FortisBC Inc.
Management Discussion & Analysis
For the Year Ended December 31, 2017
Dated February 14, 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 2017 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 annual audited consolidated financial statements and notes thereto for the year ended December 31, 2017, with 2016 comparatives, prepared in accordance with US GAAP.

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 Holdings Inc. ("FortisBC Pacific"), and debenture issuances; the Corporation's expectation for employee future benefit costs; 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 First Nations' 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 skilled workforces; 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 First Nations; 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. For additional information with respect to these risk factors, reference should be made to the section entitled "Business Risk Management" in this MD&A.

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 172,300 customers directly and indirectly, focusing on the safe delivery of reliable and cost effective electricity.

The Corporation's regulated 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. In February 2016, FBC and its subsidiaries completed the sale of the 0395518 Power Partnership (formerly Walden Power Partnership) ("WPP") non-regulated hydroelectric power plant assets and subsequently dissolved the partnership.

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

The Corporation operates primarily under a cost of service regulation as prescribed by the BCUC. The Corporation applies to the BCUC for approval of annual revenue requirements based on forecast costs of service, including, but not limited to, power purchases, operating expenses, depreciation and amortization, income taxes, interest on debt and a return on equity ("ROE"). Starting in 2014, through 2019, the regulatory framework includes some performance-based rate setting attributes.

The Corporation is an indirect, wholly-owned subsidiary of Fortis Inc. ("Fortis"). Fortis is 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

The Corporation's 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 2017 or 2016. As part of the 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 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 December 2015, the BCUC issued its decision on FBC's 2016 rates. The decision results in a 2016 average rate base of approximately $1,286 million and a rate increase of 2.96 per cent over 2015 rates.

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 October 2017, FBC filed its application for approval of 2018 rates under the PBR Plan. The 2018 application includes a forecast average rate base of approximately $1,322 million and requests approval of a customer rate increase of 0.17 per cent over 2017 rates. In December 2017, the BCUC approved 2018 rates at existing 2017 levels on an interim basis, pending a final determination.

CONSOLIDATED RESULTS OF OPERATIONS

	Quarter			Year		
Periods Ended December 31	**2017**	2016	Variance	**2017**	2016	Variance
Electricity sales (GWh)	**869**	856	13	**3,305**	3,121	184
($ millions)						
Electricity revenue	**96**	92	4	**365**	335	30
Other revenue	**6**	5	1	**16**	26	(10)
Total revenues	**102**	97	5	**381**	361	20
Power purchase costs	**41**	39	2	**141**	132	9
Operating costs	**18**	18	-	**64**	64	-
Property and other taxes	**4**	4	-	**16**	16	-
Depreciation and amortization	**15**	14	1	**62**	57	5
Total expenses	**78**	75	3	**283**	269	14
Operating income	**24**	22	2	**98**	92	6
Other income	**-**	-	-	**1**	1	-
Finance charges	**9**	9	-	**37**	37	-
Earnings before income taxes	**15**	13	2	**62**	56	6
Income taxes	**3**	1	2	**12**	7	5
Net earnings	**12**	12	-	**50**	49	1

Net Earnings

Net earnings for the fourth quarter of 2017 were $12 million which were consistent with net earnings for the same period in 2016. For the year ended December 31, 2017, net earnings were $50 million, an increase of $1 million as compared to the same period in 2016.

Net earnings for the three months ended December 31, 2017 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.

Net earnings were higher for the year ended December 31, 2017 primarily due to higher investment in regulated assets, partially offset by a gain on the sale of the non-regulated WPP assets, which was recognized in the first quarter of 2016.

Both 2017 and 2016 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.

Electricity Sales

The increase in electricity sales for both comparable periods was primarily due to higher consumption in the Residential class driven by customer growth and favourable weather conditions as compared to the same periods in the previous year.

Electricity Revenue

The increase in electricity revenue for both comparable periods was primarily due to an increase in electricity sales as well as a 2.76 per cent rate increase effective January 1, 2017.

Other Revenue

Other revenue consists primarily of management fees for third party contract work, pole attachment revenue, wheeling revenue, surplus capacity sales, the Earnings Sharing Mechanism and certain flow-through adjustments for variances from the forecast used to set rates.

Other revenue for the fourth quarter of 2017 was comparable with the fourth quarter of 2016. For the year ended December 31, 2017, the decrease in other revenue was primarily due to an increase in regulatory deferral adjustments owing to customers in future rates, as compared to the recognition of regulatory deferral adjustments owing from customers in the previous year, and lower surplus capacity sales.

Power Purchase Costs

The increase in power purchase costs in the fourth quarter of 2017 was primarily due to higher purchase volumes driven by an increase in electricity sales and higher average power purchase prices. For the year ended December 31, 2017, the increase in power purchase costs was primarily due to higher purchase volumes driven by an increase in electricity sales, partially offset by lower average power purchase prices.

Operating Costs

Operating costs include operating and maintenance expenses, water fees and wheeling. Operating costs were comparable between the fourth quarters of 2017 and 2016, and the years ended December 31, 2017 and 2016.

Property and Other Taxes

Property and other taxes were comparable between the fourth quarters of 2017 and 2016, and the years ended December 31, 2017 and 2016.

Depreciation and Amortization

The increase in depreciation and amortization for both comparable periods was primarily due to an increase in amortization of certain regulatory assets, as well as an increase in the prior year's depreciable asset base.

Other Income

Other income was comparable between periods as the increase in the equity component of Allowance for Funds Used During Construction ("AFUDC") during 2017 was offset by recognizing a gain on the sale of the Corporation's non-regulated WPP assets in the first quarter of 2016.

Finance Charges

Finance charges were comparable between periods.

Income Taxes

The increase in income tax expense for both comparable periods was primarily due to higher earnings before tax and lower deductible temporary differences, mainly attributable to an increase in regulatory deferral liabilities owing to customers.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the consolidated balance sheets between December 31, 2017 and December 31, 2016:

Balance Sheet Account	**Increase (Decrease)** ($ millions)	**Explanation**
Property, plant and equipment, net	**42**	The increase was primarily due to capital expenditures of $98 million incurred during the year and $1 million in non-cash equity component of AFUDC capitalized, less: • depreciation expense, excluding net salvage provision, of $37 million, • cost of removal of $4 million, the offset of which has been recognized in regulatory liabilities, • changes in capital lease assets of $3 million, the offset of which has been recognized in regulatory assets, and • contributions in aid of construction of $13 million received.
Credit facilities	**(40)**	The net decrease was primarily due to proceeds from the $75 million long-term debt issuance in December 2017, partially offset by an increase in borrowings primarily used to finance the debt portion of the Corporation's 2017 capital program and any shortfalls in working capital and cash from operations.

