FortisBC Inc.

An indirect subsidiary of Fortis Inc.

Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2018 and 2017
(Unaudited)

Prepared in accordance with accounting principles generally accepted in the United States of America

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

ASSETS	September 30, 2018	December 31, 2017
Current assets		
Accounts receivable (note 10)	$ 44	$ 51
Prepaid expenses	8	2
Other assets	1	1
Regulatory assets	6	5
Total current assets	59	59
Property, plant and equipment, net	1,524	1,497
Intangible assets, net	56	57
Regulatory assets	350	335
Other assets	6	6
Goodwill	235	235
TOTAL ASSETS	$ 2,230	$ 2,189
LIABILITIES AND EQUITY		
Current liabilities		
Credit facilities	$ 53	$ 54
Accounts payable and other current liabilities	76	61
Income taxes payable	2	1
Current portion of capital lease obligations	1	1
Regulatory liabilities	14	7
Total current liabilities	146	124
Long-term debt (note 7)	729	729
Capital lease obligations	327	319
Regulatory liabilities	18	15
Pension and other post-employment benefits (note 5)	61	62
Deferred income taxes	171	167
Other liabilities	2	2
Total liabilities	1,454	1,418
Contingencies (note 8)		
Equity		
Common shares	219	219
Additional paid-in capital	322	322
Retained earnings	235	230
Total equity	776	771
TOTAL LIABILITIES AND EQUITY	$ 2,230	$ 2,189

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

FORTIS BC™

FortisBC Inc.
Condensed Consolidated Statements of Earnings (Unaudited)
For the three and nine months ended September 30
(in millions of Canadian dollars)

	Three months ended **2018**	2017	Nine months ended **2018**	2017
Revenues				
Revenue from contracts with customers	**$ 91**	$ 87	**$ 283**	$ 269
Alternative revenue	**(1)**	-	**(8)**	-
Other revenue	**2**	3	**9**	10
Total revenues (notes 2 and 10)	**92**	90	**284**	279
Expenses				
Power purchase costs	**33**	33	**95**	100
Operating costs	**18**	15	**55**	46
Property and other taxes	**4**	4	**12**	12
Depreciation and amortization	**15**	16	**45**	47
Total expenses	**70**	68	**207**	205
Operating income	**22**	22	**77**	74
Other income	**1**	1	**2**	1
Finance charges	**10**	10	**30**	28
Earnings before income taxes	**13**	13	**49**	47
Income tax expense	**3**	3	**11**	9
Net earnings	**$ 10**	$ 10	**$ 38**	$ 38

FortisBC Inc.
Condensed Consolidated Statements of Changes in Equity (Unaudited)
For the nine months ended September 30
(in millions of Canadian dollars)

	Common Shares	**Additional Paid-in Capital**	**Retained Earnings**	**Total**
As at December 31, 2016	$ 219	$ 322	$ 227	$ 768
Net earnings	-	-	38	38
Dividends on common shares	-	-	(33)	(33)
As at September 30, 2017	219	322	232	773
As at December 31, 2017	**219**	**322**	**230**	**771**
Net earnings	**-**	**-**	**38**	**38**
Dividends on common shares	**-**	**-**	**(33)**	**(33)**
As at September 30, 2018	**$ 219**	**$ 322**	**$ 235**	**$ 776**

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

FORTIS BC

FortisBC Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)
For the three and nine months ended September 30
(in millions of Canadian dollars)

	Three months ended		Nine months ended	
	2018	2017	**2018**	2017
Operating activities				
Net earnings	**$ 10**	$ 10	**$ 38**	$ 38
Adjustments for non-cash items				
Depreciation and amortization	**15**	16	**45**	47
Change in long-term regulatory assets and liabilities	**(9)**	4	**(1)**	12
Change in non-cash working capital (note 6)	**23**	7	**22**	(3)
Cash from operating activities	**39**	37	**104**	94
Investing activities				
Property, plant and equipment additions (note 6)	**(27)**	(25)	**(77)**	(68)
Intangible asset additions	**(1)**	(1)	**(4)**	(4)
Contributions in aid of construction	**4**	4	**11**	8
Cash used in investing activities	**(24)**	(22)	**(70)**	(64)
Financing activities				
Net (repayment of) proceeds from credit facilities	**(4)**	(4)	**(1)**	3
Dividends on common shares	**(11)**	(11)	**(33)**	(33)
Cash used in financing activities	**(15)**	(15)	**(34)**	(30)
Net change in cash	**-**	-	**-**	-
Cash at beginning of period	**-**	-	**-**	-
Cash at end of period	**$ -**	$ -	**$ -**	$ -

Supplementary Information to Condensed Consolidated Statements of Cash Flows (note 6).

