FORTIS BC™

FortisBC Inc.
Management Discussion & Analysis
For the Three Months Ended March 31, 2018
Dated April 30, 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 months ended March 31, 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; 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 Corporation's MD&A 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 173,000 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 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 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.

FORTIS BC

CONSOLIDATED RESULTS OF OPERATIONS

Quarter Ended March 31	**2018**	2017	Variance
Electricity sales (GWh)	**920**	945	(25)
($ millions)			
Revenue from contracts with customers	**107**	103	4
Alternative revenue	**(4)**	-	(4)
Other revenue	**5**	4	1
Total revenues [1]	**108**	107	1
Power purchase costs	**44**	46	(2)
Operating costs [2]	**20**	16	4
Property and other taxes	**4**	4	-
Depreciation and amortization	**15**	16	(1)
Total expenses	**83**	82	1
Operating income	**25**	25	-
Add: Other income [2]	**1**	-	1
Less: Finance charges	**10**	9	1
Earnings before income taxes	**16**	16	-
Income taxes	**3**	3	-
Net earnings	**13**	13	-

[1] The components of 2018 total revenues have been presented pursuant to adopting Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers, and the Corporation adopting the modified retrospective method which did not affect the net earnings quarter over quarter.

[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* and the Corporation adopting the retrospective application which did not affect the net earnings comparison quarter over quarter.

Net Earnings

Net earnings for the first quarter ended March 31, 2018 were $13 million, consistent with net earnings in the first quarter of 2017.

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.

Electricity Sales

The decrease in electricity sales for the first quarter of 2018 was primarily due to lower consumption as a result of colder than normal weather in the first quarter of 2017, partially offset by higher usage by Commercial customers.

Revenues

Effective January 1, 2018, the Corporation adopted ASC Topic 606, *Revenue from Contracts with Customers* using the modified retrospective approach. Companies electing this approach recognize the cumulative effect of initially applying the new guidance as an adjustment to the opening balance of retained earnings in the period of initial application without adjusting 2017 or prior periods. FBC did not identify any adjustments to the opening balance sheet or retained earnings.

As a result of adopting the new revenue recognition guidance, tariff-based sales previously presented as electricity revenue during 2017 and prior years, are now included as part of a new category within total revenues called revenue from contracts with customers. Revenue from contracts with customers also includes fees charged for tariff-based customer connection, revenue from non-tariff sources for surplus capacity sales, revenue from third party contract work, and pole attachment revenue that were all previously presented as other revenue in 2017 and prior years.

In addition, as a result of adopting ASC Topic 606, the Corporation has accounted for certain revenue related regulatory mechanisms as alternative revenue that were previously included in other revenue. The Corporation has identified its Earnings Sharing Mechanism and Flow-through variances related to tariff-based revenue as alternative revenue.

Other revenue is primarily comprised of regulatory deferral adjustments that capture variances from regulated forecast items, excluding formulaic operation and maintenance costs, and flow those variances through customer rates in the following year. 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 of $1 million for the first quarter of 2018 was primarily a result of an increase in the revenue recognized from third party contract work that was previously reported net of associated costs to perform the work, partially offset by a decrease in revenue recognized from tariff-based sales as a result of lower electricity sales.

Rates charged for tariff-based sales were consistent for both periods.

Power Purchase Costs

The decrease in power purchase costs for the first quarter of 2018 was primarily due to lower purchase volumes, driven by a decrease in electricity sales, and lower average power purchase prices.

Operating Costs

Operating costs include operating and maintenance expenses, water fees, and wheeling. The increase in operating costs for the first quarter of 2018 was primarily a result of recognizing costs associated with third party contract work relating to revenue from contracts with customers, as well as an increase in the service costs component of pension and other post-employment benefit ("OPEB") expense.

As a result of retrospectively adopting ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, effective January 1, 2018, only the service cost component of net benefit cost was recognized in operating costs for both quarters ended March 31, 2018 and 2017, while the non-service cost component is now recognized in other income. The adoption of ASU No. 2017-07 resulted in a $1 million increase in operating costs in the first quarter of 2018, and no change to operating costs in the first quarter of 2017.

Property and Other Taxes

Property and other taxes were comparable between the first quarters of 2018 and 2017.

Depreciation and Amortization

The decrease in depreciation and amortization for the first quarter of 2018 was primarily due to a decrease in amortization of certain regulatory assets as compared to the first quarter of 2017, partially offset by an increase in depreciation due to an increase in the depreciable asset base.

Other Income

As a result of retrospectively adopting ASU No. 2017-07, effective January 1, 2018, the non-service cost component of net benefit cost is now recognized in other income for both quarters ended March 31, 2018 and 2017, while the service cost component continues to be recognized in operating costs. The adoption of ASU No. 2017-07 resulted in a $1 million increase in other income in the first quarter of 2018, and no change to other income in the first quarter of 2017.

The increase in other income for the first quarter of 2018 was primarily due to an increase in the non-service cost component of pension and OPEB expense.

Finance Charges

The increase in finance charges for the first quarter of 2018 was primarily due to the issuance of $75 million of Medium Term Note Debentures ("MTN Debentures") in December 2017.