Balance Sheet Account	Increase (Decrease) ($ millions)	Explanation
Long-term debt	**75**	The increase was due to the $75 million long-term debt issuance in December 2017.
Deferred income taxes	**15**	The increase was primarily due to: • an $8 million increase relating to a 1.0 per cent increase in the BC provincial statutory tax rate effective January 1, 2018, resulting from legislation enacted in November 2017, and • an increase in taxable temporary differences associated with property, plant and equipment, partially offset by an increase in deductible temporary differences on regulatory liabilities owing back to customers in future rates. A comparable adjustment has been recognized in regulatory assets since the related income tax amounts are expected to be recovered from customers in future rates.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Consolidated Cash Flows

Years Ended December 31	**2017**	2016	Variance
($ millions)			
Cash flows provided by (used for):			
Operating activities	**104**	95	9
Investing activities	**(92)**	(57)	(35)
Financing activities	**(12)**	(40)	28
Net change in cash	**-**	(2)	2

Operating Activities

Cash provided by operating activities was $9 million higher compared to 2016 primarily due to higher amortization of certain regulatory assets included in rates and changes in non-cash working capital.

Investing Activities

Cash used for investing activities was $35 million higher compared to 2016 primarily due to higher property, plant and equipment expenditures incurred during 2017, partially offset by higher contributions in aid of construction received. The variance between years was also driven by the proceeds from the sale of the Corporation's non-regulated WPP assets, which reduced cash used for investing activities during the first quarter of 2016.

Financing Activities

Cash used for financing activities was $28 million lower compared to 2016. During 2017, net proceeds from the issuance of $75 million of Medium Term Note Debentures ("MTN Debentures") in December 2017 were used to repay existing credit facilities which had been utilized throughout 2017 to finance the debt portion of FBC's capital expenditure program and any shortfalls in working capital and cash from operations. During 2016, net proceeds from credit facilities were used for repayment of the Series H debenture of $25 million due February 1, 2016, as well as to finance the debt portion of FBC's capital expenditure program.

During 2017, FBC paid a common share dividend of $47 million (2016 - $53 million) to its parent company, FortisBC Pacific.

Contractual Obligations

The following table sets forth the Corporation's estimated contractual obligations due in the years indicated:

As at December 31, 2017	Total	Due Within 1 Year	Due in Year 2	Due in Year 3	Due in Year 4	Due in Year 5	Due After 5 Years
($ millions)							
Power purchase obligations (a)	2,982	89	83	79	78	76	2,577
Capital lease obligations (b)	2,171	43	44	44	45	46	1,949
Interest obligations on long-term debt	913	38	38	38	38	36	725
Long-term debt [1]	735	-	-	-	25	-	710
Other (c)	11	5	3	1	-	1	1
Totals	6,812	175	168	162	186	159	5,962

[1] Excludes unamortized debt issuance costs.

(a) Power purchase obligations of FBC include:

- Waneta Expansion Capacity Agreement ("WECA"): In 2010, FBC entered into an agreement to purchase capacity from the Waneta Expansion, a 335 MW hydroelectric generating facility adjacent to the existing Waneta Plant on the Pend d'Oreille River in BC. The Waneta Expansion is owned by a limited partnership, the limited partners of which are FBC's ultimate parent, Fortis, which owns a 51 per cent interest, and a wholly-owned subsidiary of each of Columbia Power Corporation ("CPC") and Columbia Basin Trust ("CBT"). The WECA allows FBC to purchase capacity over 40 years, beginning April 1, 2015. The WECA was accepted by the BCUC in May 2012.
- BCH Power Purchase Agreement ("BCH PPA"): In 2013, FBC entered into the BCH PPA to purchase up to 200 MW of capacity and 1,752 GWh per year of associated energy for a 20 year term beginning October 1, 2013. The BCH PPA was approved by the BCUC in May 2014 and was effective July 1, 2014. The capacity and energy to be purchased under this agreement do not relate to a specific plant. The BCH PPA meets the exemption for normal purchases and as such is not required to be recorded at fair value as a derivative.
- Capacity and Energy Purchase and Sale Agreement ("CEPSA"): In 2015, FBC entered into the CEPSA which allows FBC to purchase all of its market energy requirements from Powerex which was accepted by the BCUC in April 2015. As at December 31, 2017, the total power purchase obligations outstanding under the CEPSA were approximately $10 million through to the end of 2019. The energy purchases under the CEPSA do not relate to specific plants and the output being purchased does not constitute a significant portion of the output of a specific plant.
- Brilliant Expansion Capacity and Energy Purchase Agreement: During September 2017, FortisBC renewed an agreement to purchase capacity and energy from CPC, acting on behalf of the Brilliant Expansion Power Corporation, from January 2018 through to December 2027. The agreement was accepted by the BCUC in October 2017.

(b) Capital lease obligations, which are inclusive of principal payments, imputed interest and executory costs, are as follows:

- In 1996 an order was granted by the BCUC approving the 60-year BPPA for the sale of the output of the Brilliant hydroelectric plant located near Castlegar, BC. The Brilliant plant is owned by the Brilliant Power Corporation ("BPC"), a corporation owned equally by the CPC and the CBT. FBC operates and maintains the Brilliant plant for the BPC in return for a management fee. In exchange for the specified take-or-pay amounts of power, the BPPA requires semi-annual payments based on a return on capital, which is composed of the original plant capital charge and periodic upgrade capital charges, which are both subject to fixed annual escalators, as well as sustaining capital charges, and operating expenses. The BPPA includes a market related price adjustment after 30 years of the 60-year term. FBC has accounted for this arrangement as a capital lease asset and obligation in its financial statements and recognizes the payments, as approved for setting customer rates, in power purchase costs.
- In 2003, the Corporation began operating the Brilliant Terminal Station ("BTS") under an agreement the term of which expires in 2056. The agreement provides that FBC pay a charge related to the recovery of the capital cost of the BTS and related operating costs. FBC has accounted for this arrangement as a capital lease asset and obligation in its financial statements and recognizes the payments, as approved for setting customer rates, in operating costs.

(c) Included in other contractual obligations are building leases, vehicle leases, defined benefit pension plan funding obligations, asset retirement obligations, and a commitment to purchase fibre optic communication cable in 2019.

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

Debentures issued by the Corporation are rated by DBRS Limited ("DBRS") and Moody's Investors Service ("Moody's"). The ratings assigned to the debentures issued by the Corporation are reviewed by these agencies on an ongoing basis.

The table below summarizes the ratings assigned to the Corporation's debentures as at December 31, 2017.

Rating Agency	Credit Rating	Type of Rating	Outlook
DBRS	A (low)	Secured and Unsecured Debentures	Stable
Moody's	Baa1	Unsecured Debentures	Stable

During 2017, Moody's and DBRS issued updated credit rating reports confirming the Corporation's debenture rating and outlook.

Projected Capital Expenditures

The 2018 projected capital expenditures are approximately $100 million which include Corra Linn Dam Spillway Gates Replacement and Upper Bonnington Old Unit Refurbishment projects. The 2018 capital expenditures are necessary to provide service, public and employee safety and reliability of supply of electricity to the Corporation's customer base.