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

1. DESCRIPTION OF THE BUSINESS

FortisBC Inc. ("FBC" or the "Corporation") is a wholly-owned subsidiary of FortisBC Pacific Holdings Inc. ("FortisBC Pacific") which is an indirect wholly-owned subsidiary of Fortis Inc. ("Fortis"), a Canadian public company.

FBC is an integrated, regulated electric utility operating in the southern interior of British Columbia ("BC"), serving approximately 174,400 customers directly and indirectly. The Corporation's business includes four hydroelectric generating plants with an aggregate capacity of 225 megawatts ("MW"), approximately 7,260 kilometers of transmission and distribution power lines, and a peak demand of 746 MW.

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 2017 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 FBC's Annual Audited Consolidated Financial Statements as at December 31, 2017.

The Condensed Consolidated Interim Financial Statements include the historical accounts of the Corporation and its wholly-owned partnership and subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation.

An evaluation of subsequent events through November 1, 2018, the date these Condensed Consolidated Interim Financial Statements were issued, was completed to determine whether any circumstances warranted recognition and disclosure of events or transactions in the Condensed Consolidated Interim Financial Statements as at September 30, 2018. Subsequent events have been appropriately disclosed in these Condensed Consolidated Interim Financial Statements.

New Accounting Policies

Revenue from Contracts with Customers

Effective January 1, 2018, FBC adopted Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, which supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the codification. This standard clarifies the principles for recognizing revenue and enables users of financial statements to better understand and consistently analyze an entity's revenues across industries and transactions. The Corporation adopted the new revenue recognition guidance using the modified retrospective transition method, under which comparative periods are not restated and the cumulative impact of applying the standard is recognized at the date of initial adoption supplemented by additional disclosures. Upon adoption, there were no adjustments to the opening balance of the Corporation's retained earnings as there were no changes to the timing of how revenue is recognized.

The adoption of this standard did not materially change the Corporation's accounting policy for recognizing revenue. The Corporation's revenue recognition policy, effective January 1, 2018, is as follows:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The majority of the Corporation's revenue is derived from electricity sales to residential, commercial, wholesale, and industrial customers. Most of the Corporation's contracts have a single performance obligation, the delivery of electricity. Substantially all of the Corporation's performance obligations are satisfied over time as electricity is delivered because of the continuous transfer of control to the customer, generally using an output measure of progress, kilowatt hours ("kWh") delivered. The billing of electricity sales is based on the reading of customer meters, which occurs on a systematic basis throughout the month.

The Corporation disaggregates revenue by type of customer, as disclosed in note 10. This represents the level of disaggregation used by the Corporation to evaluate performance.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Effective January 1, 2018, the Corporation adopted Accounting Standards Update ("ASU") No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,* which requires current service costs to be disaggregated and grouped in the statement of earnings with other employee compensation costs arising from services rendered. The other components of net benefit costs must be presented separately and outside of operating income. Additionally, only the service cost component is eligible for capitalization. On adoption, the Corporation applied the presentation guidance retrospectively and the capitalization guidance prospectively. This resulted in retrospective reclassification from operation and maintenance expense to other income of nil for the three and nine months ended September 30, 2017 in these Condensed Consolidated Interim Financial Statements (note 5).

Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract

During the third quarter of 2018, the Corporation early adopted ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,* which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal use software. Accordingly, the amendments in this update require a customer in a hosting arrangement that is a service contract to follow the guidance in ASC 350, *Intangibles - Goodwill and Other*, to determine whether implementation costs should be capitalized or expensed. The Corporation adopted this ASU using the retrospective approach, which did not have a material impact on these Condensed Consolidated Interim Financial Statements.

