FortisBC Inc.

An indirect subsidiary of Fortis Inc.

Interim Consolidated Financial Statements
For the three months ended March 31, 2013 and 2012
(Unaudited)

Prepared in accordance with United States Generally Accepted Accounting Principles

FortisBC Inc.
Consolidated Balance Sheets (US GAAP) (Unaudited)
As at
(all amounts are in millions of Canadian dollars)

ASSETS	March 31, 2013	December 31, 2012
Current assets		
Cash and cash equivalents	**$ 0.4**	$ 1.8
Accounts receivable	**41.7**	39.8
Prepaid expenses	**3.0**	1.0
Other assets	**0.4**	0.4
Materials and supplies	**0.5**	0.5
Regulatory assets	**7.0**	6.3
Deferred income taxes	**1.1**	0.6
	54.1	50.4
Other assets	**6.5**	6.7
Regulatory assets	**297.1**	285.1
Property, plant and equipment	**1,360.5**	1,323.4
Intangible assets	**45.0**	44.8
Goodwill	**234.7**	220.7
	$ 1,997.9	$ 1,931.1
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and other current liabilities	**$ 55.2**	$ 41.6
Current portion of long-term debt (note 6)	**2.1**	0.9
Regulatory liabilities	**3.5**	2.0
Income taxes payable	**1.4**	0.3
Deferred income taxes	**2.3**	2.1
Current portion of capital lease and finance obligations	**0.5**	0.5
	65.0	47.4
Long-term debt (note 6)	**692.0**	660.0
Capital lease and finance obligations	**319.4**	312.4
Pension and other post-employment benefits	**80.7**	80.5
Regulatory liabilities	**6.8**	7.0
Other liabilities	**3.7**	3.7
Deferred income taxes	**109.7**	110.3
	1,277.3	1,221.3
Shareholder's equity		
Common shares [(a)]	**201.9**	201.9
Additional paid-in capital	**321.8**	321.8
Retained earnings	**196.9**	186.1
	720.6	709.8
	$ 1,997.9	$ 1,931.1

(a) Par value of $100 each, authorized common shares of 500 million and 2.0 million issued and outstanding as at March 31, 2013 and December 31, 2012.

Contingencies (note 12)

The accompanying notes are an integral part of these interim consolidated financial statements.

FortisBC Inc.
Consolidated Statements of Earnings (US GAAP) (Unaudited)
For the three months ended March 31
(all amounts are in millions of Canadian dollars)

	2013	2012
Revenues		
Electricity revenue	**$ 83.9**	$ 81.9
Other revenue	**0.6**	1.2
	84.5	83.1
Expenses		
Power purchase costs	**24.5**	25.4
Operating costs	**17.7**	18.2
Depreciation and amortization	**12.4**	12.2
	54.6	55.8
Operating income	**29.9**	27.3
Other income	**0.5**	0.1
Finance charges (note 7)	**9.5**	10.0
Earnings before income taxes	**20.9**	17.4
Income taxes	**3.6**	2.3
Net earnings	**$ 17.3**	$ 15.1

FortisBC Inc.
Consolidated Statements of Changes in Equity (US GAAP) (Unaudited)
For the three months ended March 31
(all amounts are in millions of Canadian dollars)

	Common Shares	Additional Paid-in Capital	Retained Earnings	Total
As at December 31, 2011	$ 201.9	$ 321.8	$ 161.1	$ 684.8
Net earnings	-	-	15.1	15.1
Dividends on common shares	-	-	(4.5)	(4.5)
As at March 31, 2012	201.9	321.8	171.7	695.4
As at December 31, 2012	**201.9**	**321.8**	**186.1**	**709.8**
Net earnings	**-**	**-**	**17.3**	**17.3**
Dividends on common shares	**-**	**-**	**(6.5)**	**(6.5)**
As at March 31, 2013	**$ 201.9**	**$ 321.8**	**$ 196.9**	**$ 720.6**

The accompanying notes are an integral part of these interim consolidated financial statements.