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 for 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 its parent, 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 and Debentures

Credit Facilities

As at December 31, 2017, 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 May 2022.

The following summary outlines the Corporation's bank credit facilities:

($ millions)	**December 31, 2017**	December 31, 2016
Operating credit facility	**150**	150
Demand overdraft facility	**10**	10
Draws on operating credit facility	**(50)**	(91)
Draws on overdraft facility	**(4)**	(3)
Letters of credit outstanding	**(1)**	(1)
Credit facilities available	**105**	65

Borrowings under the Corporation's operating credit facilities bear interest at prime or the certificate of deposit offered rate for bankers' acceptances plus a margin. The margin applied is based on FBC's debt ratings provided by its credit rating agencies. The demand overdraft facility bears interest at prime, which at December 31, 2017 was 3.20 per cent (2016 - 2.70 per cent).

Debentures

On December 4, 2017, FBC entered into an agreement with a Canadian Chartered bank to sell $75 million of unsecured MTN Debentures Series 4. The MTN Debentures bear interest at a rate of 3.62 per cent to be paid semi-annually and mature on December 6, 2049. The closing of the issuance occurred on December 6, 2017, with net proceeds being used to repay existing credit facilities.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2017, the Corporation had no material off-balance sheet arrangements, with the exception of letters of credit outstanding of $1 million (December 31, 2016 - $1 million) which were primarily used 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 FortisBC Energy Inc. ("FEI"), FortisBC Holdings Inc. ("FHI") and the Waneta Expansion Limited Partnership ("WELP"), primarily under the 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 years ended December 31 were as follows:

($ millions)	**2017**	2016
Operating costs and other revenue charged to FortisBC Pacific (a)	**7**	7
Electricity revenue recovered from FEI (b)	**1**	1
Operating costs charged to FEI (b)	**7**	6
Operating costs charged to WELP (c)	**-**	2
Total related party recoveries	**15**	16

(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.

(c) The Corporation charged WELP for the recovery of a portion of water fees billed to FBC by the Province of BC during 2016 that related to WELP.

Related Party Costs

The amounts charged by Fortis and other related parties under common control for the years ended December 31 were as follows:

($ millions)	**2017**	2016
Power purchase costs charged by WELP (a)	**46**	45
Operating costs charged by Fortis (b)	**2**	3
Operating costs charged by FEI (c)	**5**	4
Operating costs charged by FHI (d)	**1**	-
Total related party costs	**54**	52

(a) The Corporation was charged by WELP for purchasing capacity pursuant to the WECA.

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

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

(d) The Corporation was charged by FHI for management services and governance costs.

Balance Sheet Amounts

The amounts due from related parties, which are included in accounts receivable on the consolidated balance sheets, and the amounts due to related parties, which are included in accounts payable and other current liabilities on the consolidated balance sheets, are as follows:

As at December 31	**2017**		2016	
($ millions)	**Amount Due from**	**Amount Due to**	Amount Due from	Amount Due to
Fortis (a)	**1**	**-**	1	-
FortisBC Pacific	**-**	**-**	1	-
FEI	**1**	**(1)**	1	-
WELP	**-**	**(11)**	-	(11)
Total due from (due to) related parties	**2**	**(12)**	3	(11)

(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.

In March 2016, FEI paid FBC $6 million to repay FBC for funds that were transferred from FBC's tax instalment account at the Canada Revenue Agency ("CRA") to FEI's tax instalment account at the CRA. The transfer resulted in a decrease to FBC's income tax receivable balance and a decrease to FEI's income taxes payable balance as permitted by the CRA for associated entities.

BUSINESS RISK MANAGEMENT

The Corporation is subject to a variety of risks and uncertainties that may have a material adverse effect on the Corporation's results of operations and financial position.

Regulatory Approval and Rate Orders

The regulated operations of the Corporation are subject to the uncertainties faced by regulated companies. These uncertainties include the approval by the BCUC of customer rates that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing services, including a fair return on and of rate base. The ability of the Corporation to recover the actual costs of providing services and to earn the approved rates of return is impacted by achieving the forecasts established in the rate-setting process. The cost for upgrading existing facilities and adding new facilities requires the approval of the BCUC for inclusion in the rate base. There is no assurance that capital projects perceived as required by the management of the Corporation will be approved or that conditions to such approval will not be imposed. Capital cost overruns might not be recoverable in rates.

Through the regulatory process, the BCUC approves the ROE that the Corporation is allowed to earn and the deemed capital structure. Fair regulatory treatment that allows the Corporation a reasonable opportunity to earn a fair risk adjusted rate of return comparable to that available on alternative, similar risk investments is essential for maintaining service quality as well as on-going capital attraction and growth. There can be no assurance that the rate orders issued by the BCUC will permit the Corporation to recover all costs actually incurred and to earn the expected or fair rate of return or an appropriate capitalization.

Rate applications that reflect cost of service and establish revenue requirements are subject to either a public hearing process which may be oral or written, or a negotiated settlement. The BCUC has approved a PBR rate-setting methodology for the Corporation for a term of 2014 through 2019, after an extensive public hearing process. Rates during this term will be determined through a review process which occurs on an annual basis. There can be no assurance that the rate orders issued will permit the Corporation to recover all costs actually incurred and to earn the expected rate of return.

A failure to obtain rates that recover the costs of providing service and provide a reasonable opportunity to earn an appropriate ROE and capital structure as applied for may adversely affect the business carried on by the Corporation, the undertaking or timing of proposed upgrades or expansion projects, ratings assigned by rating agencies, the issue and sale of securities, and other matters which may, in turn, have a material adverse effect on the Corporation's results of operations and financial position.

There is legislation in BC which enables the BCUC to impose administrative monetary penalties on the Corporation, upon finding contravention of a BCUC order, rule, or standard. The penalty amount varies depending on the nature of the violation and it is not recoverable from customers.

Continued Reporting in Accordance with US GAAP

In December 2017, the Ontario Securities Commission ("OSC") approved the 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, 2024; (ii) the first day of the financial year that commences after the Corporation ceases to have activities subject to rate regulation; or (iii) the effective date prescribed by the International Accounting Standards Board ("IASB") for the mandatory application of a standard within International Financial Reporting Standards ("IFRS") specific to entities with activities subject to rate regulation.

The IASB has released an interim, optional standard on Regulatory Deferral Accounts and continues to work on a project focusing on accounting specific to rate-regulated activities. It is not yet known when this project will be completed or whether IFRS will, as a result, include a permanent mandatory standard to be applied by entities with activities subject to rate regulation.