Future Accounting Pronouncements

FBC 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 FBC. 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.

Leases

ASU No. 2016-02, *Leases* (ASC Topic 842), was issued in February 2016, is effective for FBC January 1, 2019 with earlier adoption permitted, and is to be applied using a modified retrospective approach or an optional transition method with implementation options, referred to as practical expedients. Principally, it requires balance sheet recognition of a right-of-use asset and a lease liability by lessees for those leases that are classified as operating leases along with additional disclosures.

The Corporation expects to elect the optional transition method which allows entities to continue to apply the current lease guidance in the comparative periods presented in the year of adoption and apply the transition provisions of the new guidance on the effective date of the new guidance. FBC will elect a package of practical expedients that allows it to not reassess whether any expired or existing contract is a lease or contains a lease, the lease classification of any expired or existing leases, and the initial direct costs for any existing leases. The Corporation also will elect an additional practical expedient that permits entities to not evaluate existing land easements that were not previously accounted for as leases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Based on the Corporation's assessment to date, leasing activities accounted for as operating leases primarily relate to office facilities. Ongoing implementation efforts include the evaluation of business processes and controls to support recognition under the new standard and preparation of expanded disclosures. FBC continues to assess the impact of adoption and monitor standard-setting activities that may affect transition requirements.

3. REGULATORY MATTERS

Multi-year Performance Based Ratemaking Plan for 2014 to 2019 ("2014 PBR Application")

The disclosures around the 2014 PBR Application, average rate base and customer rate impacts for 2017 are consistent with those described in the 2017 year-end financial statements.

In December 2017, the BCUC approved FBC's 2018 rates at existing 2017 levels on an interim basis, pending a final determination. During June 2018, the forecast average rate base of approximately $1,321 million and the interim rates were approved as permanent, effective January 1, 2018. 2018 rates would have otherwise increased had there not been approval to defer a revenue deficiency for the year. The revenue deficiency from FBC's 2018 rate decision will be recovered from customers in future rates.

4. SEASONALITY OF OPERATIONS

Interim results fluctuate due to the seasonal demands for electricity, the timing of incurring costs, the movements of electricity prices and the timing and recognition of regulatory decisions. FBC's operations generally produce higher net earnings in the second quarter due to the timing of power purchases, lower net earnings in the third quarter and higher net earnings in the first and fourth quarters due to increased customer load as a result of cooler 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. EMPLOYEE FUTURE BENEFITS

The Corporation is a sponsor of pension plans for eligible employees. The plans include registered defined benefit pension plans, supplemental unfunded arrangements, and defined contribution plans. 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 September 30 was as follows:

	Defined Benefit Pension and Supplemental Plans		**OPEB Plans**	
($ millions)	**2018**	2017	**2018**	2017
Service costs	**2**	1	**-**	-
Interest costs	**2**	2	**1**	-
Expected return on plan assets	**(3)**	(2)	**-**	-
Amortization:				
Actuarial losses	**-**	-	**-**	-
Net benefit cost	**1**	1	**1**	-

5. EMPLOYEE FUTURE BENEFITS (continued)

The net benefit cost for the nine months ended September 30 was as follows:

	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
($ millions)	**2018**	2017	**2018**	2017
Service costs	**5**	4	**1**	1
Interest costs	**6**	6	**1**	1
Expected return on plan assets	**(9)**	(8)	**-**	-
Amortization:				
Actuarial losses	**1**	1	**-**	-
Regulatory adjustment	**-**	-	**1**	-
Net benefit cost	**3**	3	**3**	2

As a result of adopting ASU No. 2017-07, the components of net benefit cost, other than the service cost component, are included in other income in the Condensed Consolidated Statements of Earnings for both comparable periods.

During 2018, the Corporation expects to contribute $5 million for defined benefit pension plans and make payments of $1 million for OPEB plans.

