FORTIS BC

FORTISBC INC.

MANAGEMENT DISCUSSION & ANALYSIS

For the Three and Nine Months Ended September 30, 2018

November 1, 2018

The following FortisBC Inc. ("FBC" or the "Corporation") Management Discussion & Analysis ("MD&A") has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations. Financial information for 2018 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 for the three and nine months ended September 30, 2018, 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, 2017, with 2016 comparatives, prepared in accordance with US GAAP.

In this MD&A, FortisBC Pacific refers to the Corporation's parent, FortisBC Pacific Holdings Inc., FEI refers to FortisBC Energy Inc., WELP refers to the Waneta Expansion Limited Partnership, FHI refers to FortisBC Holdings 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.

The forward-looking information in this MD&A includes, but is not limited to, statements regarding the Corporation's expectations to meet interest payments on outstanding indebtedness from operating cash flows; the Corporation's expected level of capital expenditures and its expectations to finance those capital expenditures through credit facilities, equity injections from its parent FortisBC Pacific, and debenture issuances; and the Corporation's estimated contractual obligations.

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; absence of administrative monetary penalties; the ability to continue to report under US GAAP beyond the Canadian securities regulators exemption to the end of 2023 or earlier; absence of asset breakdown; absence of environmental damage and health and safety issues; absence of adverse weather conditions and natural disasters; ability to maintain and obtain applicable permits; the adequacy of the Corporation's existing insurance arrangements; the Indigenous peoples' settlement process does not adversely affect the Corporation; the ability to maintain and renew collective bargaining agreements on acceptable terms; no material change in employee future benefit costs; the ability of the Corporation to attract and retain a skilled workforce; absence of information technology infrastructure failure; absence of cyber-security failure; continued electricity demand; the ability to arrange sufficient and cost effective financing; no material adverse ratings actions by credit rating agencies; that counterparties do not default on power supply contracts; and no weather related demand loss or significant and sustained loss of precipitation over the headwaters of the Kootenay River system.

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); continued reporting in accordance with US GAAP risk; asset breakdown, operation, maintenance and expansion risk; environment, health and safety matters risk; weather and natural disasters risk; permits risk; underinsured and uninsured losses; risks involving Indigenous peoples; labour relations risk; employee future benefits risk; human resources risk; information technology infrastructure risk; cyber-security risk; interest rates risk; impact of changes in economic conditions risk; capital resources and liquidity risk; competitiveness and commodity price risk; power purchase and capacity sale contracts risk; weather related 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 Corporation's MD&A and AIF for the year ended December 31, 2017.

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

FBC is an integrated, regulated electric utility operating in the southern interior of British Columbia ("BC"), serving approximately 174,400 customers directly and indirectly, focusing on the safe delivery of reliable and cost effective electricity.

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.

The Corporation is an indirect, wholly-owned subsidiary of Fortis, a leader in the North American electric and gas utility business, serving customers across Canada, the United States and the Caribbean.

REGULATION

Customer Rates and Deferral Mechanisms

Customer rates are based on estimates and forecasts. In order to manage the risk of forecast error 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 electricity revenue and power purchase costs 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 in either 2018 or 2017. As part of the Performance Based Ratemaking ("PBR") Decision received in September 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.

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

In September 2014, the British Columbia Utilities Commission ("BCUC") issued its decision on FBC's 2014 PBR Application. The approved PBR Plan incorporates an incentive mechanism for improving operating and capital expenditure efficiencies. Operation and maintenance expenses and base capital expenditures during the PBR period, 2014 to 2019, are subject to an incentive formula reflecting incremental costs for inflation and half of customer growth, less a fixed productivity adjustment factor of 1.03 per cent each year. The PBR Plan also includes a 50/50 sharing of variances ("Earnings Sharing Mechanism") from the formula-driven operation and maintenance expenses and capital expenditures over the PBR period, and a number of service quality measures designed to ensure FBC maintains service levels. It also sets out the requirements for an annual review process which provides a forum for discussion between FBC and interested parties regarding its current performance and future activities.

In January 2017, the BCUC issued its decision on FBC's 2017 rates. The decision results in a 2017 average rate base of approximately $1,285 million and a rate increase of 2.76 per cent over 2016 rates.

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.

In August 2018, FBC filed its application for approval of 2019 rates under the PBR Plan. The 2019 application includes a forecast average rate base of approximately $1,341 million and requests no increase in 2019 rates. 2019 rates would have otherwise decreased had FBC not requested in the application to defer a revenue surplus for the year which will be refunded to customers in future rates.