FortisBC Inc.
Consolidated Statements of Cash Flows (US GAAP) (Unaudited)
For the three months ended March 31
(all amounts are in millions of Canadian dollars)

	2013	2012
Cash flows from (used in)		
Operating activities		
Net earnings	**$ 17.3**	$ 15.1
Adjustments for non-cash items		
Depreciation and amortization	**12.5**	12.3
Equity component of allowance for funds used during construction	**(0.6)**	(0.1)
Change in long-term regulatory assets and liabilities	**(0.2)**	0.2
Change in other assets and liabilities	**(0.1)**	0.1
Changes in non-cash working capital (note 9)	**13.7**	6.3
	42.6	33.9
Investing activities		
Change in other assets and other liabilities	**0.2**	0.2
Capital expenditures - property, plant and equipment (note 9)	**(16.2)**	(16.0)
Capital expenditures - intangible assets (note 9)	**(0.8)**	(1.2)
Contributions in aid of construction	**1.1**	0.8
Business acquisition (see note 5)	**(55.0)**	-
	(70.7)	(16.2)
Financing activities		
Proceeds from (repayment of) credit facilities	**33.5**	(12.9)
Repayment of mortgage	**(0.3)**	(0.2)
Dividends on common shares	**(6.5)**	(4.5)
	26.7	(17.6)
Net (decrease) increase in cash and cash equivalents	**(1.4)**	0.1
Cash and cash equivalents at beginning of period	**1.8**	-
Cash and cash equivalents at end of period	**$ 0.4**	$ 0.1

Supplementary Information to Consolidated Statements of Cash Flows (note 9).

The accompanying notes are an integral part of these interim consolidated financial statements.

1. DESCRIPTION OF THE BUSINESS

FortisBC Inc. ("FortisBC" or the "Corporation") was incorporated by an Act of the Legislature of British Columbia ("BC"). The Corporation is a wholly-owned subsidiary of FortisBC Pacific Holdings Inc. ("FortisBC Pacific") which is an indirect wholly-owned subsidiary of Fortis Inc. ("Fortis"), a Canadian public company.

FortisBC is an integrated, regulated electric utility which owns and operates a network of generation, transmission and distribution assets located in the southern interior of BC. The Corporation serves residential, commercial, wholesale and industrial consumers of electricity. The Corporation's generation assets include four regulated hydroelectric generating plants on the Kootenay River with an aggregate capacity of 223 megawatts and a non-regulated 16 megawatt run-of-river hydroelectric generating plant near Lillooet, BC. The Corporation's regulated transmission and distribution assets consist of a network of transmission and distribution power lines, substations and support structures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") for interim financial statements. As a result, these interim consolidated financial statements do not include all of the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with FortisBC's 2012 annual audited consolidated financial statements prepared in accordance with US GAAP. In management's opinion, the interim consolidated financial statements include all adjustments, consisting solely of normal recurring adjustments, necessary to present fairly such information.

The interim consolidated financial statements include the accounts of the Corporation and its wholly-owned partnership and subsidiaries, Walden Power Partnership ("WPP"), ESI Power-Walden Corporation Ltd. and West Kootenay Power Ltd. All material inter-company transactions have been eliminated upon consolidation.

An evaluation of subsequent events through May 7, 2013, the date these interim consolidated financial statements were issued, was completed to determine whether any circumstances warranted recognition and disclosure of events or transactions in the interim consolidated financial statements as at March 31, 2013. There were no subsequent events to report.