6. SUPPLEMENTARY INFORMATION TO CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

The supplementary information to the Condensed Consolidated Statements of Cash Flows for the three and nine months ended September 30 was as follows:

Significant Non-Cash Transactions

	Three months ended September 30		Nine months ended September 30	
($ millions)	**2018**	2017	**2018**	2017
Change in accrued capital expenditures	**(2)**	-	**(3)**	(1)
Change in regulated asset for deferred income taxes	**(1)**	-	**(4)**	(3)
Change in regulated asset for Brilliant Power Purchase Agreement lease costs	**(9)**	(9)	**(12)**	(12)

Change in Non-Cash Working Capital

	Three months ended September 30		Nine months ended September 30	
($ millions)	**2018**	2017	**2018**	2017
Accounts receivable	**(3)**	(5)	**7**	10
Prepaid expenses	**(6)**	(7)	**(6)**	(7)
Accounts payable and other current liabilities	**24**	17	**18**	8
Income taxes payable	**-**	6	**1**	(5)
Net current regulatory assets and liabilities	**8**	(4)	**2**	(9)
Change in non-cash working capital per Statements of Cash Flows	**23**	7	**22**	(3)

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

($ millions)	**2018**	2017
Accrued capital expenditures	**10**	12

7. FAIR VALUE MEASUREMENTS AND 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 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 facilities on the Condensed Consolidated Balance Sheets of the Corporation approximate their fair values due to the 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 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	**September 30, 2018** Carrying Value	**September 30, 2018** Estimated Fair Value	December 31, 2017 Carrying Value	December 31, 2017 Estimated Fair Value
Liabilities					
Long-term debt [1]	Level 2	**735**	**857**	735	902

[1] Includes secured and unsecured debentures for which the carrying value is measured at cost. Carrying value excludes unamortized debt issuance costs.

8. CONTINGENCIES

The Province of BC filed a claim in the BC Supreme Court on June 8, 2012 claiming on its behalf, and on behalf of approximately 17 homeowners, damages suffered as a result of a landslide caused by a dam failure in Oliver, BC in 2010. The Province alleges in its claim that the dam failure was caused by the defendants, including FBC, through the use of a road on top of the dam. The Province estimates its damages, and the damages of the homeowners on whose behalf it is claiming, to be approximately $15 million. FBC has notified its insurers of this claim. In December 2017, FBC was advised by counsel for the Province that the Province is requesting that all defendants agree to a consent dismissal order which will dismiss the claim without costs to any party. FBC has agreed to the consent dismissal order and in July 2018 a consent dismissal order was filed in the Supreme Court Registry. As the claim has been dismissed, by consent, no amount has been accrued in the financial statements and this claim is now closed.

9. GUARANTEES

The Corporation had letters of credit outstanding at September 30, 2018 totaling $1 million (December 31, 2017 - $1 million) primarily to support the funding of one of the Corporation's pension plans and a wheeling agreement.

10. REVENUE

The majority of the Corporation's revenue is derived from electricity sales to residential, commercial, wholesale, and industrial customers. Most of the Corporation's contracts have a single performance obligation, the delivery of electricity, as the promise to transfer individual goods or services is not separately identifiable from other promises in the contracts and therefore not distinct. Substantially all of the Corporation's performance obligations are satisfied over time as electricity is delivered because of the continuous transfer of control to the customer, generally using an output measure of progress, kWh delivered. The billing of electricity sales is based on the reading of customer meters, which occurs on a systematic basis throughout the month. The BCUC approved tariff states the billing terms with the customer. The majority of contracts have payment terms of 30 days from the date the bill is rendered. Any payment not received by the due date is considered delinquent and incurs a late payment finance charge. No component of the transaction price is allocated to unsatisfied performance obligations.

Disaggregation of Revenues

As a result of adopting ASC Topic 606 using the modified retrospective approach, 2017 comparative figures have not been restated in the Condensed Consolidated Statements of Earnings. The following table presents the disaggregation of the Corporation's revenues by type of customer for the three and nine months ended September 30, 2018 and 2017. 2017 figures that are disclosed in this table in accordance with the new revenue guidance are provided for information purposes only.

