FortisBC Energy 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 Energy 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	$ 53	$ 22
Accounts receivable	256	205
Inventories	41	95
Prepaid expenses	2	3
Deferred income taxes	11	13
Regulatory assets	16	28
	379	366
Property, plant and equipment	2,603	2,604
Intangible assets	120	121
Goodwill	769	769
Regulatory assets	580	561
Other assets	22	22
	$ 4,473	$ 4,443
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term notes (note 5)	$ -	$ 33
Accounts payable and accrued liabilities	181	226
Income and other taxes payable	71	32
Current portion of capital lease and finance obligations	7	7
Regulatory liabilities	25	35
	284	333
Long-term debt	1,545	1,545
Capital lease and finance obligations	114	116
Regulatory liabilities	69	55
Deferred income taxes	315	309
Other long-term liabilities	195	194
	2,522	2,552
Shareholders' equity		
Common shares[a]	784	784
Additional paid-in capital	1,019	1,019
Retained earnings	148	88
	1,951	1,891
	$ 4,473	$ 4,443

[a] no par value; 500 million authorized common shares; 64.9 million issued and outstanding at March 31, 2013 and December 31, 2012.

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
(all amounts are in millions of Canadian dollars)

	2013	2012
Revenue		
Natural gas transmission and distribution (note 12)	**$ 428**	$ 485
Other income	**1**	-
	429	485
Expenses		
Cost of natural gas	**206**	273
Operation and maintenance (note 12)	**49**	49
Depreciation and amortization	**37**	32
Property and other taxes	**13**	12
	305	366
Operating Income	**124**	119
Finance charges (notes 6 and 12)	**29**	30
Earnings before income taxes	**95**	89
Income taxes	**20**	17
Net earnings	**$ 75**	$ 72

FortisBC Energy 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	$ 719	$ 1,019	$ 61	$ 1,799
Net earnings	-	-	72	72
Dividends on common shares	-	-	(35)	(35)
As at March 31, 2012	719	1,019	98	1,836
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**

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
(all amounts are in millions of Canadian dollars)

	2013	2012
Cash flows provided by (used for)		
Operating activities		
Net earnings	**$ 75**	$ 72
Adjustments for non-cash items		
Depreciation and amortization	**37**	32
Deferred income taxes	**-**	3
Other	**(2)**	(3)
	110	104
Changes in long-term regulatory assets and liabilities	**(10)**	(10)
Changes in non-cash working capital (note 8)	**7**	42
	107	136
Investing activities		
Property, plant and equipment	**(25)**	(24)
Intangible assets	**(2)**	(8)
Other assets and other long-term liabilities	**1**	2
	(26)	(30)
Financing activities		
Decrease in short-term notes	**(33)**	(56)
Reduction of capital lease and finance obligations	**(2)**	(1)
Dividends on common shares	**(15)**	(35)
	(50)	(92)
Net increase in cash and cash equivalents	**31**	14
Cash and cash equivalents at beginning of period	**22**	17
Cash and cash equivalents at end of period	**$ 53**	$ 31

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.

The Corporation is the largest distributor of natural gas in British Columbia ("BC"), serving approximately 843,000 residential, commercial and industrial 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 and commercial 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 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 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 FEI and its subsidiary. All material inter-company transactions have been eliminated in the interim consolidated financial statements except for those inter-company transactions recovered in rates from customers.

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 pronouncements that are applicable to, and were adopted by, the Corporation 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. The Corporation has been designated as the benchmark.

The public oral hearing for the first phase of the GCOC Proceeding occurred in December 2012. A decision on the benchmark 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 the Corporation 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.

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.

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

5. CREDIT FACILITIES

The Corporation has a $500 million syndicated credit facility available which matures in August 2014, of which $449 million was unused at March 31, 2013 (December 31, 2012 - $416 million). The facility is unsecured and is used for general corporate purposes.

	March 31, 2013	December 31, 2012
Total credit facility	**$ 500**	$ 500
Short-term notes	**-**	(33)
Letters of credit outstanding	**(51)**	(51)
Credit facility available	**$ 449**	$ 416

6. FINANCE CHARGES

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

	2013	2012
Interest on long-term debt, capital leases, and finance obligations	**$ 29**	$ 29
Interest on short-term debt	**-**	1
	$ 29	$ 30

7. EMPLOYEE FUTURE BENEFITS

The Corporation sponsors a number of employee post-employment benefit plans for eligible employees. These plans include defined benefit pension plans, unfunded supplemental plans, and various other post-retirement benefit ("OPEB") plans.

