FortisBC Energy Inc.

An indirect subsidiary of Fortis Inc.

Interim Consolidated Financial Statements
For the three and six months ended June 30, 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	**June 30, 2013**	December 31, 2012
Current assets		
Cash and cash equivalents	**$ 35**	$ 22
Accounts receivable (note 12)	**141**	205
Inventories	**77**	95
Prepaid expenses	**1**	3
Deferred income taxes	**6**	13
Regulatory assets	**25**	28
	285	366
Property, plant and equipment	**2,617**	2,604
Intangible assets	**120**	121
Goodwill	**769**	769
Regulatory assets	**586**	561
Other assets	**22**	22
	$ 4,399	$ 4,443
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term notes (note 5)	**$ -**	$ 33
Accounts payable and accrued liabilities	**193**	226
Income and other taxes payable	**53**	32
Current portion of capital lease and finance obligations	**7**	7
Regulatory liabilities	**27**	35
	280	333
Long-term debt	**1,545**	1,545
Capital lease and finance obligations	**113**	116
Regulatory liabilities	**69**	55
Deferred income taxes	**316**	309
Other long-term liabilities	**195**	194
	2,518	2,552
Shareholders' equity		
Common shares[(a)]	**784**	784
Additional paid-in capital	**1,019**	1,019
Retained earnings	**78**	88
	1,881	1,891
	$ 4,399	$ 4,443

[(a)] no par value; 500 million authorized common shares; 64.9 million issued and outstanding at June 30, 2013 and December 31, 2012.

Contingencies (note 13)

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

FORTIS BC

FortisBC Energy Inc.
Consolidated Statements of Earnings (US GAAP) (Unaudited)
For the three and six months ended June 30
(all amounts are in millions of Canadian dollars)

	Three months ended		Six months ended	
	2013	2012	**2013**	2012
Revenue				
Natural gas transmission and distribution (note 12)	**$ 200**	$ 222	**$ 628**	$ 707
Other income	**-**	1	**1**	1
	200	223	**629**	708
Expenses				
Cost of natural gas	**79**	101	**285**	374
Operation and maintenance (note 12)	**43**	42	**92**	91
Depreciation and amortization	**36**	32	**73**	64
Property and other taxes	**13**	13	**26**	25
	171	188	**476**	554
Operating Income	**29**	35	**153**	154
Finance charges (note 6)	**29**	29	**58**	59
Earnings before income taxes	**-**	6	**95**	95
Income taxes	**1**	2	**21**	19
Net (loss) earnings	**$ (1)**	$ 4	**$ 74**	$ 76

FortisBC Energy Inc.
Consolidated Statements of Changes in Equity (US GAAP) (Unaudited)
For the six months ended June 30
(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	-	-	76	76
Issuance of common shares	65	-	-	65
Dividends on common shares	-	-	(50)	(50)
As at June 30, 2012	784	1,019	87	1,890
As at December 31, 2012	**784**	**1,019**	**88**	**1,891**
Net earnings	**-**	**-**	**74**	**74**
Dividends on common shares	**-**	**-**	**(84)**	**(84)**
As at June 30, 2013	**$ 784**	**$ 1,019**	**$ 78**	**$ 1,881**

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 and six months ended June 30
(all amounts are in millions of Canadian dollars)

	Three months ended		Six months ended	
	2013	2012	**2013**	2012
Cash flows provided by (used for)				
Operating activities				
Net (loss) earnings	**$ (1)**	$ 4	**$ 74**	$ 76
Adjustments for non-cash items				
Depreciation and amortization	**36**	32	**73**	64
Deferred income taxes	**-**	(3)	**-**	-
Other	**1**	3	**(1)**	-
	36	36	**146**	140
Changes in long-term regulatory assets and liabilities	**(10)**	(14)	**(20)**	(24)
Changes in non-cash working capital (note 8)	**67**	85	**74**	127
	93	107	**200**	243
Investing activities				
Property, plant and equipment	**(37)**	(25)	**(62)**	(49)
Intangible assets	**(5)**	(5)	**(7)**	(13)
Other assets and other long-term liabilities	**1**	(2)	**2**	-
	(41)	(32)	**(67)**	(62)
Financing activities				
Decrease in short-term notes	**-**	(9)	**(33)**	(65)
Reduction of capital lease and finance obligations	**(1)**	(1)	**(3)**	(2)
Issuance of common shares	**-**	65	**-**	65
Dividends on common shares	**(69)**	(15)	**(84)**	(50)
	(70)	40	**(120)**	(52)
Net (decrease) increase in cash and cash equivalents	**(18)**	115	**13**	129
Cash and cash equivalents at beginning of period	**53**	31	**22**	17
Cash and cash equivalents at end of period	**$ 35**	$ 146	**$ 35**	$ 146