In addition to the rate base amounts approved in annual regulatory decisions, multi-year projects under construction earn a regulated return.

CONSOLIDATED RESULTS OF OPERATIONS

	Quarter			Year to Date		
Periods Ended September 30	**2018**	2017	Variance	**2018**	2017	Variance
Electricity sales (GWh)	**769**	779	(10)	**2,411**	2,436	(25)
($ millions)						
Total revenues [1]	**92**	90	2	**284**	279	5
Power purchase costs	**33**	33	-	**95**	100	(5)
Operating costs [2]	**18**	15	3	**55**	46	9
Property and other taxes	**4**	4	-	**12**	12	-
Depreciation and amortization	**15**	16	(1)	**45**	47	(2)
Total expenses	**70**	68	2	**207**	205	2
Operating income	**22**	22	-	**77**	74	3
Add: Other income [2]	**1**	1	-	**2**	1	1
Less: Finance charges	**10**	10	-	**30**	28	2
Earnings before income taxes	**13**	13	-	**49**	47	2
Income tax expense	**3**	3	-	**11**	9	2
Net earnings	**10**	10	-	**38**	38	-

[1] 2018 total revenues have been presented pursuant to adopting Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, using the modified retrospective method which did not affect the net earnings comparison for the periods ended September 30.

[2] The components of 2018 and 2017 operating costs and other income have been presented pursuant to adopting Accounting Standards Update ("ASU") No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* There was no effect on the net earnings comparison for the periods ended September 30.

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the three months ended September 30, 2018 as compared to September 30, 2017:

Quarter		
Item	**Increase (Decrease)** ($ millions)	**Explanation**
Net earnings	**-**	Net earnings for the quarter ended September 30, 2018 were $10 million, consistent with net earnings in the same period of 2017 as the net earnings from higher investment in regulated assets during 2018 were offset by lower interest savings. Both 2018 and 2017 net earnings are based on an allowed ROE of 9.15 per cent and a deemed equity component of capital structure of 40 per cent.
Revenues	**2**	Included in revenues are revenue from contracts with customers, which includes tariff revenues as well as fees charged for tariff-based customer connections, revenue from non-tariff sources for surplus capacity sales, revenue from third party contract work, and pole attachment revenue. Also included in revenues are alternative revenues, which include the Corporation's Earnings Sharing Mechanism and Flow-through variances related to tariff-based revenue; and other revenues, which are comprised primarily of regulatory deferral adjustments that capture variances from regulated forecast items, excluding formulaic operation and maintenance costs. If such regulatory deferral adjustments recognized in the current period are owed to, or recoverable from, customers in future rates, they are recognized as either other expense or other revenue, respectively. The increase in total revenues was primarily due to higher revenue recognized from third party contract work and higher surplus power sales, partially offset by a decrease in tarrif-based revenue as a result of cooler weather as compared to the same quarter of 2017.

Quarter		
Item	**Increase (Decrease)** ($ millions)	**Explanation**
Operating costs	**3**	Operating costs include operating and maintenance expenses, water fees, and wheeling. The increase in operating costs was primarily a result of higher costs associated with third party contract work relating to revenue from contracts with customers.

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the nine months ended September 30, 2018 as compared to September 30, 2017:

Year to Date		
Item	**Increase (Decrease)** ($ millions)	**Explanation**
Net earnings	**-**	Net earnings for the nine months ended September 30, 2018 were $38 million, consistent with net earnings in the same period of 2017 as the higher investment in regulated assets during 2018 was offset by a one-time income tax gain recognized in the second quarter of 2017 for the previous disposition of non-regulated assets and for which there was no comparable tax savings in 2018.
Revenues	**5**	The increase in total revenues was due to the same reasons as identified in the quarter. While rates charged for tariff-based sales were consistent for both periods, the lower electricity sales were a result of cooler weather in the first and third quarter of 2017 compared to same periods in 2018.
Power purchase costs	**(5)**	The decrease in power purchase costs was primarily due to lower purchase volumes driven by a decrease in electricity sales and lower average power purchase prices during the first and second quarters of 2018.
Operating costs	**9**	The increase in operating costs was primarily a result of increased costs associated with third party contract work relating to revenue from contracts with customers, as well as higher wheeling costs and labour costs.
Depreciation and amortization	**(2)**	The decrease in depreciation and amortization was primarily due to higher amortization of certain regulatory assets during 2017, partially offset by higher depreciable asset base compared to the prior year.
Finance charges	**2**	The increase in finance charges was primarily a result of $75 million issuance of unsecured Medium Term Note Debentures ("MTN Debentures") in December 2017, for which the proceeds were used to repay lower interest bearing credit facilities.
Income taxes	**2**	The increase in income taxes was primarily due to higher earnings before tax, lower deductible temporary differences associated with regulatory deferral adjustments, and the 1.0 per cent increase in the BC provincial statutory tax rate effective January 1, 2018.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended December 31, 2016 through September 30, 2018. The information has been obtained from the Corporation's Unaudited Condensed Consolidated Interim Financial Statements. 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	**Revenues**	**Net Earnings**
($ millions)		
September 30, 2018	92	10
June 30, 2018	84	15
March 31, 2018	108	13
December 31, 2017	102	12
September 30, 2017	90	10
June 30, 2017	82	15
March 31, 2017	107	13
December 31, 2016	97	12

A summary of the past eight quarters reflects the seasonality associated with the Corporation's business. The 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, interim net earnings are not indicative of net earnings on an annual basis.

September 2018/2017 - Net earnings were consistent between periods as the net earnings from higher investment in regulated assets during 2018 was offset by lower interest savings.

June 2018/2017 - Net earnings were consistent with net earnings in the same period of 2017 as higher investment in regulated assets was offset by a one-time income tax gain recognized in the second quarter of 2017 for the previous disposition of non-regulated assets and for which there was no comparable tax savings in 2018.

March 2018/2017 – Net earnings were consistent between periods.

December 2017/2016 – Net earnings included a decrease in the variance between the operating and maintenance expense incurred as compared to the operating costs forecasted in rates and recognized in revenues, offset by higher investment in regulated assets.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the Consolidated Financial Position between September 30, 2018 and December 31, 2017:

Balance Sheet Account	**Increase (Decrease)** ($ millions)	**Explanation**
Regulatory assets (current and long-term)	**16**	The increase was primarily due to the recognition of $12 million relating to the Brilliant Power Purchase Agreement asset and obligation under capital lease and an increase of $4 million in regulated deferred income tax liabilities, the offsets of which were deferred as regulatory assets.
Property, plant and equipment, net	**27**	The increase was primarily due to capital expenditures of $77 million incurred during the year, which includes sustainment and growth capital expenditures, as well as the Corra Linn Dam Spillway Gates Replacement and Upper Bonnington Old Unit Refurbishment projects, less: • depreciation expense, excluding net salvage provision, of $29 million, • changes in capital lease assets of $4 million, the offset of which has been recognized in regulatory assets, • costs of removal of $3 million incurred, which are recognized against the net salvage provision in regulatory liabilities,

Balance Sheet Account	Increase (Decrease) ($ millions)	Explanation
		• changes in non-cash working capital related to capital accruals of $3 million, and • contributions in aid of construction of $11 million received.
Accounts payable and other current liabilities	15	The increase was primarily due to higher accounts payable relating to power purchases and the timing of interest payments.
Regulatory liabilities (current and long-term)	10	The increase was primarily due to the collection of $5 million in salvage provision, net of actual removal costs incurred, and an increase in regulatory flow-through deferral adjustments owing back to customers in future rates.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Consolidated Cash Flows

Nine Months Ended September 30	**2018**	2017	Variance
($ millions)			
Cash flows provided by (used for)			
Operating activities	**104**	94	10
Investing activities	**(70)**	(64)	(6)
Financing activities	**(34)**	(30)	(4)
Net change in cash	**-**	-	-

Operating Activities

Cash provided by operating activities was $10 million higher compared to the same period in 2017. The increase was primarily due to changes in non-cash working capital relating to accounts payable and other current liabilities, current regulatory assets and liabilities, and income taxes payable.

Investing Activities

Cash used for investing activities was $6 million higher compared to the same period in 2017 primarily due to higher property, plant and equipment expenditures, including those related to the Corra Linn Dam Spillway Gates Replacement and Upper Bonnington Old Unit Refurbishment projects, partially offset by higher contributions in aid of construction received.

Financing Activities

Cash used for financing activities was $4 million higher compared to the same period in 2017 primarily due to net repayment of credit facilities in 2018 as compared to net proceeds from credit facilities in 2017.