The Corporation continues to closely monitor the efforts of the IASB to issue a permanent standard specific to entities with activities subject to rate regulation. In the event that such a standard will not be issued before, or issued with an effective date after, the expiry of the OSC relief order, the Corporation will consider seeking an extension to the OSC relief order. If the OSC relief does not continue as detailed above, the Corporation would then be required to become a United States Securities and Exchange Commission ("SEC") registrant in order to continue reporting under US GAAP or adopt IFRS.

In the absence of a permanent standard for rate-regulated activities or continued OSC relief, adopting IFRS could result in volatility in the Corporation's earnings as compared to that which would otherwise be recognized under US GAAP.

Asset Breakdown, Operation, Maintenance and Expansion

The Corporation's assets require on-going maintenance, replacement and expansion. Accordingly, to ensure the continued performance of the physical assets, the Corporation determines expenditures that should be made to maintain, replace and expand the assets. The Corporation could experience service disruptions and increased costs if it is unable to maintain, replace or expand its asset base. The inability to recover, through approved rates, the costs of capital expenditures that the Corporation believes are necessary to maintain, replace, expand and remove its assets, the failure by the Corporation to properly implement or complete approved capital expenditure programs or the occurrence of significant unforeseen equipment failures could have a material adverse effect on the Corporation's results of operations and financial position.

The Corporation continually updates its capital expenditure programs and assesses current and future operating, maintenance, replacement, expansion and removal expenses that will be incurred in the ongoing operation of its business. Management's analysis is based on assumptions as to costs of services and equipment, regulatory requirements, revenue requirement approvals, and other matters, which involve some degree of uncertainty. If actual costs exceed regulatory-approved capital expenditures, it is uncertain as to whether such additional costs, if found imprudent, will receive regulatory approval for recovery in future customer rates. The inability to recover these additional costs could have a material adverse effect on the Corporation's results of operations and financial position.

Environment, Health and Safety Matters

The Corporation is subject to numerous laws, regulations and guidelines governing the management, transportation and disposal of hazardous substances and other waste materials and otherwise relating to the protection of the environment and health and safety, for which the Corporation incurs compliance costs. The process of obtaining environmental permits and approvals, including any necessary environmental assessment, can be lengthy, contentious and expensive. Potential environmental damage and costs could arise due to a variety of events, including severe weather and other natural disasters, human error or misconduct, or equipment failure. However, there can be no assurance that such costs will be recoverable through rates and, if substantial, unrecovered costs could have a material adverse effect on the Corporation's results of operations and financial position.

The Corporation is exposed to environmental risks that owners and operators of properties in BC generally face. These risks include the responsibility of any current or previous owner or operator of a contaminated site for remediation of the site, whether or not such person actually caused the contamination. In addition, environmental and safety laws make owners, operators and persons in charge of management and control of facilities subject to prosecution or administrative action for breaches of environmental and safety laws, including the failure to obtain certificates of approval. It is not possible to predict with absolute certainty the position that a regulatory authority will take regarding matters of non-compliance with environmental and safety laws. Changes in environmental, health and safety laws could also lead to significant increases in costs to the Corporation.

Although most of the Corporation's generating and transmission facilities have been in place for many years with no apparent adverse environmental impact, environmental assessments and approvals may be required in the ordinary course of business for existing and future facilities.

Extreme climatic factors could potentially cause government authorities to adjust water flows on the Kootenay River, on which the Corporation's dams and related facilities are located, in order to protect the environment. This adjustment could affect the amount of water available for generation at the Corporation's plants or at plants operated by parties contracted to supply energy to the Corporation.

The trend in environmental regulation has been to impose more restrictions and limitations on activities that may impact the environment, including the generation and disposal of wastes, the use and handling of chemical substances, and conducting environmental impact assessments and remediation. It is possible that other developments may lead to increasingly strict environmental and safety laws, regulations and enforcement policies and claims for damages to property or persons resulting from the Corporation's operations, any one of which could result in substantial costs or liabilities to the Corporation. Any regulatory changes that impose additional environmental restrictions or requirements on the Corporation or its customers could adversely affect the Corporation through increased operating and capital costs.

Scientists and public health experts in Canada, the United States and other countries are studying the possibility that exposure to electro-magnetic fields from power lines, household appliances and other electricity sources may cause health problems. If it were to be concluded that electro-magnetic fields present a health hazard, litigation could result and the Corporation could be required to take mitigation measures on its facilities. The costs of litigation, damages awarded and mitigation measures could be material.

Spills and leaks can occur in the operation of electricity generation and transmission facilities, including, primarily the release of substances such as oil into water or onto land. In addition, historical spills may result in the accumulation of hydrocarbons and polychlorinated biphenyls ("PCB") contaminants in land primarily at substation sites. The Corporation responds to spills and leaks and takes remedial steps in accordance with environmental regulations and standards and sound industry practice; however, there can be no assurance that the Corporation will not be obligated to incur further expenses in connection with changes in environmental regulations and standards or as a result of historical contamination.

Electricity transmission and distribution facilities have the potential to cause fires as a result of equipment failure, trees falling on a transmission or distribution line or lightning strikes to wooden poles. Risks associated with fire damage are related to weather, the extent of forestation, habitation, third party facilities located near the land on which the transmission facilities are situated and third party claims for fire-fighting costs and other damages. Such claims could have a material adverse effect on the Corporation's results of operations and financial position.

Electricity transmission and distribution has inherent potential risks and there can be no assurance that substantial costs and liabilities will not be incurred. Potential environmental damage and costs could materialize due to some type of severe weather event or major equipment failure and there can be no assurance that such costs would be recoverable. Unrecovered costs could have a material adverse effect on the Corporation's results of operations and financial position.

While the Corporation maintains insurance, the insurance is subject to coverage limits as well as time sensitive claims discovery and reporting provisions and there can be no assurance that the possible types of liabilities that may be incurred by the Corporation will be covered by insurance. See "Underinsured and Uninsured Losses" below.

Weather and Natural Disasters

A major natural disaster, such as an earthquake, could severely damage the Corporation's electricity generation, transmission and distribution systems. In addition, the facilities of the Corporation could be exposed to the effects of severe weather conditions and other natural events. Although the Corporation's facilities have been constructed, operated and maintained to withstand severe weather, there is no assurance that they will successfully do so in all circumstances. Furthermore, many of these facilities are located in remote areas which make it more difficult to perform maintenance and repairs if such assets are damaged by weather conditions or other natural events. The Corporation operates facilities in remote and mountainous terrain with a risk of loss or damage from forest fires, floods, washouts, landslides, avalanches and similar natural events. The Corporation has limited insurance against storm damage and other natural disasters. In the event of a large uninsured loss caused by severe weather conditions or other natural disasters, application would be made to the BCUC for the recovery of these costs through higher rates to offset any loss. However, there can be no assurance that the BCUC would approve any such application. Losses resulting from repair costs and lost revenues could substantially exceed insurance coverage and any increased rates. Furthermore, the Corporation could be subject to claims from its customers for damages caused by the failure to transmit or distribute electricity to them in accordance with the Corporation's contractual obligations. Thus, any major damage to the Corporation's facilities could result in lost revenues, repair costs and customer claims that are substantial in amount, and could, therefore, have a material adverse effect on the Corporation's results of operations and financial position.

