



**FortisBC Inc.**

An indirect subsidiary of Fortis Inc.

**Interim Consolidated Financial Statements  
For the three months ended March 31, 2016 and 2015  
(Unaudited)**

**Prepared in accordance with United States Generally Accepted Accounting Principles**

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

| <b>ASSETS</b>  | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|--|---------------------------|------------------------------|
| <b>Current assets</b>                                    |                           |                              |
| Cash and cash equivalents                                | \$ 3.1                    | \$ 2.3                       |
| Accounts receivable (note 11)                            | 48.0                      | 52.0                         |
| Prepaid expenses   | 4.0                       | 1.3                          |
| Other assets   | 0.8                       | 0.8                          |
| Regulatory assets  | 6.7                       | 7.0                          |
| Assets held for sale (note 13)                           | -                         | 8.5                          |
| Income taxes receivable                                  | -                         | 5.7                          |
|  | <b>62.6</b>               | <b>77.6</b>                  |
| <b>Property, plant and equipment</b>                     | <b>1,436.5</b>            | <b>1,437.1</b>               |
| <b>Intangible assets</b>                                 | <b>55.6</b>               | <b>54.9</b>                  |
| <b>Regulatory assets</b>                                 | <b>322.2</b>              | <b>308.9</b>                 |
| <b>Other assets</b>                                      | <b>5.8</b>                | <b>5.8</b>                   |
| <b>Goodwill</b>  | <b>234.8</b>              | <b>234.8</b>                 |
|  | <b>\$ 2,117.5</b>         | <b>\$ 2,119.1</b>            |
| <b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>              |                           |                              |
| <b>Current liabilities</b>                               |                           |                              |
| Credit facilities (note 5)                               | \$ 68.8                   | \$ 55.9                      |
| Accounts payable and other current liabilities (note 11) | 64.7                      | 70.8                         |
| Income taxes payable                                     | 1.5                       | -                            |
| Current portion of long-term debt                        | -                         | 25.0                         |
| Current portion of capital lease obligations             | 0.6                       | 0.6                          |
| Regulatory liabilities                                   | 9.1                       | 7.4                          |
|  | <b>144.7</b>              | <b>159.7</b>                 |
| <b>Long-term debt</b>                                    | <b>654.0</b>              | <b>654.0</b>                 |
| <b>Capital lease obligations</b>                         | <b>320.1</b>              | <b>312.5</b>                 |
| <b>Regulatory liabilities</b> (note 6)                   | <b>14.3</b>               | <b>15.3</b>                  |
| <b>Other liabilities</b>                                 | <b>2.2</b>                | <b>2.2</b>                   |
| <b>Pension and other post-employment benefits</b>        | <b>62.4</b>               | <b>62.7</b>                  |
| <b>Deferred income taxes</b>                             | <b>144.8</b>              | <b>140.8</b>                 |
|  | <b>1,342.5</b>            | <b>1,347.2</b>               |
| <b>Shareholder's equity</b>                              |                           |                              |
| Common shares <sup>(a)</sup>                             | 219.2                     | 219.2                        |
| Additional paid-in capital                               | 321.8                     | 321.8                        |
| Retained earnings  | 234.0                     | 230.9                        |
|  | <b>775.0</b>              | <b>771.9</b>                 |
|  | <b>\$ 2,117.5</b>         | <b>\$ 2,119.1</b>            |

<sup>(a)</sup> Par value of \$100 each; 500 million authorized common shares; 2.2 million issued and outstanding at March 31, 2016 and December 31, 2015.

