)
Letters of credit outstanding	**(37)**	(39)
Credit facilities available	**578**	521

Debentures
In April 2026, the Corporation repaid the $150 million Series 27 Debenture that matured on April 8, 2026 using cash on hand and through proceeds from its operating credit facility.

PROJECTED CAPITAL EXPENDITURES

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

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

The 2026 projected capital expenditures are approximately $1,151 million, inclusive of AFUDC and excluding customer CIAC. During 2026, approximately $466 million in deposit funding from Woodfibre LNG is expected to be recognized as CIAC related to the EGP Project. The Corporation's projected capital expenditures are necessary to provide service, public and employee safety, and reliability of supply of natural gas to the Corporation's customer base. In addition to the rate base amounts approved in annual regulatory decisions, multi-year projects under construction earn a regulated return. The 2026 projected capital expenditures are dependent on several factors, including the potential impact of new or revised tariffs and the timing of spending on multi-year capital projects, based in part on the timing of any remaining regulatory and permitting approvals required for certain projects. The annual 2025 capital expenditures were $1,261 million, inclusive of AFUDC and excluding CIAC.

Also included in these 2026 projected capital expenditures are more significant projects, including the AMI Project, the Transmission Integrity Management Capabilities ("TIMC") Project, the Tilbury LNG Storage Expansion ("TLSE") Project, the ERP Modernization and CIS Replacement Project, the Tilbury Phase 1B Expansion Project, the EGP Project, and Other Capital Projects, which were described in the MD&A for the year ended December 31, 2025.

FEI's disclosure around its significant capital projects has not changed materially from those disclosed in the MD&A for the year ended December 31, 2025, with the exception of the following updates:

Enterprise Resource Planning ("ERP") Modernization and Customer Information System ("CIS") Replacement Project
The FEI and FBC joint application for approval of capital expenditures related to a joint ERP Modernization Project and a CIS Replacement Project for FBC was approved by the BCUC in June 2026 substantially as filed.

TLSE and Other Capital Projects
In March 2026, in conjunction with FEI's parent company FHI, a revised Environmental Assessment Application for the Tilbury Phase 2 LNG Expansion Project was accepted by the BC Environmental Assessment Office. This revised application incorporates updates from various stakeholders during the application review phase and covers the increase to storage capacity and strengthening of the resiliency of FEI's gas system, as included in the TLSE Project approved by the BCUC under a separate CPCN process, as well as enabling additional liquefaction capacity and further expansion of the Tilbury site. The Environmental Assessment process will continue throughout 2026, and is not expected to have a material impact on FEI's total 2026 projected capital expenditures.

DSM Expenditures Plan
In July 2026, FEI received approval from the BCUC to include additional incremental expenditures of $86 million for 2026 and 2027 in the DSM Expenditures Plan.

RELATED PARTY TRANSACTIONS

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

Related Party Recoveries
The amounts charged to related parties were as follows:

	Quarter ended June 30		Six months ended June 30	
($ millions)	**2026**	2025	**2026**	2025
Operation and maintenance expense charged to FBC (a)	**4**	3	**7**	6
Operation and maintenance expense charged to FHI (b)	**1**	1	**1**	1
Total related party recoveries	**5**	4	**8**	7

(a) The Corporation charged FBC for natural gas sales, management services, and other labour.

(b) The Corporation charged FHI for office rent, management services, and other labour.

Related Party Costs
The amounts charged by related parties were as follows:

	Quarter ended June 30		Six months ended June 30	
($ millions)	**2026**	2025	**2026**	2025
Operation and maintenance expense charged by FHI (a)	**4**	4	**8**	8
Operation and maintenance expense charged by FBC (b)	**2**	2	**4**	4
Total related party costs	**6**	6	**12**	12

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

(b) FBC charged the Corporation for office rent, electricity purchases, management services, and other labour.

Balance Sheet Amounts
The amounts due from related parties, included in accounts receivable and other current assets, and the amounts due to related parties, included in accounts payable and other current liabilities, were as follows:

	June 30, 2026		December 31, 2025	
($ millions)	**Amount Due From**	**Amount Due To**	Amount Due From	Amount Due To
FHI	**-**	**-**	-	(1)
FBC	**-**	**-**	-	(1)
Total due from (due to) related parties	**-**	**-**	-	(2)

FEI has also recognized an operating lease for an office building owned by FBC, which is included in long-term other assets in the amount of $7 million (December 31, 2025 - $ nil), accounts payable and other current liabilities in the amount of $ nil (December 31, 2025 - $ nil) and long-term other liabilities in the amount of $7 million (December 31, 2025 - $ nil).