During the three and nine months ended September 30, 2018, FBC paid a common share dividend of $11 million (2017 - $11 million) and $33 million (2017 - $33 million) respectively to its parent company, FortisBC Pacific.

Contractual Obligations

The Corporation's contractual obligations have not changed materially from those disclosed in the MD&A for the year ended December 31, 2017.

Capital Structure

The Corporation's principal business of regulated electricity generation, transmission and distribution requires ongoing access to capital in order to allow the Corporation to fund the maintenance, replacement and expansion of infrastructure. The Corporation maintains a capital structure in line with the deemed regulatory capital structure approved by the BCUC at 40 per cent equity and 60 per cent debt. This capital structure excludes the financing of goodwill and other non-regulated items that do not impact the deemed capital structure.

Credit Ratings

As at September 30, 2018, the Corporation's debentures were rated by DBRS Limited at A (low), outlook stable and by Moody's Investors Service at Baa1, outlook stable. There have been no changes to the Corporation's credit ratings from those reported in the Corporation's 2017 annual MD&A.

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 Certificate of Public Convenience and Necessity ("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 2018 projected capital expenditures are approximately $100 million, which are necessary to provide service, public and employee safety, and reliability of supply of electricity to the Corporation's customer base. Included in these projected capital expenditures are more significant projects further described below.

Corra Linn Dam Spillway Gates Replacement

In 2016, the Corporation filed a CPCN application with the BCUC for the construction and operation of 14 replacement spillway gates and upgrades to the associated structures at the Corra Linn Dam in order to align with industry standards, meet current regulation and minimize the risks to public and employee safety. In 2017, the BCUC approved the CPCN which included estimated project costs of $63 million. Construction commenced in 2017 with an estimated completion date of 2021.

Upper Bonnington Old Unit Refurbishment.

In 2016, the Corporation filed a special projects application with the BCUC for the refurbishment of Upper Bonnington generating units in order to extend their life and reduce safety and environmental risks associated with the potential failures of the aged equipment. In 2017, the BCUC approved the application which included estimated project costs of $32 million. Construction commenced in 2017 with an estimated completion date of 2020.

Cash Flow Requirements

The Corporation's cash flow requirements fluctuate seasonally based on electricity consumption. The Corporation maintains adequate committed credit facilities.

It is expected that operating expenses and interest costs will generally be paid out of operating cash flows, with varying levels of residual cash flow available for capital expenditures and/or dividend payments. Cash required to complete capital expenditure programs is also expected to be financed from a combination of borrowings under credit facilities, equity injections from FortisBC Pacific, and debenture issuances.

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 facilities may be required from time to time to support the servicing of debt 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 come due.

Credit Facilities

As at September 30, 2018, the Corporation had bank credit facilities of $160 million, comprised of a $150 million operating credit facility and a $10 million demand overdraft facility. The $150 million operating credit facility matures in April 2023.

($ millions)	**September 30, 2018**	December 31, 2017
Operating credit facility	**150**	150
Demand overdraft facility	**10**	10
Draws on operating credit facility	**(50)**	(50)
Draws on overdraft facility	**(3)**	(4)
Letters of credit outstanding	**(1)**	(1)
Credit facilities available	**106**	105

OFF-BALANCE SHEET ARRANGEMENTS

As at September 30, 2018, the Corporation had no material off-balance sheet arrangements, with the exception of letters of credit outstanding of $1 million (December 31, 2017 - $1 million) primarily to support the funding of one of the Corporation's pension plans and a wheeling agreement.

RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its parent, FortisBC Pacific, ultimate parent, Fortis, and other related companies under common control, including FEI, FHI and WELP, primarily under the Waneta Expansion Capacity Agreement ("WECA"), to provide or receive services and materials. The following transactions were measured at the exchange amount unless otherwise indicated.

Related Party Recoveries

The amounts charged to the Corporation's parent and other related parties under common control for the three and nine months ended September 30 were as follows:

	Three months ended September 30		**Nine months ended September 30**	
($ millions)	**2018**	2017	**2018**	2017
Operating costs charged to FortisBC Pacific (a)	**2**	1	**6**	5
Operating costs charged to FEI (b)	**1**	1	**5**	5
Total related party recoveries	**3**	2	**11**	10

(a) The Corporation charged its parent, FortisBC Pacific, for management services, labour and materials.

(b) The Corporation charged FEI for electricity sales, management services, and other labour.