**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**  
(in millions of Canadian dollars)

|                                     | 2016           | 2015           |
|-------------------------------------|----------------|----------------|
| <b>Revenues</b> (note 11)           |                |                |
| Electricity revenue                 | \$ 91.3        | \$ 87.2        |
| Other revenue                       | 8.0            | 5.1            |
|                                     | <b>99.3</b>    | <b>92.3</b>    |
| <b>Expenses</b>                     |                |                |
| Power purchase costs (note 11)      | 39.9           | 24.9           |
| Operating costs (note 11)           | 19.8           | 19.0           |
| Depreciation and amortization       | 14.2           | 14.4           |
|                                     | <b>73.9</b>    | <b>58.3</b>    |
| <b>Operating income</b>             | <b>25.4</b>    | <b>34.0</b>    |
| Other income (note 13)              | 0.6            | 0.1            |
| Finance charges (note 7)            | 9.5            | 9.9            |
| <b>Earnings before income taxes</b> | <b>16.5</b>    | <b>24.2</b>    |
| Income taxes                        | 2.4            | 2.3            |
| <b>Net earnings</b>                 | <b>\$ 14.1</b> | <b>\$ 21.9</b> |

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

|                             | Common<br>Shares | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Total           |
|-----------------------------|------------------|----------------------------------|----------------------|-----------------|
| As at December 31, 2014     | \$ 219.2         | \$ 321.8                         | \$ 206.8             | \$ 747.8        |
| Net earnings                | -                | -                                | 21.9                 | 21.9            |
| Dividend on common shares   | -                | -                                | (4.5)                | (4.5)           |
| As at March 31, 2015        | 219.2            | 321.8                            | 224.2                | 765.2           |
| As at December 31, 2015     | <b>219.2</b>     | <b>321.8</b>                     | <b>230.9</b>         | <b>771.9</b>    |
| Net earnings                | -                | -                                | 14.1                 | 14.1            |
| Dividend on common shares   | -                | -                                | (11.0)               | (11.0)          |
| <b>As at March 31, 2016</b> | <b>\$ 219.2</b>  | <b>\$ 321.8</b>                  | <b>\$ 234.0</b>      | <b>\$ 775.0</b> |

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**  
(in millions of Canadian dollars)

|   | <b>2016</b>   | <b>2015</b>   |
|---|---------------|---------------|
| <b>Cash flows provided by (used for)</b>                      |               |               |
| <b>Operating activities</b>                                   |               |               |
| Net earnings  | \$ 14.1       | \$ 21.9       |
| Adjustments for non-cash items                                |               |               |
| Depreciation and amortization                                 | 14.3          | 14.5          |
| Gain on sale of property, plant and equipment (note 13)       | (0.7)         | -             |
| Other   | 0.1           | (0.1)         |
| Change in long-term regulatory assets and liabilities         | (3.8)         | (1.5)         |
| Change in other assets and other liabilities                  | 0.1           | -             |
| Change in non-cash working capital (note 9)                   | 6.5           | 8.9           |
|   | <b>30.6</b>   | <b>43.7</b>   |
| <b>Investing activities</b>                                   |               |               |
| Property, plant and equipment (note 9)                        | (17.1)        | (30.5)        |
| Intangible assets (note 9)                                    | (1.9)         | (1.7)         |
| Contributions in aid of construction                          | 3.0           | 1.8           |
| Proceeds from sale of property, plant and equipment (note 13) | 9.2           | -             |
| Change in other assets and other liabilities                  | 0.1           | 0.1           |
|   | <b>(6.7)</b>  | <b>(30.3)</b> |
| <b>Financing activities</b>                                   |               |               |
| Net proceeds from (repayment of) credit facilities            | 12.9          | (8.7)         |
| Repayment of long-term debt                                   | (25.0)        | -             |
| Dividend on common shares                                     | (11.0)        | (4.5)         |
|   | <b>(23.1)</b> | <b>(13.2)</b> |
| <b>Net increase in cash and cash equivalents</b>              | <b>0.8</b>    | <b>0.2</b>    |
| Cash and cash equivalents at beginning of period              | 2.3           | 1.2           |
| <b>Cash and cash equivalents at end of period</b>             | <b>\$ 3.1</b> | <b>\$ 1.4</b> |