	Three months ended September 30		Nine months ended September 30	
($ millions)	**2018**	2017	**2018**	2017
Residential	**36**	39	**131**	132
Commercial	**27**	25	**74**	68
Wholesale	**11**	12	**35**	35
Industrial	**8**	7	**22**	21
Other	**9**	4	**21**	13
Revenue from contracts with customers	**91**	87	**283**	269
Alternative revenue	**(1)**	(3)	**(8)**	(5)
Other revenue	**2**	6	**9**	15
Total revenues	**92**	90	**284**	279

Revenue from Contracts with Customers

The Corporation's tariff-based sales to residential, commercial, wholesale, and industrial customers are regulated by the BCUC and recognized when electricity is delivered at the amount of consideration that the Corporation expects to receive in exchange. Revenue from contracts with customers include an estimate for unbilled revenues from service that has been provided but not yet billed by the end of an accounting period. At the end of the month, amounts of electricity delivered since the last meter reading are estimated and the corresponding unbilled revenue is calculated using customer tariff rates. Unbilled revenues are dependent upon a number of factors that require management's judgment including estimates of tariff sales and customer usage patterns. The Corporation then records revenue for each customer class based on the approved tariff rates.

Other revenue from contracts with customers includes fees charged for tariff-based customer connections, as well as revenue from non-tariff sources for surplus capacity sales, third party contract work, and pole attachments.

Surplus capacity sales are made under agreement with other purchasers and are recognized when the capacity or energy is delivered at the amount of consideration set out in the contracts.

Revenue for third party contract work relates to certain operations, maintenance and management services provided to third party owned hydroelectric generation facilities. Revenue from these services is recognized when services are provided at an amount of consideration equivalent to the value of services provided, plus the applicable management fees as set out in the contracts.

10. REVENUE (continued)

Revenue for pole attachments relates to fees charged for the connection of third party owned fibre optic cable for telecommunications services to utility owned infrastructure. Revenue from these attachments is recognized over time at an amount of consideration set out in the contracts.

Alternative Revenue

Alternative revenue programs allow utilities to adjust future rates in response to past activities or completed events if certain criteria established by the BCUC are met. The Corporation has identified its Earnings Sharing Mechanism and Flow-through variances related to tariff-based revenue as alternative revenue.

The Earnings Sharing Mechanism allows for a 50/50 sharing of variances from the formula-driven operation and maintenance expenses and capital expenditures approved as part of the annual revenue requirements. This mechanism is in place until the expiry of the current performance based rate setting plan in 2019. In addition, FBC captures variances in the forecast versus actual customer revenue in a flow-through deferral account to be either refunded to or recovered from customers in rates within two years.

Amounts collected from or refunded to customers for alternative revenue programs are presented in revenue from contracts from customers.

Other Revenue

Other revenue is primarily comprised of regulatory deferral adjustments resulting primarily from cost recovery variances in regulated forecasts used to set rates for electricity revenue. As part of the PBR Decision received, effective January 1, 2014 and effective through to the end of the PBR term the Corporation has a flow-through deferral account that captures variances from regulated forecast items, excluding formulaic operation and maintenance costs, that do not have separately approved deferral mechanisms, and flows those variances through customer rates in the following year.

Accounts Receivable

The timing of revenue recognition, billings, and cash collections results in billed and unbilled accounts receivable. The opening and closing balances of the Corporation's accounts receivable are as follows:

($ millions)	**September 30, 2018**	December 31, 2017
Billed accounts receivable from contracts with customers	**22**	18
Accrued unbilled revenue from contracts with customers	**11**	25
Trade accounts receivable	**10**	7
Amounts due from related parties	**2**	2
Other [1]	**1**	1
Allowance for doubtful accounts	**(2)**	(2)
Total accounts receivable	**44**	51

[1] Other receivables include receivables not related to contracts with customers.

Practical Expedients

The Corporation has elected three practical expedients in implementing ASC 606, *Revenue from Contracts with Customers*. The Corporation has applied a portfolio approach in evaluating consideration from residential and commercial customers. The Corporation has also applied a practical expedient to consideration received from certain customers on a tariff schedule and has not adjusted the promised amount of consideration for the effect of a significant financing component because FBC expects that the period between the transfer of electricity to the customer and the customer's payment for that service will be one year or less. Finally, FBC has elected to recognize revenue in the amount to which FBC has a right to invoice the customer.