



FortisBC Energy Inc.

An indirect subsidiary of Fortis Inc.

**Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2018 and 2017
(Unaudited)**

Prepared in accordance with accounting principles generally accepted in the United States of America

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

| ASSETS | March 31, 2018 | December 31, 2017 |
|---|---------------------------|----------------------|
| Current assets | | |
| Cash | \$ 3 | \$ - |
| Accounts receivable (notes 9 and 12) | 251 | 231 |
| Inventories | 20 | 50 |
| Prepaid expenses | 2 | 3 |
| Regulatory assets (note 9) | 44 | 79 |
| Total current assets | 320 | 363 |
| Property, plant and equipment, net | 4,402 | 4,356 |
| Intangible assets, net | 122 | 124 |
| Regulatory assets | 748 | 746 |
| Other assets (note 9) | 14 | 9 |
| Goodwill | 913 | 913 |
| TOTAL ASSETS | \$ 6,519 | \$ 6,511 |
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| Credit facility (note 5) | \$ 67 | \$ 111 |
| Accounts payable and other current liabilities (notes 9 and 10) | 247 | 287 |
| Income taxes payable | 23 | 15 |
| Other taxes payable | 60 | 38 |
| Current portion of capital lease and finance obligations | 32 | 32 |
| Regulatory liabilities | 84 | 90 |
| Total current liabilities | 513 | 573 |
| Long-term debt | 2,376 | 2,376 |
| Capital lease and finance obligations | 58 | 59 |
| Regulatory liabilities | 178 | 160 |
| Deferred income taxes | 452 | 450 |
| Other liabilities (notes 7 and 9) | 225 | 230 |
| Total liabilities | 3,802 | 3,848 |
| Equity | | |
| Common shares | 1,171 | 1,171 |
| Additional paid-in capital | 1,245 | 1,245 |
| Retained earnings | 291 | 237 |
| Shareholder's equity | 2,707 | 2,653 |
| Non-controlling interests | 10 | 10 |
| Total equity | 2,717 | 2,663 |
| TOTAL LIABILITIES AND EQUITY | \$ 6,519 | \$ 6,511 |

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

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

| | 2018 | 2017 |
|--|---------------|--------|
| Revenues | | |
| Revenue from contracts with customers | \$ 434 | \$ 452 |
| Alternative revenue | (6) | - |
| Other revenue (expense) | - | (3) |
| Total revenues (notes 2 and 12) | 428 | 449 |
| Expenses | | |
| Cost of natural gas | 134 | 181 |
| Operation and maintenance (note 10) | 58 | 56 |
| Property and other taxes | 17 | 17 |
| Depreciation and amortization | 56 | 51 |
| Total expenses | 265 | 305 |
| Operating income | 163 | 144 |
| Other income | 16 | 13 |
| Finance charges (note 6) | 48 | 37 |
| Earnings before income taxes | 131 | 120 |
| Income tax expense | 30 | 21 |
| Net earnings | \$ 101 | \$ 99 |

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

| | Common Shares | Additional Paid-in Capital | Non- controlling Interests | Retained Earnings | Total |
|-----------------------------|--------------------------|---|---|------------------------------|-----------------|
| As at December 31, 2016 | \$ 1,171 | \$ 1,245 | \$ 10 | \$ 178 | \$ 2,604 |
| Net earnings | - | - | - | 99 | 99 |
| Dividends on common shares | - | - | - | (42) | (42) |
| As at March 31, 2017 | 1,171 | 1,245 | 10 | 235 | 2,661 |
| As at December 31, 2017 | 1,171 | 1,245 | 10 | 237 | 2,663 |
| Net earnings | - | - | - | 101 | 101 |
| Dividends on common shares | - | - | - | (47) | (47) |
| As at March 31, 2018 | \$ 1,171 | \$ 1,245 | \$ 10 | \$ 291 | \$ 2,717 |