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

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

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**FortisBC Inc.**  
**Notes to the Interim Consolidated Financial Statements (US GAAP) (Unaudited)**  
**For the three months ended March 31, 2016 and 2015**

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## **1. DESCRIPTION OF THE BUSINESS**

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

FBC is an integrated, regulated electric utility operating in the southern interior of British Columbia ("BC"), serving approximately 167,600 customers directly and indirectly. The Corporation's regulated business includes four hydroelectric generating plants with an aggregate capacity of 225 megawatts ("MW"), approximately 7,200 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. Prior to the sale, the WPP non-regulated assets were reclassified from property, plant and equipment to assets held for sale on the consolidated balance sheet as at December 31, 2015.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Presentation**

These interim consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States ("US GAAP") for interim financial statements and is presented in Canadian dollars unless otherwise specified. 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 the Corporation's 2015 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 accounting policies and methods of application used in the preparation of these interim consolidated financial statements are consistent with the accounting policies used in FBC's year-end audited consolidated financial statements as at December 31, 2015, except as described below.

The interim consolidated financial statements include the accounts of the Corporation and its wholly-owned partnership and subsidiaries, WPP, 0395518 B.C. Ltd. (formerly ESI Power-Walden Corporation Ltd.) and West Kootenay Power Ltd. All material inter-company transactions and balances have been eliminated upon consolidation.

An evaluation of subsequent events through April 26, 2016, the date these interim consolidated financial statements were available to be 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, 2016. Subsequent events have been appropriately disclosed in these interim consolidated financial statements.

### **New Accounting Policies**

#### ***Property, Plant and Equipment***

Effective January 1, 2016, as applied for in FBC's application for 2016 rates under the PBR Plan and approved by the British Columbia Utilities Commission ("BCUC"), the Corporation adopted a new accounting policy on a prospective basis. Removal costs are now collected as a component of depreciation and recognized as a regulatory liability, 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. Prior to 2016, actual removal costs were recorded against property, plant and equipment when incurred. As a result of adopting this policy, a regulatory liability balance of \$2.2 million was recognized as at March 31, 2016 which was comprised of approximately \$2.5 million collected from customers through depreciation expense, partially offset by actual removal costs incurred of approximately \$0.3 million during the quarter.

#### ***Amendments to the Consolidation Analysis***

Effective January 1, 2016, FBC adopted Accounting Standard Update ("ASU") No. 2015-02 that changed the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. Specifically, the amendments note the following with regard to limited partnerships: (i) modify the

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities; and (ii) eliminate the presumption that a general partner should consolidate a limited partnership. The adoption of this update did not impact FBC's consolidated financial statements.

**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 create Accounting Standard 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 completes a joint effort by FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for US GAAP and International Financial Reporting Standards that clarifies the principles for recognizing revenue and that can be applied consistently across various transactions, industries and capital markets. This standard was originally effective for annual and interim periods beginning after December 15, 2016 and is to be applied on a full retrospective or modified retrospective basis. ASU No. 2015-14 was issued in August 2015 and the amendments in this update defer the effective date of ASU No. 2014-09 by one year to annual and interim periods beginning after December 15, 2017. Early adoption is permitted as of the original effective date.

ASU No. 2016-08, *Principal versus Agent Considerations*, was issued in March 2016 and ASU No. 2016-10, *Identifying Performance Obligations and Licensing*, was issued in April 2016. Both ASU's clarify implementation guidance in ASC Topic 606. The effective date of these updates is the same as the effective date and transition requirements of ASU No. 2014-09.

The majority of FBC's revenue is generated from electricity sales to customers based on published tariff rates, as approved by the BCUC, and is expected to be in the scope of ASU No. 2014-09. FBC has not yet selected a transition method and is assessing the impact that the adoption of this standard, and all related ASUs, will have on its consolidated financial statements and related disclosures. FBC plans to have this assessment substantially complete by the end of 2016.

