FortisBC Energy Inc.

An indirect subsidiary of Fortis Inc.

Interim Consolidated Financial Statements
For the three months ended March 31, 2014 and 2013
(Unaudited)

Prepared in accordance with United States Generally Accepted Accounting Principles

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

ASSETS	March 31, 2014	December 31, 2013
Current assets		
Cash and cash equivalents	$ 2	$ -
Accounts receivable (note 12)	280	228
Inventories	19	81
Prepaid expenses	2	4
Deferred income taxes	-	9
Regulatory assets	40	18
	343	340
Property, plant and equipment	2,653	2,651
Intangible assets	121	122
Goodwill	769	769
Regulatory assets	577	560
Other assets	22	22
	$ 4,485	$ 4,464
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term notes (note 5)	$ 45	$ 87
Accounts payable and accrued liabilities (note 12)	225	221
Income and other taxes payable	61	40
Current portion of capital lease and finance obligations	7	7
Regulatory liabilities	15	39
	353	394
Long-term debt	1,545	1,545
Capital lease and finance obligations	111	112
Regulatory liabilities	64	55
Deferred income taxes	330	327
Other liabilities	169	167
	2,572	2,600
Shareholders' equity		
Common shares [(a)]	784	784
Additional paid-in capital	1,019	1,019
Retained earnings	110	61
	1,913	1,864
	$ 4,485	$ 4,464

[(a)] no par value; 500 million authorized common shares; 64.9 million issued and outstanding at March 31, 2014 and December 31, 2013.

Contingencies (note 13).

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

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

	2014	2013
Revenue		
Natural gas transmission and distribution (note 12)	**$ 450**	$ 428
Other income	**1**	-
	451	428
Expenses		
Cost of natural gas	**225**	206
Operation and maintenance (note 12)	**48**	48
Depreciation and amortization	**38**	37
Property and other taxes	**12**	13
	323	304
Operating Income	**128**	124
Finance charges (note 6)	**29**	29
Earnings before income taxes	**99**	95
Income taxes	**30**	20
Net earnings	**$ 69**	$ 75

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

	Common Shares	Additional Paid-in Capital	Retained Earnings	Total
As at December 31, 2012	$ 784	$ 1,019	$ 88	$ 1,891
Net earnings	-	-	75	75
Dividends on common shares	-	-	(15)	(15)
As at March 31, 2013	784	1,019	148	1,951
As at December 31, 2013	**784**	**1,019**	**61**	**1,864**
Net earnings	**-**	**-**	**69**	**69**
Dividends on common shares	-	-	**(20)**	**(20)**
As at March 31, 2014	**$ 784**	**$ 1,019**	**$ 110**	**$ 1,913**

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

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

	2014	2013
Cash flows provided by (used for)		
Operating activities		
Net earnings	**$ 69**	$ 75
Adjustments for non-cash items		
Depreciation and amortization	**38**	37
Other	**(1)**	(2)
	106	110
Changes in long-term regulatory assets and liabilities	**(9)**	(10)
Changes in non-cash working capital (note 8)	**5**	7
	102	107
Investing activities		
Property, plant and equipment	**(34)**	(23)
Intangible assets	**(2)**	(2)
Cost of removal	**(4)**	(3)
Contributions in aid of construction	**1**	1
Other assets and other long-term liabilities	**2**	1
	(37)	(26)
Financing activities		
Decrease in short-term notes	**(42)**	(33)
Reduction of capital lease and finance obligations	**(1)**	(2)
Dividends on common shares	**(20)**	(15)
	(63)	(50)
Net increase in cash and cash equivalents	**2**	31
Cash and cash equivalents at beginning of period	**-**	22
Cash and cash equivalents at end of period	**$ 2**	$ 53

Supplementary Information to Consolidated Statements of Cash Flows (note 8).

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

1. DESCRIPTION OF THE BUSINESS

FortisBC Energy Inc. ("FEI" or the "Corporation") is a subsidiary of FortisBC Holdings Inc. ("FHI"), which is a wholly owned subsidiary of Fortis Inc. ("Fortis"), a Canadian public company.

FEI is the largest distributor of natural gas in British Columbia ("BC"), serving approximately 854,000 residential, commercial, industrial and transportation customers in more than 100 communities. Major areas served by the Corporation are Greater Vancouver, the Fraser Valley and the Thompson, Okanagan, Kootenay and North Central Interior regions of the province. The Corporation provides transmission and distribution services to its customers, and obtains natural gas supplies on behalf of most residential, commercial and industrial customers. Gas supplies are sourced primarily from northeastern BC and, through the Corporation's Southern Crossing Pipeline, from Alberta.