Permits

The acquisition, ownership and operation of electricity businesses and assets require numerous permits, approvals and certificates from federal, provincial and local government agencies and First Nations. For various reasons, including increased stakeholder participation, the Corporation may not be able to obtain or maintain all required regulatory approvals. If there is a delay in obtaining any required regulatory approval or if the Corporation fails to maintain or obtain any required approval or fails to comply with any applicable law, regulation or condition of an approval, the operation of its assets and the distribution of electricity could be prevented or become subject to additional costs, any of which could have a material adverse effect on the Corporation's results of operations and financial position.

The Corporation's ability to generate electricity from its facilities on the Kootenay River and to receive its entitlement of capacity and energy under the second amended and restated Canal Plant Agreement (the "Canal Plant Agreement") depends upon the maintenance of its water licences issued under the *Water Act* (British Columbia). In addition, water flows in the Kootenay River are governed under the terms of the Columbia River Treaty between Canada and the United States as well as the International Joint Commission's order for Kootenay Lake. Government authorities in Canada and the United States have the power under the treaty and the International Joint Commission order to regulate water flows to protect environmental values in a manner that could adversely affect the amount of water available for the generation of power.

Underinsured and Uninsured Losses

The Corporation maintains insurance coverage with respect to potential liabilities and the accidental loss of value of certain of its assets, in amounts and with such insurers as is considered appropriate, taking into account all relevant factors, including the practices of owners of similar assets and operations. It is anticipated that such insurance coverage will be maintained. However, there can be no assurance that the Corporation will be able to obtain or maintain adequate insurance in the future at rates it considers reasonable. Further, there can be no assurance that available insurance will cover all losses or liabilities that might arise in the conduct of the Corporation's business. The occurrence of a significant uninsured claim or a claim in excess of the insurance coverage limits maintained by the Corporation or a claim that falls within a significant self-insured retention could have a material adverse effect on the Corporation's results of operations and financial position.

In the event of an uninsured loss or liability, the Corporation would apply to the BCUC to recover the loss (or liability) through an increased tariff. However, there can be no assurance that the BCUC would approve any such application, in whole or in part. Any major damage to the Corporation's facilities could result in repair costs and customer claims that are substantial in amount and which could have a material adverse effect on the Corporation's results of operations and financial position.

First Nations

The Corporation provides service to customers on First Nations lands and maintains generation, transmission and distribution facilities on lands that are subject to land claims by various First Nations. A treaty negotiation process involving various First Nations and the Governments of BC and Canada is underway, but the basis upon which settlements might be reached in the Corporation's service area is not clear. Furthermore, not all First Nations are participating in the process. To date, the policy of the Government of BC has been to endeavour to structure settlements without prejudicing existing rights held by third parties such as the Corporation. However, there can be no certainty that the settlement process will not have a material adverse effect on the Corporation's results of operations and financial position.

The Supreme Court of Canada decided in 2010 that before issuing approvals for the addition of new facilities, the BCUC must consider whether the Crown has a duty to consult First Nations and to accommodate, if necessary, and if so whether the consultation and accommodation by the Crown have been adequate. This may affect the timing, cost and likelihood of the BCUC's approval of certain of the Corporation's capital projects.

Labour Relations

The Corporation employs members of labour unions that have entered into collective bargaining agreements with the Corporation. The provisions of such collective bargaining agreements affect the flexibility and efficiency of the business carried on by the Corporation. There can be no assurance that current relations will continue in future negotiations or that the terms under the present collective bargaining agreements will be renewed.

The inability to maintain, or to renew, the collective bargaining agreements on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes, that are not provided for in approved rates and that could have a material adverse effect on the Corporation's results of operations and financial position.

Employee Future Benefits

The Corporation maintains defined benefit pension plans and supplemental pension arrangements. There is no certainty that the plan assets will be able to earn the assumed rate of returns. Market driven changes impacting the performance of the plan assets may result in material variations in actual return on plan assets from the assumed return on the assets causing material changes in net benefit costs. Net benefit cost is impacted by, among other things, the discount rate, changes in the expected mortality rates of plan members, the amortization of experience and actuarial gains or losses and expected return on plan assets. Market driven changes impacting other assumptions, including the assumed discount rate, may also result in future contributions to pension plans that differ significantly from current estimates as well as causing material changes in net benefit cost.

There is also measurement uncertainty associated with net benefit cost, future funding requirements, the net accrued benefit asset and projected benefit obligation due to measurement uncertainty inherent in the actuarial valuation process.

Net benefit cost variances from forecast for rate-setting purposes are recovered through future rates using regulatory deferral accounts approved by the BCUC. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these costs could have a material adverse effect on the Corporation's results of operations and financial position.

Human Resources

The ability of the Corporation to deliver service in a cost-effective manner is dependent on the ability of the Corporation to attract, develop and retain skilled workforces. Like other utilities across Canada, the Corporation is faced with demographic challenges relating to such skilled workforces. The inability to attract, develop and retain skilled workforces could have a material adverse effect on the Corporation.

Information Technology Infrastructure

The ability of the Corporation to operate effectively is dependent upon managing and maintaining information systems and infrastructure that support the operation of distribution, transmission and generation facilities; provide customers with billing and consumption information; and support the financial and general operating aspects of the business. The reliability of the communication infrastructure and supporting systems are also necessary to provide important safety information. System failures could have a material adverse effect on the Corporation.

Cyber-Security

The Corporation operates critical energy infrastructure in its service territory and, as a result, is exposed to the risk of cyber-security violations. Unauthorized access to corporate and information technology systems due to hacking, viruses and other causes could result in service disruptions and system failures. In addition, in the normal course of operation, the Corporation requires access to confidential customer data, including personal and credit information, which could be exposed in the event of a security breach. A security breach could have a material adverse effect on the Corporation's results of operations and financial position.

Interest Rates

The Corporation is exposed to interest rate risks associated with floating rate debt and refinancing of its long-term debt. Regulated interest expense variances from forecast for rate-setting purposes are recovered through future rates using a regulatory deferral account approved by the BCUC. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these costs could have a material adverse effect on the Corporation's results of operations and financial position.

Impact of Changes in Economic Conditions

A general and extended decline in BC's economy or in that of the Corporation's service area in particular, would be expected to have the effect of reducing demand for electricity over time. Electricity sales are influenced by economic factors such as changes in employment levels, personal disposable income, energy prices, housing starts and customer growth. In addition, electricity demand by some of the Corporation's industrial customers could exhibit variations in demand or load in such circumstances.

Regulated electricity revenue variances from forecast for rate-setting purposes are recovered through future rates using regulatory deferral accounts approved by the BCUC. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these variances could have a material adverse effect on the Corporation's results of operations and financial position.