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

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

| | 2018 | 2017 |
|--|-------------|-------|
| Operating activities | | |
| Net earnings | \$ 101 | \$ 99 |
| Adjustments for non-cash items | | |
| Depreciation and amortization | 56 | 51 |
| Equity component of allowance for funds used during construction | (1) | (4) |
| Change in long-term regulatory assets and liabilities | 9 | 34 |
| Change in non-cash working capital (note 8) | 15 | 9 |
| Cash from operating activities | 180 | 189 |
| Investing activities | | |
| Property, plant and equipment additions (note 8) | (83) | (90) |
| Intangible asset additions | (2) | (3) |
| Contributions in aid of construction | 1 | - |
| Change in other assets and other liabilities | - | 5 |
| Restricted cash | - | 5 |
| Cash used in investing activities | (84) | (83) |
| Financing activities | | |
| Net repayments of credit facility | (44) | (60) |
| Repayment of capital lease and finance obligations | (2) | (2) |
| Dividends on common shares | (47) | (42) |
| Cash used in financing activities | (93) | (104) |
| Net change in cash | 3 | 2 |
| Cash at beginning of period | - | - |
| Cash at end of period | \$ 3 | \$ 2 |

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

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three months ended March 31, 2018 and 2017

1. DESCRIPTION OF THE BUSINESS

FortisBC Energy Inc. ("FEI" or the "Corporation") is a wholly-owned 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 1,014,000 residential, commercial, industrial and transportation customers in more than 135 communities. 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 Condensed Consolidated Interim Financial Statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for Condensed Consolidated Interim Financial Statements and are presented in Canadian dollars unless otherwise specified. As a result, these Condensed Consolidated Interim 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 2017 Annual Audited Consolidated Financial Statements prepared in accordance with US GAAP. In management's opinion, the Condensed Consolidated Interim Financial Statements include all adjustments that are necessary to present fairly the consolidated financial position of the Corporation.

With the exception of the new accounting policies listed below, the accounting policies and methods of application used in the preparation of these Condensed Consolidated Interim Financial Statements are consistent with the accounting policies used in FEI's Annual Audited Consolidated Financial Statements as at December 31, 2017.

The Condensed Consolidated Interim Financial Statements include the accounts of the Corporation and its subsidiaries and its 85 per cent interest in the Mt. Hayes Storage Limited Partnership ("MHLP"). The Corporation consolidates 100 per cent of its subsidiaries and recognizes 15 per cent of the MHLP as a non-controlling interests. All intercompany transactions and balances have been eliminated upon consolidation.

An evaluation of subsequent events through April 30, 2018, the date these Condensed Consolidated Interim Financial Statements were issued, was completed to determine whether any circumstances warranted recognition and disclosure of events or transactions in the Condensed Consolidated Interim Financial Statements as at March 31, 2018. Subsequent events have been appropriately disclosed in these Condensed Consolidated Interim Financial Statements.

New Accounting Policies

Revenue from Contracts with Customers

Effective January 1, 2018, FEI adopted Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, which supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the codification. This standard clarifies the principles for recognizing revenue and enables users of financial statements to better understand and consistently analyze an entity's revenues across industries and transactions. The Corporation adopted the new revenue recognition guidance using the modified retrospective transition method, under which comparative periods are not restated and the cumulative impact of applying the standard is recognized at the date of initial adoption supplemented by additional disclosures. Upon adoption, there were no adjustments to the opening balance of the Corporation's retained earnings as there were no changes to the timing of how revenue is recognized.

The adoption of this standard did not materially change the Corporation's accounting policy for recognizing revenue. The Corporation's revenue recognition policy, effective January 1, 2018, is as follows.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three months ended March 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The majority of the Corporation's revenue is derived from natural gas sales to residential, commercial, industrial, and transportation customers. Most of the Corporation's contracts have a single performance obligation, the delivery of natural gas. Substantially all of the Corporation's performance obligations are satisfied over time as natural gas is delivered because of the continuous transfer of control to the customer, generally using an output measure of progress, gigajoules ("GJ") delivered. The billing of natural gas sales is based on the reading of customer meters, which occurs on a systematic basis throughout the month.

The Corporation disaggregates revenue by type of customer, as disclosed in note 12. This represents the level of disaggregation used by the Corporation to evaluate performance.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Effective January 1, 2018, the Corporation adopted Accounting Standards Update ("ASU") No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments in this update require that an employer disaggregate the current service cost component of net benefit cost and present it in the same statement of earnings line item(s) as other employee compensation costs arising from services rendered. The other components of net benefit cost are required to be presented separately from the service cost component and outside of operating income. Additionally, the amendments allow only the service cost component to be eligible for capitalization when applicable. On adoption, the Corporation applied retrospectively the presentation of the net periodic benefit costs, and prospectively the capitalization in assets of only the service cost component of net periodic benefit costs. The adoption of this ASU did not have a material impact on the Corporation's Condensed Consolidated Interim Financial Statements for the quarter ended March 31, 2018.