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 842,000 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 August 1, 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 June 30, 2013. Subsequent events have been appropriately disclosed in these consolidated financial statements.

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 and six months ended June 30, 2013 and 2012.

3. REGULATORY MATTERS

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

In February 2012, the British Columbia Utilities Commission ("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 phase 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 in capital structure will remain in effect through December 31, 2015. Effective January 2014, the BCUC is also introducing 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 formula will be in effect until December 31, 2015.

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

As at June 30, 2013, the Corporation had a $500 million syndicated credit facility available of which $450 million was unused. On July 5, 2013, the Corporation extended its credit facility to mature on August 24, 2015. The new agreement has substantially similar terms to the facility it replaced.

	June 30, 2013	December 31, 2012
Total credit facility	**$ 500**	$ 500
Short-term notes	**-**	(33)
Letters of credit outstanding	**(50)**	(51)
Credit facility available	**$ 450**	$ 416

6. FINANCE CHARGES

The total finance charges for the three and six months ended June 30 were as follows:

	Three months ended June 30		**Six months ended June 30**	
	2013	2012	**2013**	2012
Interest on long-term debt, capital leases, and finance obligations	**$ 29**	$ 29	**$ 58**	$ 58
Interest on short-term debt	**1**	-	**1**	1
Interest capitalized	**(1)**	-	**(1)**	-
	$ 29	$ 29	**$ 58**	$ 59

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 June 30 were as follows:

	Defined benefit pension plans		OPEB plans	
	2013	2012	**2013**	2012
Service costs	**$ 4**	$ 3	**$ 1**	$ -
Interest costs	**4**	4	**1**	1
Expected return on plan assets	**(5)**	(4)	**-**	-
Amortization:				
Actuarial losses	**3**	2	**1**	1
Past service costs	**-**	-	**(1)**	-
Actuarial determined net benefit cost	**6**	5	**2**	2
Regulatory adjustment	**(3)**	(1)	**(1)**	-
Net benefit cost	**$ 3**	$ 4	**$ 1**	$ 2

The total net benefit cost for the six months ended June 30 were as follows:

	Defined benefit pension plans		OPEB plans	
	2013	2012	**2013**	2012
Service costs	**$ 8**	$ 6	**$ 2**	$ 1
Interest costs	**8**	8	**2**	2
Expected return on plan assets	**(10)**	(9)	**-**	-
Amortization:				
Actuarial losses	**5**	5	**2**	2
Past service costs	**-**	-	**(2)**	(1)
Actuarial determined net benefit cost	**11**	10	**4**	4
Regulatory adjustment	**(5)**	(3)	**(2)**	(1)
Net benefit cost	**$ 6**	$ 7	**$ 2**	$ 3

8. SUPPLEMENTARY INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS

The supplementary information to the consolidated statements of cash flows for the three and six months ended June 30 is as follows:

	Three months ended June 30		Six months ended June 30	
Significant Non-cash Transactions	**2013**	2012	**2013**	2012
Mark-to-market of natural gas commodity derivatives	**$ 4**	$ (27)	**$ (11)**	$ (38)
Capital accruals	**-**	3	**3**	3
Regulatory assets and regulatory liabilities accruals	**-**	3	**6**	1
Contributions in aid of construction accruals	**(4)**	(1)	**(7)**	(3)
Regulated asset for deferred income taxes	**2**	3	**9**	6