FINANCIAL INSTRUMENTS

Derivative Instruments
There were no material changes with respect to the nature and purpose, methodologies for fair value determination, and carrying values of the Corporation's natural gas contract derivatives from that disclosed in the MD&A for the year ended December 31, 2025. Additional details are provided in the notes to the Interim Financial Statements.

As at June 30, 2026, natural gas contract derivatives 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, 2026**	December 31, 2025
Unrealized net loss recorded to current regulatory assets	**61**	58

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

Financial Instruments Not Measured at Fair Value

The following table includes the carrying value, excluding unamortized debt issuance costs, and estimated fair value of the Corporation's current and long-term portion of debt:

		As at			
		June 30, 2026		December 31, 2025	
($ millions)	Fair Value Hierarchy	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long-term debt	Level 2	**3,345**	**3,248**	3,495	3,398

ACCOUNTING MATTERS

New Accounting Policies

FEI considers the applicability and impact of all ASUs issued by FASB. During the six months ended June 30, 2026, there were no ASUs issued by FASB that have a material impact on these Interim Financial Statements.

Future Accounting Pronouncements

The following updates have been issued by FASB but have not yet been adopted by the Corporation. Any ASUs issued by FASB that are not included in the 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 Interim Financial Statements.

Disaggregation of Income Statement Expenses

ASU No. 2024-03, *Disaggregation of Income Statement Expenses*, issued in November 2024, is effective for the Corporation's December 31, 2027 annual financial statements, and for interim periods beginning in 2028 on a prospective basis, with retrospective application and early adoption permitted. The ASU requires entities to disclose disaggregated information about five expense categories underlying its income statement line items. The Corporation is assessing the impact of adoption of this ASU on the disclosures to its consolidated financial statements.

Targeted Improvements to the Accounting for Internal-Use Software

ASU No. 2025-06, *Targeted Improvements to the Accounting for Internal-Use Software*, issued in September 2025, is effective for the Corporation's December 31, 2028 annual financial statements, and may be adopted prospectively, retrospectively, or using a modified transition approach, with early adoption permitted. The ASU removes references to development stages and requires capitalization of software costs once funding is authorized and project completion is probable, including assessment of whether significant development uncertainty exists. The guidance also clarifies that all capitalized internal-use software costs must follow the disclosure requirements in ASC Topic 360, *Property, Plant and Equipment*. The Corporation is assessing the impact of adoption of this ASU on its consolidated financial statements.

OTHER DEVELOPMENTS

Collective Agreements

There are two collective agreements between the Corporation and Local 378 of the Canadian Office and Professional Employees Union now referred to as MoveUP. The first collective agreement, representing employees in specified occupations in the areas of administration and operations support, was ratified in October 2024 and expires on June 30, 2028. The second collective agreement, representing customer service employees was ratified during June 2023 and expires on March 31, 2027.

The collective agreement between the Corporation and Local 213 of the International Brotherhood of Electrical Workers ("IBEW") was ratified in October 2025 and expires on March 31, 2029. The IBEW represents employees in specified occupations in the areas of transmission and distribution.

BUSINESS RISK MANAGEMENT

The business risks of the Corporation remain substantially unchanged from those outlined in the Corporation's MD&A for the year ended December 31, 2025, other than the following update to the "Continued Reporting in Accordance with US GAAP" risk.

Continued Reporting in Accordance with US GAAP

In May 2026, the Corporation's principal securities regulator, the British Columbia Securities Commission ("BCSC") approved an extension of the Corporation's exemptive relief order which permits the Corporation to continue reporting in accordance with US GAAP until the earliest of: (i) January 1, 2032; (ii) the first day of the Corporation's financial year that commences after the Corporation ceases to have rate-regulated activities; and (iii) the first day of the Corporation's financial year that commences on or following the later of (a) the effective date prescribed by the International Accounting Standards Board ("IASB") for a Mandatory Rate-regulated Standard; and (b) four years after the IASB publishes the final version of such standard.

Also in May 2026, the IASB issued a Mandatory Rate-regulated Standard, IFRS 20, *Regulatory Assets and Regulatory Liabilities*, which has an effective date of January 1, 2029. As a result of the release of IFRS 20, the current exemptive relief to continue reporting in accordance with US GAAP will expire on January 1, 2031. The Corporation is assessing the impact of a potential future requirement to adopt IFRS Accounting Standards as issued by the IASB.

OUTSTANDING SHARE DATA

As at the filing date of this MD&A, the Corporation had issued and outstanding 424,446,072 common shares, all of which are owned by FHI, a directly wholly-owned subsidiary of Fortis.

ADDITIONAL INFORMATION

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

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