A severe and prolonged downturn in economic conditions could have a material adverse effect on the Corporation despite regulatory measures available for compensating for reduced demand which could have a material adverse effect on the Corporation.

Capital Resources and Liquidity

The Corporation's financial position could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The Corporation's ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the regulatory environment in BC, regulatory decisions regarding capital structure and ROE, the results of operations and financial position of the Corporation, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions. Funds generated from operations, after payment of expected expenses (including interest payments on any outstanding debt), may not be sufficient to fund the repayment of all outstanding liabilities when due and anticipated capital expenditures. There can be no assurance that sufficient capital will be available on acceptable terms to fund capital expenditures and to repay existing debt.

Generally, the Corporation is subject to financial risk associated with changes in the credit ratings assigned by credit rating agencies. Credit ratings impact the level of credit risk spreads on new long-term debt issues and on the Corporation's credit facilities. A change in the credit ratings could potentially affect access to various sources of capital and increase or decrease the Corporation's finance charges. Certain of the Corporation's agreements could require additional credit collateral, such as letters of credit, should there be a deterioration in the Corporation's credit ratings or creditworthiness. Global financial crises have placed scrutiny on rating agencies and rating agency criteria that may result in changes to credit rating practices and policies.

Volatility in the global financial and capital markets may increase the cost of and affect the timing of issuance of long-term capital by the Corporation.

Competitiveness and Commodity Price Risk

While the Corporation currently meets the majority of its current customer supply requirements from its own generation and long-term power purchase contracts, a portion of the customer load is supplied from the market in the form of short-term and spot market power purchases. The commodity price associated with the cost of purchased power is affected by changes in world oil prices, natural gas prices and water levels on a regional basis. Purchase power cost variances from forecast for rate-setting purposes are recovered through future rates using a regulatory deferral account approved by the BCUC. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these costs could have a material effect on the Corporation's results of operations and financial position. If the Corporation's price of electricity becomes too high or uncompetitive with other electricity providers or the price of other forms of energy, the Corporation's ability to recover its cost of service may be negatively affected.

The Corporation's indirect customers are directly served by the Corporation's wholesale customers, who themselves are municipal utilities. Those utilities may be able to obtain alternate sources of energy supply which would result in decreased demand, higher rates and, in an extreme case, could ultimately lead to an inability to fully recover the Corporation's cost of service in rates charged to customers.

Power Purchase and Capacity Sale Contracts

The Corporation has entered into power purchase contracts and resale contracts for excess capacity. The Corporation may not be able to secure extensions of power purchase contracts at their expiration dates or, if the agreements are not extended, an alternate supply of similarly-priced electricity. In addition, the Corporation may not be able to secure additional capacity resale contracts. The Corporation is also exposed to risk in the event of non-performance by counterparties to the various power purchase and resale contracts.

Weather Related Risk

Fluctuations in the amount of electricity used by customers can vary significantly in response to seasonal changes in weather. Cool summers may reduce air-conditioning demand, while warm winters may reduce electric heating load. Electricity revenue variances from forecast for rate-setting purposes are recovered through future rates using regulatory deferral accounts approved by the BCUC. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these revenue variances could have a material adverse effect on the Corporation's results of operations and financial position.

Prolonged adverse weather conditions could lead to a significant and sustained loss of precipitation over the headwaters of the Kootenay River system, which could reduce the Corporation's entitlement to capacity and energy under the Canal Plant Agreement.

NEW ACCOUNTING POLICIES

Simplifying the Test for Goodwill Impairment

Effective January 1, 2017, the Corporation adopted Accounting Standards Update ("ASU") No. 2017-04, *Simplifying the Test for Goodwill Impairment*. The amendments in this update simplify the subsequent measurement of goodwill by eliminating step two in the current two-step goodwill impairment test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. The above-noted ASU was applied prospectively and did not impact the Corporation's annual consolidated financial statements for the year ended December 31, 2017.

FUTURE ACCOUNTING PRONOUNCEMENTS

FBC considers the applicability and impact of all ASU's 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.

Revenue from Contracts with Customers

ASU No. 2014-09 was issued in May 2014 and the amendments in this update, along with additional ASUs issued in 2016 and 2017 to clarify implementation guidance, create Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, and supersede 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 analyse an entity's revenues across industries and transactions.

The new guidance permits two methods of adoption: (i) the full retrospective method, under which comparative periods would be restated, and the cumulative impact of applying the standard would be recognized as at January 1, 2017, the earliest period presented; and (ii) the modified retrospective method, under which comparative periods would not be restated and the cumulative impact of applying the standard would be recognized at the date of initial adoption, supplemented by additional disclosures. The Corporation adopted the guidance on January 1, 2018 using the modified retrospective method and there have been no adjustments identified to the opening balance sheet or retained earnings.

FBC has assessed tariff revenue, which represents more than 96 per cent of the Corporation's consolidated revenue at December 31, 2017, and has concluded that the adoption of this standard will not change the Corporation's accounting policy for recognizing tariff revenue and therefore, will not have an impact on earnings. FBC has completed assessments and conclusions on less material revenue streams and does not expect any adjustments.

The Corporation will add additional disclosures to address the requirement to provide more information regarding the nature, amount, timing and uncertainty of revenue and cash flows, which will result in revenues that fall outside the scope of the new standard, including alternative revenue programs, being presented separately. The Corporation will present revenue in three categories: (1) revenue from contracts with customers, which will include tariff revenue; (2) alternative revenue programs; and (3) other revenue. The Corporation's revenue is not currently disaggregated, but upon implementation of the new guidance FBC will disaggregate by customer class as it is consistent with other externally reported documents of the Corporation.

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

ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, was issued in March 2017 and the amendments in this update require that an employer disaggregate the current service costs component of net benefit cost and present it in the same statement of earnings line item as other employee compensation costs arising from services rendered. The other components of net benefit cost are required to be presented separately from the service cost component and outside of operating income. Additionally, the amendments allow only the service cost component to be eligible for capitalization when applicable. This update is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted, however, early adoption must be within the first interim period of a reporting year. The amendments in this update should be applied retrospectively for the presentation of the net periodic benefit costs and prospectively, on and after the effective date, for the capitalization in assets of only the service cost component of net periodic benefit costs. The Corporation adopted this ASU on January 1, 2018 and there are no material adjustments expected on its consolidated financial statements and related disclosures.

FINANCIAL INSTRUMENTS

Fair Value Estimates

The following table summarizes the fair value measurements of the Corporation's long-term debt as of December 31, 2017 and 2016, all of which is Level 2 of the fair value hierarchy and recorded on the consolidated balance sheets at its carrying value:

	2017		2016	
($ millions)	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long-term debt [1,2]	**735**	**902**	660	791

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

[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.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation's consolidated 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. The Corporation's critical accounting estimates are discussed as follows.