Recognition and Measurement of Financial Assets and Financial Liabilities

Effective January 1, 2018, the Corporation adopted ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. 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 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 instrument. The adoption of this ASU did not impact the Corporation's Condensed Consolidated Interim Financial Statements for the quarter ended March 31, 2018.

Future Accounting Pronouncements

FEI considers the applicability and impact of all ASUs issued by the Financial Accounting Standards Board ("FASB"). The following updates have been issued by FASB, but have not yet been adopted by FEI. 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.

FortisBC Energy Inc.
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For the three months ended March 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

ASU No. 2016-02 was issued in February 2016 and the amendments in this update, along with an additional ASU issued in 2018 to provide additional optional practical expedients, create ASC Topic 842, *Leases*, and supersede lease requirements in ASC Topic 840, *Leases*. The main provision of ASC 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 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 expedient options. Early adoption is permitted.

FEI expects to elect a number of practical expedients that allow the Corporation to not reassess whether any expired or existing contract is a lease or contains a lease, the lease classification of any expired or existing leases, and the initial direct costs for any existing leases. Any significant developments in its implementation efforts could change the Corporation's expected election of transition practical expedients.

FEI continues to assess the impact that the adoption of this ASU will have on its Consolidated Financial Statements and continues to monitor standard-setting activities that may affect the transition requirements of the new lease standard.

Measurement of Credit Losses on Financial Instruments

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, was issued in June 2016 and the amendments in this update require entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to inform credit loss estimates. This update is effective for annual and interim periods beginning after December 15, 2019 and is to be applied on a modified retrospective basis. FEI is assessing the impact that the adoption of this update will have on its Consolidated Financial Statements.

3. REGULATORY MATTERS

Multi-year Performance Based Ratemaking Plan for 2014 to 2019 (“2014 PBR Application”)

In September 2014, the British Columbia Utilities Commission (“BCUC”) issued its decision on FEI’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, 2014 to 2019, are subject to an incentive formula reflecting incremental costs for inflation and half of customer growth, less a fixed productivity adjustment factor of 1.1 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 FEI maintains service levels. It also sets out the requirements for an annual review process which provides a forum for discussion between FEI and interested parties regarding its current performance and future activities.

In December 2016, the BCUC issued its decision on FEI’s 2017 delivery rates. The decision resulted in a 2017 average rate base of approximately \$3,705 million (excluding the rate base of approximately \$11 million for Fort Nelson) and no increase in customer delivery rates. 2017 rates would have otherwise decreased had there not been approval to defer a revenue surplus for the year.

In December 2017, the BCUC issued its decision on FEI’s 2018 delivery rates. The decision resulted in a 2018 average rate base of approximately \$4,370 million (excluding the rate base of approximately \$11 million for Fort Nelson) and no increase in customer delivery rates. 2018 rates would have otherwise decreased had there not been approval to defer a revenue surplus for the year. The revenue surplus amounts derived from FEI’s 2018 and 2017 delivery rate decisions are expected to be refunded to customers in future rates.

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For the three months ended March 31, 2018 and 2017

4. SEASONALITY OF OPERATIONS

Interim results fluctuate due to the seasonal demands for natural gas, the movements of natural gas prices and the timing and recognition of regulatory decisions. FEI's operations generally produce higher net earnings in the first and fourth quarters of the fiscal year and lower net earnings in the second quarter, which are partially offset by net losses in the third quarter. These fluctuations in quarterly net earnings are generally the result of changes in revenue from customer load as a result of 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.

5. CREDIT FACILITY AND DEBENTURES

Credit Facility

As at March 31, 2018, the Corporation had a \$700 million syndicated credit facility available. The credit facility matures in August 2022.

The following summary outlines the Corporation's credit facility:

| (\$ millions) | March 31, 2018 | December 31, 2017 |
|-------------------------------|----------------|-------------------|
| Credit facility | 700 | 700 |
| Draws on credit facility | (67) | (111) |
| Letters of credit outstanding | (56) | (56) |
| Credit facility available | 577 | 533 |

Debentures

On October 20, 2017, the Corporation filed a short form base shelf prospectus to establish a Medium Term Note Debenture ("MTN Debentures") Program and entered into a Dealers Agreement with certain affiliates of a group of Canadian Chartered Banks. The Corporation may, from time to time during the 25 month life of the shelf prospectus, issue MTN Debentures in an aggregate principal amount of up to \$650 million. The establishment of the MTN Debenture Program has been approved by the BCUC.