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

	Defined benefit pension plans		**OPEB plans**	
	2013	2012	**2013**	2012
Service costs	**$ 4**	$ 3	**$ 1**	$ 1
Interest costs	**4**	4	**1**	1
Expected return on plan assets	**(5)**	(5)	**-**	-
Amortization:				
Actuarial losses	**2**	3	**1**	1
Past service costs	**-**	-	**(1)**	(1)
Actuarial determined net benefit cost	**5**	5	**2**	2
Regulatory adjustment	**(2)**	(2)	**(1)**	(1)
Net benefit cost	**$ 3**	$ 3	**$ 1**	$ 1

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

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	2013	2012
Mark-to-market of natural gas commodity derivatives	**$ (15)**	$ (11)
Capital accruals	**3**	-
Regulatory assets and regulatory liabilities accruals	**6**	(2)
Contributions in aid of construction accruals	**(3)**	(2)
Regulated asset for deferred income taxes	**7**	3

Changes in Non-cash Working Capital	2013	2012
Accounts receivable	**$ (51)**	$ (29)
Inventory	**54**	54
Prepaid expenses	**1**	-
Accounts payable and accrued liabilities	**(45)**	(48)
Income and other taxes payable	**39**	36
Net regulatory assets and liabilities	**2**	41
Other	**7**	(12)
	$ 7	$ 42

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

	2013	2012
Additions to property, plant and equipment and intangible assets included in current liabilities	**$ 2**	$ 7
Contributions in aid of construction included in current assets	**9**	3

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 has suspended all commodity hedging activity with the exception of certain elements to address the risk of regional price disconnects. The existing hedging contracts continue in effect through to their maturity and 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, 2013, 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:

	2013	2014
Natural gas commodity derivatives		
Swaps and options (petajoules (*PJ*))	9	2
Gas purchase contract premiums *(PJ)*	63	12

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

9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (continued)

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

	Gross derivatives balance[1]	**Netting**[2]	**Cash collateral**	**Total derivatives balance**
Natural gas commodity derivatives:				
Accounts payable and accrued liabilities	**$ 11**	**$ -**	**$ -**	**$ 11**

[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, 2012, the Corporation's outstanding derivative balances were as follows:

	Gross derivatives balance[1]	Netting[2]	Cash collateral	Total derivatives balance
Natural gas commodity derivatives:				
Accounts payable and accrued liabilities	$ 26	$ -	$ -	$ 26

[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, 2013 and December 31, 2012, with respect to the derivative instruments:

	March 31, 2013	December 31, 2012
Unrealized loss on natural gas commodity derivatives – Current portion of regulatory assets[1,2]	**$ 11**	$ 26

[1] Unrealized gains and losses on commodity risk-related derivative instruments are recorded to 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.

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

10. FAIR VALUE MEASUREMENT (continued)

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 sheet 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, 2013 and December 31, 2012, 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, 2013 and December 31, 2012, all of which are Level 2 of the fair value hierarchy and recorded on the consolidated balance sheets at their carrying value:

	March 31, 2013		December 31, 2012	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
Long-term debt	**$ 1,545**	**$ 2,011**	$ 1,545	$ 2,039
Natural gas commodity swaps and options and gas purchase contract premium[1]	**11**	**11**	26	26

[1] Included in accounts payable as at March 31, 2013 and December 31, 2012.

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.

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

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, 2013 and December 31, 2012:

	Gross credit exposure before credit collateral[1]	Credit collateral	Net credit exposure[2]	Number of counterparties >10%	Net exposure to counterparties >10%
March 31, 2013	**$ 9**	**$ -**	**$ 9**	**3**	**$ 8**
December 31, 2012	$ 20	$ -	$ 20	4	$ 18

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, 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 $1 million (2012 – $1 million) for the three months ended March 31, 2013, from FortisBC Energy (Vancouver Island) Inc. ("FEVI"), a subsidiary of FHI, for transporting gas through the Corporation's pipeline system. This revenue was included in natural gas transmission and distribution revenues on the consolidated statements of earnings.

(b) The Corporation reimbursed its parent, FHI, for management services under a shared-services agreement totaling $3 million (2012 – $3 million) for the three months ended March 31, 2013. The management services fee was included in operation and maintenance expenses on the consolidated statements of earnings.

(c) Corporation charged $3 million (2012 – $3 million) to affiliated companies for management services under a shared-services agreement during the three months ended March 31, 2013. The management services fee was included in operation and maintenance expenses on the consolidated statements of earnings.

(d) The Corporation was charged $4 million (2012 - $4 million) for the three months ended March 31, 2013 by FEVI for storing gas at the Mt. Hayes LNG storage facility. These charges were included in regulatory liabilities on the consolidated balance sheets.

(e) For the three months ended March 31, 2013, the Corporation was charged $1 million (2012 - $1 million) by FortisBC Inc. (an indirect subsidiary of Fortis) for electricity purchases and corporate management services. These charges were included in operation and maintenance expenses on the consolidated statements of earnings.

(f) Included in accounts receivable at March 31, 2013, was $4 million (2012 - $3 million) owed to the Corporation by affiliated companies. The amounts were unsecured and non-interest bearing.

13. CONTINGENCIES

The Corporation is subject to various legal proceedings and claims associated with the ordinary course of business operations. Management believes that the amount of liability, if any, from these actions would not have a material effect on the Corporation's consolidated financial position or results of operations.

14. GUARANTEES

The Corporation has letters of credit outstanding at March 31, 2013 totaling $51 million (December 31, 2012 - $51 million) primarily to support its unfunded supplemental pension benefit plans.