**Recognition and Measurement of Financial Assets and Financial Liabilities**

ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, was issued in January 2016 and the amendments in this update address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Most notably, the amendments require the following: (i) equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) to be measured at fair value through earnings; however, entities will be able to elect to record equity investments without readily determinable fair values at cost, less impairment, and plus or minus subsequent adjustments for observable price changes; and (ii) financial assets and financial liabilities to be presented separately in the notes to the consolidated financial statements, grouped by measurement category and form of financial asset. This update is effective for annual and interim periods beginning after December 15, 2017. FBC is assessing the impact that the adoption of this update will have on its consolidated financial statements and related disclosures.

**Leases**

ASU No. 2016-02 was issued in February 2016 and the amendments in this update create ASC Topic 842, *Leases*, and supersede lease requirements in ASC Topic 840, *Leases*. The main provision of 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

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**FortisBC Inc.****Notes to the Interim Consolidated Financial Statements (US GAAP) (Unaudited)  
For the three months ended March 31, 2016 and 2015**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 expedients options. Early adoption is permitted. FBC is assessing the impact that the adoption of this update will have on its consolidated financial statements and related disclosures.

**3. REGULATORY MATTERS****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 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 will provide 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.

**Allowed Return on Equity (“ROE”) and Capital Structure**

The 2016 interim ROE and common equity component of capital structure for FBC is 9.15 per cent and 40 per cent, respectively, which is unchanged from the 2015 ROE and common equity component of capital structure.

In October 2015, FEI filed its application to review the 2016 benchmark utility ROE and common equity component of capital structure. In December 2015, the BCUC determined that FEI’s existing common equity component of capital structure and ROE will remain the benchmark on an interim basis, effective January 1, 2016. A hearing on the cost of capital proceeding concluded in March 2016 and a decision on the application is expected in mid-2016. Since FEI is the benchmark, any changes to FEI’s ROE could have an impact on the FBC ROE.

**4. SEASONALITY OF OPERATIONS**

Interim results fluctuate due to the seasonal demands for electricity, the movements of electricity prices and the timing and recognition of regulatory decisions. FBC’s operations generally produce higher net 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 net earnings are not indicative of net earnings on an annual basis.

**FortisBC Inc.**  
**Notes to the Interim Consolidated Financial Statements (US GAAP) (Unaudited)**  
**For the three months ended March 31, 2016 and 2015**

## 5. CREDIT FACILITIES

As at March 31, 2016, the Corporation had bank credit facilities of \$160 million, comprised of a \$150 million operating credit facility and a \$10 million demand overdraft facility. In April 2016 the \$150 million operating credit facility was amended such that it now matures in May 2019.

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

| (\$ millions)                      | <b>March 31, 2016</b> | December 31, 2015 |
|------------------------------------|-----------------------|-------------------|
| Operating credit facility          | <b>150.0</b>          | 150.0             |
| Demand overdraft facility          | <b>10.0</b>           | 10.0              |
| Draws on operating credit facility | <b>(68.8)</b>         | (50.9)            |
| Draws on overdraft facility        | -                     | (5.0)             |
| Credit facilities available        | <b>91.2</b>           | 104.1             |

## 6. REGULATORY LIABILITIES

As approved by the BCUC, effective January 1, 2016, included in regulatory liabilities is the negative salvage provision which captures the provision for costs which will be incurred to remove assets from service either through actual removal of the assets or through disconnection from the distribution system. As actual removal costs are incurred, the negative salvage provision account is drawn down. As at March 31, 2016 approximately \$2.5 million was collected from customers through depreciation expense to offset future removal costs which may be incurred. Actual removal costs incurred for the quarter ended March 31, 2016 were \$0.3 million.