As of March 31, 2018, \$475 million remains available under the MTN Debenture Program.

6. FINANCE CHARGES

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

| (\$ millions) | 2018 | 2017 |
|---|------|------|
| Interest on long-term debt, capital leases and finance obligations ¹ | 33 | 31 |
| Finance charges paid to FHI (note 10) | 15 | 8 |
| Interest on short-term debt | - | 1 |
| Debt component of allowance for funds used during construction | - | (3) |
| Total finance charges | 48 | 37 |

¹ Includes amortization of debt issuance costs.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three months ended March 31, 2018 and 2017

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 post-employment benefits ("OPEB") other than pensions for retired employees.

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

| (\$ millions) | Defined Benefit Pension and Supplemental Plans | | OPEB Plans | |
|--------------------------------|---|------|-------------------|------|
| | 2018 | 2017 | 2018 | 2017 |
| Service costs | 5 | 5 | 1 | 1 |
| Interest costs | 6 | 6 | 1 | 1 |
| Expected return on plan assets | (8) | (8) | - | - |
| Amortization: | | | | |
| Actuarial losses | 1 | - | - | - |
| Regulatory adjustment | (1) | - | - | - |
| Net benefit cost | 3 | 3 | 2 | 2 |

As a result of adopting ASU No. 2017-07, the components of net benefit cost, other than the service cost component, are included in other income in the Condensed Consolidated Statements of Earnings for both comparable periods.

8. SUPPLEMENTARY INFORMATION TO CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

The supplementary information to the Condensed Consolidated Statements of Cash Flows for the three months ended March 31 was as follows:

Significant Non-Cash Transactions

| (\$ millions) | 2018 | 2017 |
|---|-------------|------|
| Change in fair value of derivative instruments (note 9) | 33 | (6) |
| Change in capital expenditures | (6) | 5 |
| Change in regulated asset for deferred income taxes | (2) | 9 |

Change in Non-Cash Working Capital

| (\$ millions) | 2018 | 2017 |
|---|-------------|------|
| Accounts receivable | (12) | (32) |
| Inventories | 30 | 35 |
| Prepaid expenses | 1 | 1 |
| Accounts payable and other current liabilities | (26) | (36) |
| Income taxes payable | 8 | 27 |
| Other taxes payable | 22 | 19 |
| Net current regulatory assets and liabilities | (8) | (5) |
| Change in non-cash working capital per Statements of Cash Flows | 15 | 9 |

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

| (\$ millions) | 2018 | 2017 |
|------------------------------|-------------|------|
| Accrued capital expenditures | 21 | 17 |

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three months ended March 31, 2018 and 2017

9. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

The Corporation categorizes financial instruments into the three-level hierarchy based on inputs used to determine the fair value:

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

Financial Instruments Measured at Fair Value on a Recurring Basis

The following table presents the Corporation's assets and liabilities accounted for at fair value on a recurring basis, all of which are Level 2 of the fair value hierarchy:

| (\$ millions) | March 31, 2018 | December 31, 2017 |
|---|----------------|-------------------|
| Assets | | |
| <i>Current</i> | | |
| Natural gas contracts subject to regulatory deferral ¹ | 9 | 2 |
| <i>Long-term</i> | | |
| Natural gas contracts subject to regulatory deferral ¹ | 8 | 4 |
| Total assets | 17 | 6 |
| Liabilities | | |
| <i>Current</i> | | |
| Natural gas contracts subject to regulatory deferral ¹ | (29) | (47) |
| <i>Long-term</i> | | |
| Natural gas contracts subject to regulatory deferral ¹ | (3) | (7) |
| Total liabilities | (32) | (54) |
| Total liabilities, net | (15) | (48) |

¹ Derivative contracts that are "in the money" are included in accounts receivable or other assets, and "out of the money" are included in accounts payable and other current liabilities or other liabilities.