Regulation

Generally, the accounting policies of the Corporation's regulated operations are subject to examination and approval by the regulatory authority, the BCUC. These accounting policies may differ from those used by entities not subject to rate regulation. The timing of the recognition of certain assets, liabilities, revenues and expenses, as a result of regulation, may differ from that otherwise expected using US GAAP for entities not subject to rate regulation. Regulatory assets and regulatory liabilities arise as a result of the rate-setting process and have been recognized based on previous, existing or expected regulatory orders or decisions. Certain estimates 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. The final amounts approved by the regulatory authority for deferral as regulatory assets and regulatory liabilities and the approved recovery or settlement periods may differ from those originally expected. Any resulting adjustments to original estimates are recognized in earnings in the period in which they become known. In the event that a regulatory decision is received after the balance sheet date but before the consolidated financial statements are issued, the facts and circumstances are reviewed to determine whether or not it is a recognized subsequent event. As at December 31, 2017, the Corporation recognized $340 million in current and long-term regulatory assets (2016 - $335 million) and $22 million in current and long-term regulatory liabilities (2016 - $23 million).

Depreciation, Amortization and Removal Costs

Depreciation and amortization are estimates based primarily on the useful life of assets. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at December 31, 2017, the Corporation's property, plant and equipment and intangible assets were $1,554 million, or approximately 71 per cent of total assets, compared to $1,510 million, or approximately 70 per cent of total assets as at December 31, 2016. Changes in depreciation and amortization rates may have a significant impact on the Corporation's consolidated depreciation and amortization expense.

As part of the customer rate-setting process, appropriate depreciation and amortization rates are approved by the BCUC. The depreciation and amortization periods used and the associated rates are reviewed on an ongoing basis to ensure they continue to be appropriate. From time to time, independent third-party depreciation studies are performed and based on the results of these depreciation studies, the impact of any over-or-under depreciation and amortization as a result of actual experience differing from that expected and provided for in previous depreciation and amortization rates is generally reflected in future depreciation and amortization rates and expense.

As approved by the BCUC, effective January 1, 2016 a net salvage provision is now collected as a component of depreciation on an accrual basis, with actual removal costs incurred drawing down the regulatory liability balance. Removal costs are the direct costs incurred by the Corporation in taking assets out of service.

Capitalized Overhead

As required by the BCUC, the Corporation capitalizes overhead costs consistent with amounts approved by the BCUC to property, plant and equipment and intangible assets, which relate to the overall capital expenditure program. These capitalized overheads are allocated over constructed property, plant and equipment and intangible assets and amortized over their estimated service lives. The methodology for calculating and allocating these general expenses to property, plant and equipment and intangible assets is established by the BCUC. In 2017, capitalized overhead totaled $9 million (2016 - $9 million). Any change in the methodology of calculating and allocating general overhead costs to property, plant and equipment and intangible assets could have a significant impact on the amount recorded as operating costs and property, plant and equipment and intangible assets.

Assessment for Impairment of Goodwill

The Corporation is required to perform, at least on an annual basis, an impairment test for goodwill, and any impairment provision has to be charged to earnings. The annual impairment test is performed as at October 1. In addition the Corporation also performs an impairment test if any event occurs or if circumstances change that would indicate that the fair value was below its carrying value. No such event or change in circumstances occurred during 2017 or 2016.

As at December 31, 2017 goodwill totaled $235 million (2016 - $235 million).

The Corporation performs an annual internal quantitative assessment and fair value is estimated when: (i) management's assessment of quantitative and qualitative factors indicates that fair value is not 50 per cent or more likely to be greater than carrying value; or (ii) the excess of estimated fair value compared to carrying value, as determined as of the date of the immediately preceding goodwill impairment test, was not significant. Irrespective of the above noted criteria, the Corporation will estimate the fair value as at the annual impairment date, at a minimum once every five years.

As at October 1, 2017, the Corporation chose to perform internal quantitative and qualitative assessments for goodwill and concluded that it is more likely than not that the fair value of the reporting unit was greater than the carrying value. It was concluded that goodwill was not impaired.

Employee Future Benefits

The Corporation's defined benefit pension plans and supplemental pension arrangements and Other Post-Employment Benefits ("OPEB") plan are subject to judgments utilized in the actuarial determination of the net benefit cost and related obligation. The main assumptions utilized by management in determining net benefit cost and obligation are the discount rate for the projected benefit obligation and the expected long-term rate of return on plan assets.

The assumed long-term rate of return on the defined benefit pension plan assets, for the purpose of determining pension net benefit cost for 2017, was 6.00 per cent. This is consistent with the 6.00 per cent assumed long-term rate of return used for 2016. As two of the Corporation's defined benefit pension plans have excess interest indexing provisions, which provide that a portion of investment returns are allocated to provide for indexing of pension benefits, the projected benefit obligations may vary based on the expected long-term rate of return on plan assets.

The assumed discount rate, used to measure the projected pension benefit obligations on the measurement date of December 31, 2017, and to determine net pension cost for 2018, is 3.50 per cent, which is a decrease from the assumed discount rate of 3.75 per cent used to measure the projected benefit obligations as at December 31, 2016, and to determine net pension cost for 2017.

The long-term rate of return is based on the expected average return of the assets over a long period given the relative asset mix. The discount rate is determined with reference to the current market rate of interest on high quality debt instruments with cash flows that match the time and amount of expected benefit payments.

The Corporation expects net benefit pension cost for 2018 related to its defined benefit pension plans, prior to regulatory adjustments, to be consistent with 2017, which is due to an increase in the expected return on plan assets due to higher plan asset values, offset by increases in service costs and interest costs driven by a lower discount rate.

The following table provides the sensitivities associated with a 100 basis point change in the expected long-term rate of return on pension plan assets and the discount rate on 2017 net benefit pension cost, and the related projected benefit obligations recognized in the Corporation's consolidated financial statements:

Increase (decrease) ($ millions)	**Net Benefit Cost**	**Projected Benefit Obligation**
1% increase in the expected rate of return	**(1)**	**2**
1% decrease in the expected rate of return	**(1)**	**(15)**
1% increase in the discount rate	**(3)**	**(40)**
1% decrease in the discount rate	**5**	**52**

The above table reflects the changes before the effect of any regulatory deferral mechanism approved by the BCUC. The Corporation currently has in place BCUC approved mechanisms to defer variations in pension net benefit costs from forecast net benefit costs, used to set customer rates, as a regulatory asset or liability.

Other significant assumptions applied in measuring net benefit pension cost and/or the projected benefit obligation include the average rate of compensation increase, average remaining service life of the active employee group, and employee and retiree mortality rates.

The Corporation's OPEB plan is also subject to judgments utilized in the actuarial determination of the OPEB net benefit cost and related projected benefit obligation. Except for the assumption of the expected long-term rate of return on plan assets, the above assumptions, along with health care cost trends, were also utilized by management in determining OPEB plan net benefit cost and projected benefit obligation. The Corporation currently has in place a BCUC approved mechanism to defer variations in OPEB net benefit costs from forecast OPEB net benefit costs, used to set customer rates, as a regulatory asset or liability.