## 7. FINANCE CHARGES

Finance charges for the three months ended March 31 were as follows:

| (\$ millions)                       | <b>2016</b> | 2015 |
|-------------------------------------|-------------|------|
| Interest on long-term debt          | <b>9.0</b>  | 9.3  |
| Interest on short-term debt         | <b>0.4</b>  | 0.2  |
| Amortization of debt issuance costs | <b>0.1</b>  | 0.1  |
| Capitalized interest <sup>1</sup>   | -           | 0.3  |
|                                     | <b>9.5</b>  | 9.9  |

<sup>1</sup> Includes debt component of Allowance for Funds Used During Construction ("AFUDC") and capitalized interest on certain non-rate base regulatory assets and liabilities.



**FortisBC Inc.**  
**Notes to the Interim Consolidated Financial Statements (US GAAP) (Unaudited)**  
**For the three months ended March 31, 2016 and 2015**

## 8. EMPLOYEE FUTURE BENEFITS

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

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

| (\$ millions)                  | <b>Defined Benefit<br/>Pension and<br/>Supplemental Plans</b> |       | <b>OPEB Plans</b> |      |
|--------------------------------|---|-------|-------------------|------|
|                                | <b>2016</b>   | 2015  | <b>2016</b>       | 2015 |
| Service costs                  | <b>1.3</b>  | 1.2   | <b>0.3</b>        | 0.3  |
| Interest costs                 | <b>2.0</b>  | 2.0   | <b>0.3</b>        | 0.3  |
| Expected return on plan assets | <b>(2.6)</b>  | (2.6) | -                 | -    |
| Amortization:                  |   |       |                   |      |
| Actuarial losses               | <b>0.4</b>  | 0.7   | -                 | -    |
| Past service costs             | <b>(0.2)</b>  | (0.3) | -                 | -    |
| Regulatory adjustment          | <b>0.1</b>  | -     | <b>0.2</b>        | 0.4  |
| Net benefit cost               | <b>1.0</b>  | 1.0   | <b>0.8</b>        | 1.0  |

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, 2016 was \$0.5 million (March 31, 2015 - \$0.5 million).

## 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 was as follows:

### Significant Non-Cash Transactions

| (\$ millions)   | <b>2016</b>  | 2015  |
|---|--------------|-------|
| Capital accruals  | <b>(5.3)</b> | (9.6) |
| Deferred income tax liability                                   | <b>3.9</b>   | 1.9   |
| Brilliant Power Purchase Agreement lease costs regulatory asset | <b>(8.4)</b> | (8.3) |

### Change in Non-Cash Working Capital

| (\$ millions)  | <b>2016</b>  | 2015  |
|--|--------------|-------|
| Accounts receivable  | <b>4.0</b>   | 5.5   |
| Prepaid expenses   | <b>(2.7)</b> | (3.1) |
| Current regulatory assets and liabilities  | <b>(1.2)</b> | (2.2) |
| Accounts payable and other current liabilities                                       | <b>(6.1)</b> | 2.0   |
| Income taxes receivable and payable  | <b>7.2</b>   | (2.9) |
|  | <b>1.2</b>   | (0.7) |
| Change in non-cash working capital attributable to:                                  |              |       |
| Operating activities   | <b>6.5</b>   | 8.9   |
| Investing activities included in property, plant and equipment and intangible assets | <b>(5.3)</b> | (9.6) |
|  | <b>1.2</b>   | (0.7) |

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

| (\$ millions)  | <b>2016</b> | 2015 |
|--|-------------|------|
| Additions to property, plant and equipment and intangible assets included in current liabilities | <b>9.3</b>  | 11.5 |

**FortisBC Inc.**
**Notes to the Interim Consolidated Financial Statements (US GAAP) (Unaudited)  
For the three months ended March 31, 2016 and 2015**
**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 would 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 point-in-time estimates 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, accounts receivable, energy management loans, accounts payable and other current liabilities and credit facilities on the consolidated balance sheets of the Corporation approximate their fair values.