CHANGES IN ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared following the same accounting policies and methods as those used in preparing the most recent audited consolidated financial statements referred to in Basis of Presentation above except for the following US GAAP accounting pronouncement that is applicable to, and was adopted by, FortisBC effective January 1, 2013:

Disclosures About Offsetting Assets and Liabilities

The Corporation adopted the amendments to Accounting Standards Codification ("ASC") Topic 210, *Balance Sheet - Disclosures About Offsetting Assets and Liabilities* as outlined in Accounting Standards Update ("ASU") Nos. 2011-11 and 2013-01. The amendments improve the transparency of the effect or potential effect of netting arrangements on a company's financial position by expanding the level of disclosures required by entities for such arrangements. The amended disclosures are intended to assist financial statement users in understanding significant quantitative differences between balance sheets prepared under US GAAP and International Financial Reporting Standards. ASU No. 2013-01 limits the scope of the new offsetting disclosure requirements previously issued in ASU No. 2011-11, to certain derivative instruments, repurchase and reverse repurchase agreements, and securities borrowing and lending arrangements that are either offset on the balance sheet or subject to an enforceable master netting or similar arrangement. The above-noted amendments were applied retrospectively and did not materially impact the Corporation's interim consolidated financial statements for the three months ended March 31, 2013 and 2012.

3. REGULATORY MATTERS

Allowed Return on Equity ("ROE") and Capital Structure

In February 2012, the British Columbia Utilities Commission ("BCUC") established a Generic Cost of Capital ("GCOC") Proceeding would occur and in April 2012, issued a final scoping document identifying specific items that would be reviewed as part of the GCOC Proceeding, including:

- the appropriate cost of capital for a benchmark low-risk utility effective January 1, 2013. Cost of capital includes capital structure, return on common equity and interest on debt;
- the establishment of a benchmark ROE based on a benchmark low-risk utility effective January 1, 2013 to December 31, 2013 for the initial transition year;
- if it is determined through the GCOC Proceeding that a return to an ROE Automatic Adjustment Mechanism ("AAM") is warranted it would be implemented January 1, 2014. If not, a future regulatory process would be set to review the ROE for a benchmark low-risk utility beyond December 31, 2013;
- a generic methodology on how to establish each utility's cost of capital in reference to the cost of capital for a benchmark low-risk utility;
- a methodology to establish a deemed capital structure and deemed cost of capital, particularly for those utilities without third-party debt; and
- for those utilities that require a deemed interest rate, if warranted, a methodology to establish a deemed interest rate AAM. If not warranted, setting a future regulatory process on how the deemed interest rate would be adjusted beyond December 31, 2013.

The BCUC has also determined that a second, subsequent phase be added to the GCOC Proceeding to determine an appropriate ROE and capital structure for all other regulated utilities in BC, once the benchmark has been established in the first phase of the GCOC Proceeding. FortisBC Energy Inc. ("FEI") has been designated as the benchmark. FortisBC will have its ROE and capital structure determined in phase two.

The public oral hearing for the first phase of the GCOC Proceeding occurred in December 2012. A decision on the benchmark, FEI, is expected mid-year 2013. Pursuant to a BCUC order released in December 2012, effective January 1, 2013, the current ROE and capital structure for FortisBC and all other regulated entities in BC that rely on the benchmark utility to establish rates are to be maintained and made interim. The results of the GCOC Proceeding could materially impact the Corporation's earnings.

In March 2013 the BCUC initiated the second phase of the GCOC Proceeding by establishing a procedural conference which took place on April 25, 2013.

Kettle Valley Distribution Source Project Capital Expenditure Prudency Review Decision

In March 2012, the BCUC ordered a written hearing to review the prudency of capital expenditures already incurred related to the approximately $29 million Kettle Valley Distribution Source Project which was substantially completed in 2009. The written hearing process was completed in 2012. In April 2013, the BCUC issued a decision reducing the amount to be included in rate base by approximately $0.1 million effective January 1, 2012. The $0.1 million excluded from rate base will continue to be recognized in Property, Plant and Equipment in the Corporation's consolidated balance sheet. The Corporation has recognized an incremental $0.4 million of equity component of allowance for funds used during construction ("AFUDC") during the first quarter of 2013 as a result of this decision.

4. SEASONALITY OF OPERATIONS

Interim results will fluctuate due to the seasonal demands for electricity, the movements of electricity prices and the timing and recognition of regulatory decisions. FortisBC's operations generally produce higher earnings in the first quarter of the fiscal year due to increased customer load as a result of cooler weather, while certain expenses such as depreciation, interest and operating expenses remain more evenly distributed throughout the fiscal year. As a result of the seasonality, interim earnings are not indicative of earnings on an annual basis.