The Corporation has elected gross presentation for its derivative contracts under master netting agreements, which applies only to its natural gas derivatives. The table below presents the potential offset of counterparty netting and cash collateral:

| | Gross Amount Recognized in the Balance Sheet | Gross Amount Not Offset in the Balance Sheet | | Net Amount |
|---|--|--|------------------------------------|------------|
| | | Counterparty Netting of Natural Gas Contracts ¹ | Cash Collateral (Received) /Posted | |
| March 31, 2018 | | | | |
| (\$ millions) | | | | |
| Natural gas contracts subject to regulatory deferral: | | | | |
| Accounts receivable | 9 | (1) | 11 | 19 |
| Other assets | 8 | - | - | 8 |
| Accounts payable and other current liabilities | (29) | 1 | - | (28) |
| Other liabilities | (3) | - | - | (3) |

¹ Positions, by counterparty, are netted where the intent and legal right to offset exists.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three months ended March 31, 2018 and 2017

9. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS (continued)

| December 31, 2017 (\$ millions) | Gross Amount Recognized in the Balance Sheet | Gross Amount Not Offset in the Balance Sheet | | Net Amount |
|---|---|---|---|---------------|
| | | Counterparty Netting of Natural Gas Contracts ¹ | Cash Collateral (Received)/ Posted | |
| Natural gas contracts subject to regulatory deferral: | | | | |
| Accounts receivable | 2 | (1) | 7 | 8 |
| Other assets | 4 | (1) | - | 3 |
| Accounts payable and other current liabilities | (47) | 1 | - | (46) |
| Other liabilities | (7) | 1 | - | (6) |

¹ Positions, by counterparty, are netted where the intent and legal right to offset exists.

Derivative Instruments

The Corporation generally limits the use of derivative instruments to those that qualify as accounting or economic hedges, or those that are approved for regulatory recovery. The Corporation records all derivative instruments at fair value, with certain exceptions including those derivatives that qualify for the normal purchase and normal sale exception.

FEI enters into physical natural gas supply contracts and financial commodity swaps to fix the effective purchase price of natural gas, as the majority of the natural gas supply contracts have floating, rather than fixed, prices. Swap contracts are agreements between two parties to exchange streams of payments over time according to specified terms. Swap contracts require receipt of payment for the notional quantity of the commodity based on the difference between a fixed price and the market price on the settlement date. The fair value of the natural gas derivatives is calculated using the present value of cash flows based on published market prices and forward curves for natural gas.

Natural gas contracts held by FEI are subject to regulatory recovery through rates. As at March 31, 2018, these natural gas contracts were not designated as hedges and any unrealized gains or losses associated with changes in the fair value of the derivatives were deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates, as permitted by the BCUC, and as shown in the following table:

| (\$ millions) | March 31, 2018 | December 31, 2017 |
|---|---------------------------|----------------------|
| Unrealized net loss recorded to current regulatory assets | (15) | (48) |

Cash inflows and outflows associated with the settlement of all derivative instruments are included in operating cash flows on the Corporation's Condensed Consolidated Statements of Cash Flows.

Volume of Derivative Activity

As at March 31, 2018, the Corporation had various natural gas derivative contracts subject to regulatory deferral that will settle on various expiration dates through 2021. The volumes related to these natural gas derivatives are outlined below:

| (petajoules) | March 31, 2018 | December 31, 2017 |
|---|---------------------------|----------------------|
| Natural gas physically-settled supply contracts | 244 | 219 |
| Natural gas financially-settled commodity swaps | 67 | 47 |

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9. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS (continued)

Financial Instruments Not Carried At Fair Value

The fair value of a financial instrument is the market price to sell an asset or transfer a liability at the measurement date. The Corporation uses the following methods and assumptions for estimating the fair value of financial instruments:

- The carrying values of cash, accounts receivable, accounts payable, other current assets and liabilities and borrowings under the credit facility on the Condensed Consolidated Balance Sheets of the Corporation approximate their fair values due to short-term nature of these financial instruments. These items have been excluded from the table below.
- For long-term debt, the Corporation uses 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.

The use of different estimation methods and market assumptions may yield different estimated fair value amounts. The following table includes the carrying value and estimated fair value of the Corporation's long-term debt:

| (\$ millions) | Fair Value Hierarchy | March 31, 2018 | | December 31, 2017 | |
|-----------------------------|----------------------|----------------|----------------------|-------------------|----------------------|
| | | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| Liabilities | | | | | |
| Long-term debt ¹ | Level 2 | 2,395 | 2,931 | 2,395 | 2,955 |

¹ Carrying value excludes unamortized debt issuance costs.

10. RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its parent, FHI, ultimate parent, Fortis, and other related companies under common control, including FortisBC Inc. ("FBC"), and Aitken Creek Gas Storage ULC ("ACGS"), in financing transactions and 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) | 2018 | 2017 |
|--|-----------|------|
| Operation and maintenance expense charged to FBC (a) | 1 | 1 |
| Other income received from FHI (b) | 15 | 8 |
| Total related party recoveries | 16 | 9 |

(a) The Corporation charged FBC for natural gas sales, office rent, management services and other labour.