As at December 31, 2017, the Corporation had a pension projected benefit net liability of $30 million (2016 - $27 million) and an OPEB projected benefit liability of $27 million (2016 - $33 million). During 2017, the Corporation recorded pension and OPEB net benefit cost, inclusive of regulatory adjustments, of $7 million (2016 - $7 million).

Asset Retirement Obligations ("AROs")

FBC has recorded an ARO associated with the removal of PCB contaminated oil from its electrical equipment. AROs are legal obligations associated with the retirement of long-lived assets. A liability is recorded in the period in which the obligation can be reasonably estimated at the present value of the estimated fair value of the future costs. The determination of the ARO depends upon management's best estimates relating to factors such as timing, amount and nature of future cash flows necessary to discharge the legal obligation and comply with existing legislation or regulations, as well as the use of a credit-adjusted risk-free rate for measurement purposes. There are uncertainties in estimating future asset retirement costs due to potential external events such as changing legislation or regulations and advances in remediation technologies. It is possible that volumes of contaminated assets, inflation assumptions, cost estimates to perform the work and the assumed pattern of annual cash flows may differ significantly from the Corporation's current assumptions. In addition, in order to remove certain PCB-contaminated oil, the ability to take maintenance outages in critical facilities may impact the timing of expenditures. The ARO may change from period to period because of the changes in the estimation of these uncertainties.

Revenue Recognition

The Corporation recognizes revenue on an accrual basis. Recording revenue on an accrual basis requires use of estimates and assumptions. Customer bills are issued throughout the month based on meter readings or estimates that establish electricity consumption by customers since the last meter reading. The unbilled revenue accrual for the period is based on estimated electricity sales to customers for the period since the last meter reading at the approved rates. The development of the sales estimates requires analysis of consumption on a historical basis in relation to key inputs, such as the current price of electricity, population growth, economic activity, weather conditions and system losses. The estimation process for accrued unbilled electricity consumption will result in adjustments to electricity revenue in the periods they become known when actual results differ from the estimates. As at December 31, 2017, the amount of accrued unbilled revenue recorded in accounts receivable was approximately $25 million (2016 - $23 million) on annual electricity revenues of $365 million (2016 - $335 million).

Income Taxes

Income taxes are determined based on estimates of the Corporation's current income taxes and estimates of deferred income taxes resulting from temporary differences between the carrying value of assets and liabilities in the consolidated financial statements and their tax values. A deferred income tax asset or liability is determined for each temporary difference based on enacted income tax rates and laws in effect when the temporary differences are expected to be recovered or settled. Deferred income tax assets are assessed for the likelihood that they will be recovered from future taxable income. To the extent recovery is not considered more likely than not, a valuation allowance is recognized against earnings in the period when the allowance is created or revised. Estimates of the provision for current income taxes, deferred income tax assets and liabilities, and any related valuation allowance, might vary from actual amounts incurred.

During the year ended December 31, 2017, the Province of British Columbia enacted a corporate income tax rate increase of 1.00 per cent effective January 1, 2018. As a result, the combined Federal and BC provincial corporate tax rate will increase from 26.00 per cent to 27.00 per cent in 2018.

Contingencies

Contingencies are described in the "Business Outlook" section of this MD&A.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table sets forth audited financial information for the years ended December 31, 2017, 2016 and 2015. These results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Years Ended December 31	**2017**	2016	2015
($ millions)			
Revenues	**381**	361	346
Net earnings	**50**	49	46
Total assets	**2,189**	2,144	2,119
Long-term debt, excluding current portion	**729**	654	654
Dividends on common shares	**47**	53	22

2017/2016 - Revenues increased $20 million over 2016 and net earnings increased $1 million over 2016. For a discussion of the reasons for the increase in revenues and net earnings, refer to the "Consolidated Results of Operations" section of this MD&A.

2016/2015 – Revenues increased $15 million over 2015 and net earnings increased $3 million over 2015. The increase in revenues was due to a 2.96 per cent rate increase effective January 1, 2016, partially offset by lower non-regulated sales as a result of the sale of the WPP non-regulated hydroelectric power plant assets in February 2016. Additionally, revenues increased as a result of higher surplus capacity sales and an increase in amortization of prior period flow-through adjustment variances returned to customers during 2016. Net earnings increased due to the sale of the WPP non-regulated assets, which closed during the first quarter of 2016 and resulted in lower earnings during the year ended 2015, as well as a $1 million gain, net of tax and transaction costs, on the sale of the WPP non-regulated assets in February 2016, and a higher investment in regulated assets.

The increase in total assets from 2015 to 2017 was primarily due to capital expenditures. Long-term debt, which is used to finance the debt portion of capital expenditures, increased during 2017 due to the issuance of the $75 million MTN Debenture Series 4. Dividends are paid to assist in maintaining the BCUC approved capital structure of 40 per cent equity.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended March 31, 2016 through December 31, 2017. The information has been obtained from the Corporation's unaudited interim consolidated 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)		
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
September 30, 2016	85	9
June 30, 2016	80	14
March 31, 2016	99	14

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.

March 2017/2016 – The decrease in net earnings was primarily due to a $1 million gain, net of tax and transaction costs, on the sale of the non-regulated WPP assets in February 2016.

June 2017/2016 - The increase in net earnings was primarily due to higher operating and maintenance savings, net of the regulated Earnings Sharing Mechanism.

September 2017/2016 - The increase in net earnings was primarily due to higher operating and maintenance savings, net of the regulated Earnings Sharing Mechanism, and higher investment in regulated assets.

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.

BUSINESS OUTLOOK

Collective Agreements

There are two collective agreements between the Corporation and Local 378 of the Canadian Office and Professional Employees Union ("COPE"). The first collective agreement, representing employees in specified occupations in the areas of administration and operations support, expires December 31, 2018. The second collective agreement, representing customer service employees, was ratified in the first quarter of 2017 and expires on March 31, 2022.

The collective agreement between the Corporation and Local 213 of the International Brotherhood of Electrical Workers ("IBEW") was ratified in December 2017, is effective February 1, 2018 and expires on January 31, 2021. IBEW represents employees in specified occupations in the areas of generation, transmission and distribution.

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 is waiting on confirmation that the other defendants will agree to the consent dismissal order. The outcome cannot be reasonably determined or estimated at this time and, accordingly, no amount has been accrued in the financial statements.

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.

For further information, please contact:

Ian Lorimer
Vice President, Finance and Chief Financial Officer
Tel: (250) 469-8013; Email: ian.lorimer@fortisbc.com
FortisBC Inc.
Suite 100, 1975 Springfield Road
Kelowna, BC V1Y 7V7

Website: www.fortisbc.com