(all tabular amounts are in millions of Canadian dollars, unless otherwise noted)

5. BUSINESS ACQUISITION

FortisBC purchased the City of Kelowna's (the "City") electrical utility assets on March 29, 2013 for approximately $55 million. The completion of this transaction allows FortisBC to directly serve the approximate 15,000 customers formerly served by the City. Prior to the acquisition FortisBC had provided the City with electricity under a wholesale tariff and operated and maintained their assets since 2000.

The BCUC approval of the acquisition in early March 2013 allowed for approximately $38 million of the $55 million purchase price to be included in FortisBC's rate base. The cash purchase price of approximately $55 million was financed through draws on the Corporation's operating credit facilities.

The acquisition, which qualifies as a business combination, has been accounted for using the acquisition method, whereby financial results of the business acquired have been consolidated in the financial statements of FortisBC beginning on the acquisition date of March 29, 2013.

Based on the BCUC decision, the book value of these assets has been assigned as fair value for purchase price allocation. FortisBC is regulated under cost of service and the determination of revenues and earnings is based on a regulated rate of return that is applied to historic values which do not change with a change in ownership. Therefore, fair market value approximates book value and no adjustments were recorded for the assets acquired, because all of the economic benefits and obligations associated with them beyond regulated rates of return accrue to the customers.

Accordingly, the $55 million purchase price allocation to the assets based on their fair values is as follows:

Property, plant and equipment	$ 38
Deferred income tax asset	3
Goodwill	14
Total assets acquired	$ 55

Goodwill represents the excess of the fair value of the consideration paid over the fair value of the assets acquired. The contributing factors to the amount recorded as goodwill include expected cash flows from future capital expenditures, potential operational synergies and customer rate mitigation.

Property, plant and equipment are depreciated based on rates approved by the BCUC and are calculated on a straight-line basis. The weighted average depreciation rate on these assets approximates 3 per cent.

A deferred income tax asset has been recognized on the estimated future tax benefit to be received on the tax basis assigned to the goodwill.

All transaction costs which relate to the acquisition approximate $0.5 million and have been recognized in regulated assets pursuant to the BCUC decision.

The supplemental pro forma financial information below was prepared using the acquisition method of accounting and is based on assumptions regarding the inclusion of the City's electrical assets in FortisBC's regulated rate base during 2013 and 2012. These estimated financial results have been combined with FortisBC's historical financial results for the first quarters ended 2013 and 2012 on a comparative basis as follows:

Three months ended March 31	**2013**	2012
Pro forma revenue	**$ 86.2**	$ 83.9
Pro forma earnings	**17.6**	15.4

The above unaudited pro-forma financial information is presented for informational purposes only and does not purport to represent what the results would have been had the acquisition closed on the date assumed and included in rate base, nor is it necessarily indicative of the results that may be expected in future periods.

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6. LONG-TERM DEBT

Operating Credit Facilities and Overdraft Facility

FortisBC has authorized bank credit facilities of $160.0 million, comprised of a $150.0 million operating credit facility and a $10.0 million demand overdraft facility. The operating credit facility is comprised of a $100.0 million three-year revolving facility maturing in May 2015 ("Facility A") and a $50.0 million, 364-day revolving facility maturing in May 2013 ("Facility B"). As of March 31, 2013, $91.5 million was available against the combined operating credit and demand overdraft facilities (December 31, 2012 - $125.0 million) and $nil (December 31, 2012 - $nil) was used to support outstanding letters of credit.

In April of 2013, a syndicate of Canadian Chartered banks consented to the Corporation's request to extend the Facility A maturity to May 2016 and the Facility B maturity to May 2014. The extensions are on substantially similar terms to the operating credit facilities they replaced. An amended agreement was finalized in late April 2013.

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 FortisBC's debt ratings provided by its credit rating agencies. The overdraft facility bears interest at prime.