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. 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 FEI's 2013 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 subsidiary. All material inter-company transactions have been eliminated upon consolidation except for those inter-company transactions recovered in rates from customers.

An evaluation of subsequent events through April 30, 2014, 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, 2014. Subsequent events have been appropriately disclosed in these interim consolidated financial statements.

Certain comparative figures have been reclassified to conform to the current year's presentation.

Changes in Accounting Policies

In June 2013, FEI filed an application with the British Columbia Utilities Commission ("BCUC") for a Multi-Year Performance Based Ratemaking Plan for 2014 through 2018 ("2014 PBR Application"). As applied for in the 2014 PBR Application and effective January 1, 2014, depreciation of property, plant and equipment and amortization of intangible assets commences the year after the asset is available for use. Prior to January 1, 2014, depreciation and amortization commenced in the month after the asset was available for use.

3. REGULATORY MATTERS

Amalgamation

In February 2014, the BCUC approved the amalgamation of FEI, FortisBC Energy (Vancouver Island) Inc. ("FEVI"), FortisBC Energy (Whistler) Inc. ("FEW") and Terasen Gas Holdings Inc. The BCUC approved the adoption of common rates for natural gas delivery to all customers except those in the Fort Nelson service area and approved the phase-in to common rates over a three year period. The amalgamation must receive the consent of the Lieutenant Governor in Council and is expected to be effective on or about December 31, 2014.

3. REGULATORY MATTERS (continued)

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

In February 2012, the BCUC established that 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.

Pursuant to a BCUC order released in December 2012, effective January 1, 2013, the approved 2012 ROE and capital structure for the Corporation and all other regulated entities in BC that rely on the benchmark utility, which was determined to be FEI, to establish rates were to be maintained and made interim. In May 2013, the BCUC issued its decision on the first stage of the GCOC Proceeding. The decision determined that the ROE of the benchmark utility would be set at 8.75 per cent with a 38.5 per cent common equity component, both effective January 1, 2013. The common equity component of capital structure will remain in effect through December 31, 2015. Effective January 1, 2014, the BCUC has also introduced an Automatic Adjustment Mechanism ("AAM") to set the ROE on an annual basis for the Corporation. The AAM will take effect when the actual long-term Government of Canada bond yield exceeds 3.8 per cent. The AAM will be in effect until December 31, 2015. In January 2014, the BCUC confirmed that the necessary conditions for the AAM to be triggered for the 2014 ROE have not been met, therefore the benchmark ROE remains at 8.75 per cent for 2014.

Once amalgamation of the gas utilities has been affected, the ROE and capital structure for the amalgamated entity will be set to equal the benchmark utility, FEI.

4. SEASONALITY OF OPERATIONS

Due to the seasonal nature of the Corporation's natural gas transmission and distribution operations and its impact on, natural gas consumption patterns, the natural gas transmission and distribution operations of FEI normally generate higher earnings in the first and fourth quarters and lower earnings in the second quarter, which are partially offset by losses in the third quarter. As a result of the seasonality, interim earnings are not indicative of earnings on an annual basis.

5. CREDIT FACILITIES

The Corporation has a $500 million syndicated credit facility available which matures in August 2015, of which $403 million was unused at March 31, 2014 (December 31, 2013 - $363 million).

($ millions)	**March 31, 2014**	December 31, 2013
Total credit facility	**500**	500
Short-term notes	**(45)**	(87)
Letters of credit outstanding	**(52)**	(50)
Credit facility available	**403**	363

6. FINANCE CHARGES

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

($ millions)	**2014**	2013
Interest on long-term debt, capital leases, and finance obligations	**29**	29
Interest on short-term debt	**1**	-
Allowance for funds used during construction - debt component	**(1)**	-
	29	29

7. EMPLOYEE FUTURE BENEFITS

The Corporation is a sponsor of pension plans for eligible employees. The plans include registered defined benefit pension plans and supplemental unfunded arrangements. The Corporation also provides various other post-retirement benefits ("OPEB") other than pensions for retired employees.