The following table summarizes the fair value measurements of the Corporation's long-term debt as of March 31, 2016 and December 31, 2015, all of which is Level 2 of the fair value hierarchy and recorded on the consolidated balance sheets at its carrying value:

| (\$ millions)  | March 31, 2016 |                      | December 31, 2015 |                      |
|--|----------------|----------------------|-------------------|----------------------|
|  | Carrying Value | Estimated Fair Value | Carrying Value    | Estimated Fair Value |
| Long-term debt, including current portion <sup>1</sup> | 660.0          | 793.5                | 685.0             | 801.7                |

<sup>1</sup> Includes secured and unsecured debentures for which the carrying value is measured at cost. Carrying value excludes unamortized debt issuance costs of \$6.0 million (2015 - \$6.0 million).

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.

**FortisBC Inc.**  
**Notes to the Interim Consolidated Financial Statements (US GAAP) (Unaudited)**  
**For the three months ended March 31, 2016 and 2015**

### 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 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)   | 2016       | 2015       |
|---|------------|------------|
| Electricity revenue recovered from FortisBC Energy Inc. ("FEI") (a) | 0.1        | 0.1        |
| Operating costs and other revenue charged to FortisBC Pacific (b)   | 2.0        | 2.4        |
| Operating costs charged to FEI (c)                                  | 1.3        | 1.0        |
| Operating costs charged to FortisBC Holdings Inc. ("FHI") (d)       | 0.1        | 0.1        |
|   | <b>3.5</b> | <b>3.6</b> |

(a) The Corporation charged FEI for electricity sold.

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

(c) The Corporation charged FEI for management services.

(d) The Corporation charged FHI for management services.

#### Related Party Costs

The amounts charged by the Corporation's ultimate parent and other related parties under common control for the three months ended March 31 were as follows:

| (\$ millions)   | 2016        | 2015       |
|---|-------------|------------|
| Power purchase costs charged by Waneta Expansion Limited Partnership ("WELP") (a) | 14.6        | -          |
| Operating costs charged by Fortis (b)   | 0.6         | 0.6        |
| Operating costs charged by FEI (c)  | 0.7         | 0.8        |
| Operating costs charged by FHI (d)  | 0.2         | -          |
|   | <b>16.1</b> | <b>1.4</b> |

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

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

(c) The Corporation was charged by FEI for natural gas transmission and distribution sales, office rent, and management services.

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

**FortisBC Inc.**  
**Notes to the Interim Consolidated Financial Statements (US GAAP) (Unaudited)**  
**For the three months ended March 31, 2016 and 2015**

**11. RELATED PARTY TRANSACTIONS (continued)**
**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:

| (\$ millions)    | March 31, 2016     |                  | December 31, 2015  |                  |
|------------------|--------------------|------------------|--------------------|------------------|
|                  | Amount<br>Due From | Amount<br>Due To | Amount<br>Due From | Amount<br>Due To |
| Fortis           | -                  | -                | -                  | 0.1              |
| FortisBC Pacific | 0.9                | -                | 0.5                | -                |
| FEI              | 0.7                | 0.3              | 0.4                | 0.4              |
| FHI              | -                  | 0.2              | -                  | 0.1              |
| WELP             | -                  | 9.6              | -                  | 10.3             |
|                  | <b>1.6</b>         | <b>10.1</b>      | 0.9                | 10.9             |

During the quarter ended March 31, 2016, FEI paid FBC \$6.2 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.

**12. 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 FortisBC, 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. FortisBC has notified its insurers; however, FortisBC has been advised by counsel for the Province that a response to the claim is not required at this time. The outcome cannot be reasonably determined or estimated at this time and, accordingly, no amount has been accrued in the financial statements.

**13. SALE OF ASSETS**

In February 2016, FBC and its subsidiaries sold the WPP non-regulated hydroelectric power plant assets for gross proceeds of approximately \$9.2 million. As a result, FBC recognized a gain on sale of \$0.5 million, after tax and transactions costs, in other income. For the three months ended March 31, 2016, earnings before taxes of \$nil were recognized from the WPP non-regulated assets, excluding the gain on sale, compared to a loss before taxes of \$0.2 million for the three months ended March 31, 2015.