7. FINANCE CHARGES

The total finance charges for the three months ended March 31 was as follows:

	2013	2012
Interest on long-term debt	**$ 9.5**	$ 9.8
Interest on short-term debt	**0.1**	0.1
Amortization of deferred financing costs	**0.1**	0.1
Allowance for funds used during construction - debt component	**(0.2)**	-
	$ 9.5	$ 10.0

8. EMPLOYEE FUTURE BENEFITS

The Corporation is a sponsor of pension plans for eligible employees. The plans include defined benefit pension plans, supplemental pension arrangements, and defined contribution plans. The Corporation also provides post-employment benefits other than pensions for certain of its retired employees.

The total net benefit cost for the three months ended March 31 was as follows:

	Defined Benefit Pension Plans and Supplemental Pension Arrangements		**Other Post-employment Benefits**	
	2013	2012	**2013**	2012
Service costs	**$ 1.5**	$ 1.4	**$ 0.4**	$ 0.3
Interest costs	**1.8**	1.8	**0.3**	0.3
Expected return on plan assets	**(2.1)**	(2.0)	**-**	-
Amortization of actuarial loss	**1.0**	1.0	**0.1**	0.1
Actuarial determined net benefit cost	**2.2**	2.2	**0.8**	0.7
Regulatory adjustment	**(1.2)**	(1.0)	**0.1**	0.1
Total net benefit cost	**$ 1.0**	$ 1.2	**$ 0.9**	$ 0.8

The Corporation's cost related to the defined contribution arrangement is based upon a percentage of employee earnings. The Corporation's net benefit cost related to this arrangement for the three months ended March 31, 2013 was $0.4 million (three months ended March 31, 2012 - $0.3 million).

(all tabular amounts are in millions of Canadian dollars, unless otherwise noted)

9. SUPPLEMENTARY INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS

The supplementary information to the consolidated statements of cash flows for the three months ended March 31 were as follows:

Significant Non-cash Transactions	**2013**	2012
Capital accruals	**$ (4.1)**	$ (4.1)
Brilliant Power Purchase Agreement lease costs regulatory asset	**(8.0)**	(7.9)
Deferred income tax regulatory asset	**(2.3)**	(1.7)

Changes in Non-cash Working Capital	**2013**	2012
Accounts receivable	**$ (1.9)**	$ (0.6)
Prepaid expenses	**(2.0)**	(1.3)
Current regulatory assets and liabilities	**(1.2)**	(1.6)
Accounts payable and other current liabilities	**13.6**	9.9
Income taxes payable	**1.1**	(4.2)
	$ 9.6	$ 2.2
Changes in non-cash working capital attributable to:		
Operating activities	**$ 13.7**	$ 6.3
Investing activities included in capital expenditures – property, plant and equipment and intangible assets	**(4.1)**	(4.1)
	$ 9.6	$ 2.2

The non-cash investing activities balances as at March 31 were as follows:

	2013	2012
Additions to property, plant and equipment and intangible assets included in current liabilities	**$ 5.4**	$ 6.6

(all tabular amounts are in millions of Canadian dollars, unless otherwise noted)

10. FAIR VALUE MEASUREMENT

Fair value is the price at which a market participant could sell an asset or transfer a liability to an unrelated party. A fair value measurement is required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. A fair value hierarchy exists that prioritizes the inputs used to measure fair value. The Corporation is required to record all derivative instruments at fair value except those which qualify for the normal purchase and normal sales exception, including certain of the Corporation's power purchase contracts.

The three levels of the fair value hierarchy are defined as follows:

- Level 1: Fair value determined using unadjusted quoted prices in active markets.
- Level 2: Fair value determined using pricing inputs that are observable.
- Level 3: Fair value determined using unobservable inputs only when relevant observable inputs are not available.

The fair values of the Corporation's financial instruments reflect a point-in-time estimate based on current and relevant market information about the instruments as at the balance sheet dates. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment and, therefore, may not be relevant in predicting the Corporation's future consolidated earnings or cash flows.