Related Party Costs

The amounts charged by Fortis and other related parties under common control for the three and nine months ended September 30 were as follows:

	Three months ended September 30		**Nine months ended September 30**	
($ millions)	**2018**	2017	**2018**	2017
Power purchase costs charged by WELP (a)	**12**	11	**31**	30
Operating costs charged by WELP (a)	**-**	-	**1**	-
Operating costs charged by Fortis (b)	**1**	1	**2**	2
Operating costs charged by FEI (c)	**1**	1	**3**	3
Operating costs charged by FHI (d)	**-**	1	**-**	1
Total related party costs	**14**	14	**37**	36

(a) The Corporation was charged by WELP for purchasing capacity pursuant to the WECA and for a portion of water fees.

(b) The Corporation was charged by Fortis for corporate management services and other compensation.

(c) The Corporation was charged by FEI for natural gas purchases, office rent, management services, and other labour.

(d) The Corporation was charged by FHI for management services and board of director costs.

Balance Sheet Amounts

The amounts due from related parties, included in accounts receivable on the Consolidated Balance Sheets, and the amounts due to related parties, included in accounts payable and other current liabilities on the Consolidated Balance Sheets, are as follows:

	September 30, 2018		December 31, 2017	
($ millions)	**Amount Due From**	**Amount Due To**	Amount Due From	Amount Due To
Fortis (a)	**1**	**-**	1	-
FortisBC Pacific	**1**	**-**	-	-
FEI	**-**	**-**	1	(1)
WELP	**-**	**(10)**	-	(11)
Total due from (due to) related parties	**2**	**(10)**	2	(12)

(a) Included in accounts receivable is an amount due from Fortis related to the allocation from Fortis to FBC of the Part VI.1 tax associated with preference share dividends.

FINANCIAL INSTRUMENTS

Fair Value Estimates

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:

	September 30, 2018		December 31, 2017	
($ millions)	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long-term debt, including current portion [1,2]	**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.

[2] 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. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment.

Power purchase contracts that have been designated as normal purchase or normal sale contracts are not reported at fair value under the accounting rules for derivatives. They are accounted for on an accrual basis.

NEW ACCOUNTING POLICIES

Standard	**Effective Date**	**Description**	**Effect on FBC**
Revenue from Contracts with Customers	January 1, 2018	ASC Topic 606, *Revenue from Contracts with Customers*, 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: The majority of the Corporation's revenue is derived from electricity sales to residential, commercial, wholesale, and industrial

Standard	Effective Date	Description	Effect on FBC
			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 the Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2018 and 2017.
Improving The Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	January 1, 2018	ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,* 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, both of which did not have a material impact on the three and nine months ended September 30, 2017 in the Condensed Consolidated Interim Financial Statements.
Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract	January 1, 2020	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 early adopted this ASU during the third quarter of 2018 using the retrospective approach, which did not have a material impact on the Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2018 and 2017.

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.

Standard	Effective Date	Description	Expected Effect on FBC
Leases	January 1, 2019	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. 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.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation's Condensed Consolidated Interim Financial Statements in accordance with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates and judgments are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are recognized in the period in which they become known.

Interim financial statements may also employ a greater use of estimates than the annual financial statements. There were no material changes in the nature of the Corporation's critical accounting estimates during the third quarter of 2018 from those disclosed in the Corporation's 2017 annual MD&A.

OTHER DEVELOPMENTS

Collective Agreements

There are two collective agreements between the Corporation and Local 378 of the Canadian Office and Professional Employees Union ("COPE"). In October 2018, a memorandum of agreement was reached which extends the expiry of the first collective agreement, representing employees in specified occupations in the areas of administration and operations support, by one year to December 31, 2019. The second collective agreement, representing customer service employees, expires on March 31, 2022.

The collective agreement between the Corporation and Local 213 of the International Brotherhood of Electrical Workers ("IBEW") expires on January 31, 2021. IBEW represents employees in specified occupations in the areas of generation, transmission and distribution.

OUTSTANDING SHARE DATA

As at the filing date of this MD&A, the Corporation had issued and outstanding 2,191,510 common shares, all of which are owned by FortisBC Pacific, an indirect wholly-owned subsidiary of Fortis.

ADDITIONAL INFORMATION

Additional information about FBC, including its Annual Information Form, can be accessed at www.fortisbc.com or www.sedar.com. The information contained on, or accessible through, either of these websites is not incorporated by reference into this document.

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