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

	Defined Benefit Pension Plans		OPEB Plans	
($ millions)	**2014**	2013	**2014**	2013
Service costs	**3**	4	**1**	1
Interest costs	**5**	4	**1**	1
Expected return on plan assets	**(6)**	(5)	**-**	-
Amortization:				
Actuarial losses	**2**	2	**1**	1
Past service costs	**-**	-	**(1)**	(1)
Actuarially determined net benefit cost	**4**	5	**2**	2
Regulatory adjustment	**1**	(2)	**-**	(1)
Net benefit cost	**5**	3	**2**	1

8. 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 is as follows:

Significant Non-Cash Transactions

($ millions)	**2014**	2013
Mark-to-market of natural gas commodity derivatives	**(5)**	(15)
Capital accruals	**7**	3
Regulatory assets and regulatory liabilities accruals	**1**	6
Contributions in aid of construction accruals	**(3)**	(3)
Regulated asset for deferred income taxes	**3**	7

Changes in Non-Cash Working Capital

($ millions)	**2014**	2013
Accounts receivable	**(52)**	(51)
Inventory	**62**	54
Prepaid expenses	**2**	1
Accounts payable and accrued liabilities	**4**	(45)
Income and other taxes payable	**21**	39
Net regulatory assets and liabilities	**(46)**	2
Other	**14**	7
	5	7

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

($ millions)	**2014**	2013
Additions to property, plant and equipment and intangible assets included in current liabilities	**4**	2
Contributions in aid of construction included in current assets	**6**	9

9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Corporation hedges its exposure to fluctuations in natural gas prices through the use of derivative instruments. The Corporation's price risk management strategy aims to (i) improve the likelihood that natural gas prices remain competitive, (ii) dampen price volatility on customer rates and (iii) reduce the risk of regional price disconnects. As a result of regulatory proceedings in 2011, the Corporation suspended all commodity hedging activity with the exception of certain elements to address the risk of regional price disconnects. The remaining forward purchase contracts matured during the three months ended March 31, 2014. The Corporation's ability to fully recover the commodity cost of gas in customer rates remains unchanged.

Volume of Derivative Activity

As at March 31, 2014, the Corporation had the following notional volumes of outstanding natural gas commodity derivatives, designated for regulatory approval that are expected to be settled as outlined below:

	2014	2015
Natural gas derivatives		
Gas purchase contract premiums (PJ)	**72**	14

Presentation of Derivative Instruments in the Financial Statements

In the Corporation's consolidated balance sheets, derivative instruments are presented on a net basis by counterparty where the right of offset exists.

At March 31, 2014, the Corporation's outstanding derivative balances were as follows:

($ millions)	**Gross Derivatives Balance[1]**	**Netting[2]**	**Cash Collateral**	**Total Derivatives Balance**
Natural gas commodity derivatives:				
Accounts payable and accrued liabilities	**5**	**-**	**-**	**5**

[1] See note 10 for a discussion of the valuation techniques used to calculate the fair value of these instruments.
[2] Positions, by counterparty, are netted where the intent and legal right to offset exists.

At December 31, 2013, the Corporation's outstanding derivative balances were as follows:

($ millions)	Gross Derivatives Balance[1]	Netting[2]	Cash Collateral	Total Derivatives Balance
Natural gas commodity derivatives:				
Accounts payable and accrued liabilities	3	-	-	3

[1] See note 10 for a discussion of the valuation techniques used to calculate the fair value of these instruments.
[2] Positions, by counterparty, are netted where the intent and legal right to offset exists.

The following table shows the cumulative unrealized losses at March 31, 2014 and December 31, 2013, with respect to the derivative instruments:

($ millions)	**March 31, 2014**	December 31, 2013
Unrealized loss on natural gas commodity derivatives[1,2]	**5**	3

[1] Unrealized gains and losses on commodity risk-related derivative instruments are recorded to current regulatory assets or liabilities rather than being recorded to the consolidated statement of earnings.
[2] These amounts are fully passed through to customers in rates. Accordingly, net earnings were not impacted by realized amounts on these instruments.

Cash inflows and outflows associated with the settlement of all derivative instruments are included in operating cash flows on the Corporation's consolidated statements of cash flows.

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 sale exception.

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, including derivatives, 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, account receivable, accounts payable and short-term notes on the consolidated balance sheets of the Corporation approximate their fair values.

The natural gas commodity derivatives are used to fix the effective purchase price of natural gas, as the majority of the natural gas supply contracts have floating, rather than fixed, prices. Any resulting gains or losses are recorded in regulatory liabilities or assets in the consolidated balance sheet. The fair value of the natural gas commodity derivatives is calculated using the present value of cash flows based on market prices and forward curves for the commodity cost of natural gas.

The fair values of the natural gas commodity derivatives are estimates of the amounts that the Corporation would receive or pay to terminate the outstanding contracts as at the balance sheet date. As at March 31, 2014 and December 31, 2013, none of the natural gas commodity derivatives were designated as hedges of the natural gas supply contracts. However, any changes in the fair value of the natural gas commodity derivatives are deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates, as permitted by the BCUC.