The carrying values of cash and cash equivalents, account receivable, accounts payable and other current liabilities on the consolidated balance sheet of FortisBC approximate their fair values.

The following table summarizes the fair value measurements of the Corporation's long-term debt as of March 31, 2013 and December 31, 2012, all of which are Level 2 of the Corporation's fair value hierarchy and recorded on the consolidated balance sheet at its carrying value:

	March 31, 2013		December 31, 2012	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long-term debt, including current portion [1]	**$ 625.6**	**$ 781.2**	$ 625.9	$ 785.7

[1] Excludes bank credit facilities as the carrying values approximate their fair values.

The fair value of long-term debt is estimated using quoted market prices when available. When quoted market prices are not available, the fair value is determined by discounting the future cash flows of the specific debt instrument at an estimated yield to maturity equivalent to benchmark government bonds or treasury bills, with similar terms to maturity, plus a market credit risk premium equal to that of issuers of similar credit quality. Since the Corporation does not intend to settle the long-term debt prior to maturity, the fair value estimate does not represent an actual liability and, therefore, does not include exchange or settlement costs.

11. RELATED PARTY TRANSACTIONS

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

(a) The Corporation received $0.2 million for the three months ended March 31, 2013 (2012 - $0.1 million) from FortisBC Holdings Inc., a related company under common control, for corporate management services. The amounts were included in operating costs on the consolidated statements of earnings.

(b) The Corporation received $0.1 million for the three months ended March 31, 2013 (2012 – $0.2 million) for electricity sold to FEI, a related company under common control. The amounts were included in electricity revenue on the consolidated statements of earnings.

11. RELATED PARTY TRANSACTIONS (continued)

(c) The Corporation received $0.7 million for the three months ended March 31, 2013 (2012 – $0.3 million) from FEI for labour charges. The amounts were included in operating costs on the consolidated statements of earnings.

(d) The Corporation charged its parent, FortisBC Pacific, for administrative services under a shared-services agreement totalling $2.5 million for the three months ended March 31, 2013 (2012 – $2.4 million). The amounts were included in other revenue and in operating costs on the consolidated statements of earnings.

(e) The Corporation's ultimate parent, Fortis, provides corporate management services and grants stock options to certain employees of the Corporation under its stock option plans. For the three months ended March 31, 2013, the Corporation was charged, and recorded an expense, of $0.6 million (2012 – $0.5 million) for the fair value of the stock compensation granted by Fortis and for corporate management services provided. These amounts were included in operating costs on the consolidated statements of earnings.

(f) The Corporation was charged $0.2 million for the three months ended March 31, 2013 (2012 – $0.4 million) by FEI for office rent, labour charges, and purchases of natural gas. These amounts were included in operating costs on the consolidated statements of earnings.

(g) Amounts due from the Corporation's parent, other related companies under common control and officers of the Corporation as at March 31, 2013 were $1.7 million (December 31, 2012 – $0.9 million). Amounts due to the Corporation's ultimate parent and other related companies under common control as at March 31, 2013 were $0.8 million (December 31, 2012 - $0.5 million).

12. CONTINGENCIES

The Province of BC has alleged breaches of the Forest Practices Code and negligence relating to a forest fire near Vaseux Lake and has filed and served a Writ and Statement of Claim against FortisBC dated August 2, 2005. The Province of BC has disclosed that its claim includes approximately $15 million in damages plus prejudgment interest but that it has not fully quantified its damages. In addition, private land owners filed separate Writs and Statements of Claim dated August 19, 2005 and August 22, 2005 in relation to the same matter which claims have now been settled. FortisBC and its insurers continue to defend the claim by the Province of BC. The outcome cannot be reasonably determined and estimated at this time, and accordingly no amount has been accrued in the financial statements.

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', who include FortisBC, 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. FortisBC has not been served, however has retained counsel and has notified its insurers. The outcome cannot be reasonably determined or estimated at this time and, accordingly, no amount has been accrued in the financial statements.

13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to comply with the current period's classifications.