Income Taxes

Income taxes were comparable between the first quarters of 2018 and 2017. The higher deductible temporary differences, mainly attributable to lower amortization of certain regulatory assets, were offset by the 1.0 per cent increase in the BC provincial statutory tax rate effective January 1, 2018, resulting from legislation enacted in November 2017.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the Consolidated Balance Sheets between March 31, 2018 and December 31, 2017:

Balance Sheet Account	Increase (Decrease) ($ millions)	Explanation
Property, plant and equipment	**11**	The increase was primarily due to capital expenditures of $29 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 $10 million, • changes in non-cash working capital related to capital accruals of $4 million, • changes in capital lease assets of $1 million, the offset of which has been recognized in regulatory assets, and • contributions in aid of construction of $3 million received.
Regulatory assets (current and long-term)	**10**	The increase was primarily due to the recognition of $9 million relating to the Brilliant Power Purchase Agreement ("BPPA") asset and obligation under capital lease and an increase of $1 million in regulated deferred income tax liabilities, both of which have been offset by a regulatory asset of the same amount.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Consolidated Cash Flows

Quarter Ended March 31	**2018**	2017	Variance
($ millions)			
Cash flows provided by (used for)			
Operating activities	**35**	40	(5)
Investing activities	**(26)**	(20)	(6)
Financing activities	**(9)**	(20)	11
Net change in cash	**-**	-	-

Operating Activities

Cash provided by operating activities was $5 million lower compared to the first quarter of 2017. The decrease was primarily due to changes in non-cash working capital, partially offset by changes in long-term regulatory assets and liabilities.

Investing Activities

Cash used for investing activities was $6 million higher compared to the first quarter of 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 $11 million lower compared to 2017. During the first quarter of 2018, net proceeds from credit facilities were used to finance the debt portion of FBC's capital expenditure program and any shortfalls in working capital, whereas during the first quarter of 2017 credit facilities were repaid with cash flows from operations.

During the quarter ended March 31, 2018, FBC paid a common share dividend of $11 million (2017 - $11 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 March 31, 2018	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	2,969	81	85	80	78	77	2,568
Capital lease obligations	2,169	43	44	45	45	46	1,946
Interest obligations on long-term debt	909	38	38	38	38	36	721
Long-term debt [1]	735	-	-	-	25	-	710
Other	10	7	1	1	-	-	1
Totals	6,792	169	168	164	186	159	5,946

[1] Excludes unamortized debt issuance costs.

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

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 2018 projected capital expenditures are approximately $100 million which include the 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 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 March 31, 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.

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

($ millions)	**March 31, 2018**	December 31, 2017
Operating credit facility	**150**	150
Demand overdraft facility	**10**	10
Draws on operating credit facility	**(53)**	(50)
Draws on overdraft facility	**(3)**	(4)
Letters of credit outstanding	**(1)**	(1)
Credit facilities available	**103**	105

OFF-BALANCE SHEET ARRANGEMENTS

As at March 31, 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 months ended March 31 were as follows:

($ millions)	**2018**	2017
Operating costs and other revenue charged to FortisBC Pacific (a)	**2**	2
Operating costs charged to FEI (b)	**2**	2
Total related party recoveries	**4**	4

(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 months ended March 31 were as follows:

($ millions)	**2018**	2017
Power purchase costs charged by WELP (a)	**15**	16
Operating costs charged by Fortis (b)	**1**	1
Operating costs charged by FEI (c)	**1**	1
Total related party costs	**17**	18

(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 purchases, office rent, management services, and other labour.

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:

	March 31, 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	(1)
WELP	**-**	**(10)**	-	(11)
Total due from (due to) related parties	**3**	**(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.

NEW ACCOUNTING POLICIES

Revenue from Contracts with Customers

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

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

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

The Corporation disaggregates revenue by type of customer, as disclosed in note 13 of Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2018. This represents the level of disaggregation used by the Corporation to evaluate performance.

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

Effective January 1, 2018, the Corporation adopted ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* The amendments in this update require that an employer disaggregate the current service cost component of net benefit cost and present it in the same statement of earnings line item(s) 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. On adoption, the Corporation applied retrospectively the presentation of the net periodic benefit costs, and prospectively the capitalization in assets of only the service cost component of net periodic benefit costs. The adoption of this ASU did not have a material impact on the Corporation's Condensed Consolidated Interim Financial Statements for the quarter ended March 31, 2018.

FUTURE ACCOUNTING PRONOUNCEMENTS

FBC considers the applicability and impact of all ASUs issued by the Financial Accounting Standards Board ("FASB"). The following updates have been issued by FASB, but have not yet been adopted by FBC. Any ASUs not included below were assessed and determined to be either not applicable to the Corporation or are not expected to have a material impact on the Consolidated Financial Statements.

Leases

ASU No. 2016-02 was issued in February 2016 and the amendments in this update, along with an additional ASU issued in 2018 to provide additional optional practical expedients, create ASC Topic 842, *Leases*, and supersede lease requirements in ASC Topic 840, *Leases*. The main provision of ASC Topic 842 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. For operating leases, a lessee is required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; (ii) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis; and (iii) classify all cash payments within operating activities in the statement of cash flows. These amendments also require qualitative disclosures along with specific quantitative disclosures. This update is effective for annual and interim periods beginning after December 15, 2018 and is to be applied using a modified retrospective approach with practical expedient options. Early adoption is permitted.

FBC expects to elect a package of practical expedients that allow the Corporation 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. Any significant developments in its implementation efforts could change the Corporation's expected election of transition practical expedients.

FBC continues to assess the impact that the adoption of this ASU will have on its Consolidated Financial Statements and continue to monitor standard-setting activities that may affect the transition requirements of the new lease standard.

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:

	March 31, 2018		December 31, 2017	
($ millions)	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long-term debt, including current portion [1,2]	**735**	**892**	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.

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 first quarter of 2018 from those disclosed in the Corporation's 2017 annual MD&A.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended June 30, 2016 through March 31, 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)		
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
September 30, 2016	85	9
June 30, 2016	80	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 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.

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.

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

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, 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 as have the other defendants. A consent dismissal order is in the process of being filed in the Supreme Court Registry. Given that the claim will be dismissed, by consent, 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.

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