The following table summarizes the fair value measurements of the Corporation's long-term debt and natural gas derivative contracts as of March 31, 2014 and December 31, 2013, all of which are Level 2 of the fair value hierarchy and recorded on the consolidated balance sheets at their carrying value:

	March 31, 2014		December 31, 2013	
($ millions)	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long-term debt	**1,545**	**1,908**	1,545	1,842
Natural gas commodity swaps and options and gas purchase contract premium[1]	**5**	**5**	3	3

[1] Included in accounts payable as at March 31, 2014 and December 31, 2013.

The fair value of long-term debt is estimated using quoted market prices where 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. FINANCIAL RISK MANAGEMENT

The Corporation is exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments in the normal course of business.

The following table summarizes the Corporation's net credit risk exposure to its counterparties, as well as credit risk exposure to counterparties accounting for greater than 10 per cent net credit exposure, as of March 31, 2014 and December 31, 2013:

($ millions)	Gross Credit Exposure Before Credit Collateral[1]	Credit Collateral	Net Credit Exposure[2]	Number of Counterparties >10%	Net Exposure to Counterparties >10%
March 31, 2014	**-**	**-**	**-**	**-**	**-**
December 31, 2013	1	-	1	3	1

1. Gross credit exposure equals mark-to-market value on physically and financially settled contracts, notes receivable, and net receivables (payables) where netting is contractually allowed. Gross and net credit exposure amounts reported above do not include adjustments for time value or liquidity.
2. Net credit exposure is the gross credit exposure collateral minus credit collateral.

12. RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its 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 related parties under common control for the three months ended March 31 were as follows:

($ millions)	**2014**	2013
Natural gas transmission and distribution revenue recovered from FEVI (a)	**1**	1
Operation and maintenance expense charged to FEVI (b)	**3**	3
Operation and maintenance expense charged to FortisBC Inc. ("FBC") (c)	**1**	-
	5	4

(a) The Corporation charged FEVI, a subsidiary of FHI, for transporting natural gas through the Corporation's pipeline system.

(b) The Corporation charged FEVI for management services, labour and materials.

(c) The Corporation charged FBC, a related company under common control, for office rent and management services.

Related Party Costs

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

($ millions)	**2014**	2013
Natural gas storage costs charged by FEVI (a)	**4**	4
Operation and maintenance expense charged by FBC (b)	**2**	1
Operation and maintenance expense charged by FHI (c)	**3**	3
	9	8

(a) FEVI charged the Corporation for storing natural gas at the Mt. Hayes LNG storage facility. These charges were included in regulatory liabilities on the consolidated balance sheets.

(b) FBC charged the Corporation for electricity purchases and management services.

12. RELATED PARTY TRANSACTIONS (continued)

Related Party Costs (continued)

(c) FHI charged the Corporation for Board of Director costs, management services, labour and materials.

Balance Sheet Amounts

As a result of the transactions noted above, 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 accrued liabilities on the consolidated balance sheets, are as follows:

	March 31, 2014		December 31, 2013	
($ millions)	**Amount Due From**	**Amount Due To**	Amount Due From	Amount Due To
FEVI	**1**	**-**	2	-
FEW	**1**	**-**	1	-
FHI	**-**	**-**	2	-
FBC	**-**	**1**	-	1
	2	**1**	5	1

13. CONTINGENCIES

Legal Proceedings

The Corporation was the plaintiff in a BC Supreme Court action against the City of Surrey ("Surrey") in which the Corporation sought the court's determination on the manner in which costs related to the relocation of a natural gas transmission pipeline would be shared between itself and Surrey. The relocation was required due to the development and expansion of Surrey's transportation infrastructure. The Corporation claimed that the parties had an agreement that dealt with the allocation of costs. In turn, Surrey advanced counterclaims including an allegation that the Corporation breached the agreement and that Surrey suffered damage as a result. In December 2013, the Court issued a decision which ordered the Corporation and Surrey to share equally the cost of the pipeline relocation. The Court also decided that Surrey was successful in its counterclaim that the Corporation breached the agreement. The amount of damages which may be awarded to Surrey at a subsequent hearing cannot be reasonably determined or estimated at this time and, accordingly, no amount has been accrued in the financial statements.

14. GUARANTEES

The Corporation has letters of credit outstanding at March 31, 2014 totaling $52 million (December 31, 2013 - $50 million) primarily to support its unfunded supplemental pension benefit plans.