8. SUPPLEMENTARY INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

	Three months ended June 30		Six months ended June 30	
Changes in Non-cash Working Capital	**2013**	2012	**2013**	2012
Accounts receivable	**$ 115**	$ 123	**$ 64**	$ 94
Inventory	**(36)**	(28)	**18**	26
Prepaid expenses	**1**	2	**2**	2
Accounts payable and accrued liabilities	**12**	(39)	**(33)**	(87)
Income and other taxes payable	**(18)**	(10)	**21**	26
Net regulatory assets and liabilities	**(7)**	35	**(5)**	76
Other	**-**	2	**7**	(10)
	$ 67	$ 85	**$ 74**	$ 127

The non-cash investing activities balances as at June 30 are as follows:

	2013	2012
Additions to property, plant and equipment and intangible assets included in current liabilities	**$ 2**	$ 4
Contributions in aid of construction included in current assets	**4**	2

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 June 30, 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**	**2015**
Natural gas commodity derivatives			
Swaps and options (petajoules *(PJ))*	5	2	-
Gas purchase contract premiums *(PJ)*	43	26	6

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 June 30, 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.

9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (continued)

Presentation of Derivative Instruments in the Financial Statements (continued)

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 June 30, 2013 and December 31, 2012, with respect to the derivative instruments:

	June 30, 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.

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 and cash equivalents, account receivable, accounts payable and short-term notes on the consolidated balance sheet of the Corporation approximate their fair values.

10. FAIR VALUE MEASUREMENT (continued)

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 June 30, 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 June 30, 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:

	June 30, 2013		December 31, 2012	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
Long-term debt	**$ 1,545**	**$ 1,905**	$ 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 June 30, 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.

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.

In June 2013, Moody's Investors Service affirmed the long-term credit rating of the Corporation of A3 but changed the rating outlook from stable to negative. There have been no other changes to the Corporation's credit ratings from those reported in the Corporation's 2012 annual financial statements.

11. FINANCIAL RISK MANAGEMENT (continued)

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 June 30, 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%
June 30, 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 and other related companies under common control to provide or receive services and materials based upon commercial terms or on terms approved by the BCUC. The following transactions were measured at the exchange amount unless otherwise indicated:

(a) The Corporation received $1 million (2012 – $1 million) and $2 million (2012 - $2 million), respectively, for the three and six months ended June 30, 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 labour and materials totaling $3 million (2012 – $3 million) for the three months ended June 30, 2013 and $6 million (2012 - $6 million) for the six months ended June 30, 2013. The amounts were included in operation and maintenance expenses on the consolidated statements of earnings.

(c) The Corporation charged $3 million (2012 – $3 million) to affiliated companies for labour and materials during the three months ended June 30, 2013 and $6 million (2012 - $6 million) for the six months ended June 30, 2013. The amounts were included in operation and maintenance expenses on the consolidated statements of earnings.

(d) The Corporation was charged $4 million (2012 - $4 million) and $8 million (2012 - $8 million), respectively, for the three and six months ended June 30, 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 and six months ended June 30, 2013, the Corporation was charged $1 million (2012 - nil) and $2 million (2012 - $1 million), respectively, by FortisBC Inc. ("FBC") (an indirect subsidiary of Fortis) for electricity purchases and management services. For the three and six months ended June 30, 2013, the Corporation charged $1 million (2012 - $1 million) and $1 million (2012 - $1 million), respectively, to FBC for natural gas purchases, rent and management services. These charges were included in operation and maintenance expenses on the consolidated statements of earnings.

(f) As a result of the transactions noted above, included in accounts receivable are amounts due from the Corporation's related parties as at June 30, 2013, of $4 million (December 31, 2012 - $2 million) from FEVI and $1 million (December 31, 2012 - $1 million) from FortisBC Energy (Whistler) Inc. The amounts are 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 June 30, 2013 totaling $50 million (December 31, 2012 - $51 million) primarily to support its unfunded supplemental pension benefit plans.

15. COMPARATIVE FIGURES

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