(b) As part of a tax loss utilization plan ("TLUP"), the Corporation received dividend income from FHI relating to a \$2,500 million (2017 - \$2,500 million) investment in preferred shares. A TLUP is a series of transactions, whereby the Corporation sets up an investment in an affiliate's preferred shares and issues subordinated debt to that affiliate; these two financial instruments are shown on a net basis. The Corporation receives non-taxable dividend income on the preferred shares and pays tax deductible interest on the debt. The effect of this transaction is to transfer tax losses between affiliated entities.

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For the three months ended March 31, 2018 and 2017

10. RELATED PARTY TRANSACTIONS (continued)

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) | 2018 | 2017 |
|--|-----------|-----------|
| Operation and maintenance expense charged by FBC (a) | 2 | 2 |
| Operation and maintenance expense charged by FHI (b) | 3 | 3 |
| Finance charges paid to FHI (c) (note 6) | 15 | 8 |
| Gas storage and purchases charged by ACGS (d) | 7 | 8 |
| Total related party costs | 27 | 21 |

(a) FBC charged the Corporation for electricity purchases, management services and other labour.

(b) FHI charged the Corporation for management services, labour and materials, and governance costs.

(c) As part of a TLUP, the Corporation paid FHI interest on \$2,500 million (2017 - \$2,500 million) of intercompany subordinated debt.

(d) ACGS charged the Corporation for the lease of natural gas storage capacity and natural gas purchases.

Balance Sheet Amounts

The amounts due from related parties, which are included in accounts receivable on the Condensed Consolidated Balance Sheets, and the amounts due to related parties which are included in accounts payable and other current liabilities on the Condensed Consolidated Balance Sheets, were as follows:

| (\$ millions) | March 31, 2018 | | December 31, 2017 | |
|--|--------------------|------------------|--------------------|------------------|
| | Amount Due From | Amount Due To | Amount Due From | Amount Due To |
| FHI | - | - | - | (3) |
| FBC | - | (1) | 1 | (1) |
| ACGS | - | (2) | - | (2) |
| Total due from (due to) related parties | - | (3) | 1 | (6) |

11. GUARANTEES

The Corporation had letters of credit outstanding at March 31, 2018 totaling \$56 million (December 31, 2017 - \$56 million) primarily to support its unfunded supplemental pension benefit plans.

As at March 31, 2018, there is \$2 million of cash deposits in accounts payable and other current liabilities held as security for future development expenditures for the Eagle Mountain Woodfibre Gas Pipeline Project.

12. REVENUE RECOGNITION

The majority of the Corporation's revenue is derived from natural gas sales to residential, commercial, industrial, and transportation customers. Most of the Corporation's contracts have a single performance obligation, the delivery of natural gas, as the promise to transfer individual goods or services is not separately identifiable from other promises in the contracts and therefore not distinct. Substantially all of the Corporation's performance obligations are satisfied over time as natural gas is delivered because of the continuous transfer of control to the customer, generally using an output measure of progress, GJ delivered. The billing of natural gas sales is based on the reading of customer meters, which occurs on a systematic basis throughout the month. The BCUC approved tariff states the billing terms with the customer. The majority of contracts have payment terms of 30 days from the date the bill is rendered. Any payment not received by the due date is considered delinquent and incurs a late payment finance charge. No component of the transaction price is allocated to unsatisfied performance obligations.

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12. REVENUE RECOGNITION (continued)

Disaggregation of Revenues

Effective January 1, 2018, the Corporation adopted ASC Topic 606, *Revenue from Contracts with Customers* using the modified retrospective approach. Companies electing this approach recognize the cumulative effect of initially applying the new guidance as an adjustment to the opening balance of retained earnings in the period of initial application without adjusting 2017 or prior periods. FEI did not identify any adjustments to the opening balance sheet or retained earnings.

As a result of adopting ASC Topic 606 using the modified retrospective approach, 2017 comparative figures have not been restated in these Condensed Consolidated Statements of Earnings. The following table presents the disaggregation of the Corporation's revenues by type of customer for the three months ended March 31, 2018 and 2017. 2017 figures that are disclosed in this table in accordance with the new revenue guidance are provided for information purposes only.

| (\$ millions) | 2018 | 2017 |
|--|-------------|------|
| Residential | 256 | 294 |
| Commercial | 125 | 147 |
| Industrial | 8 | 7 |
| Transportation | 36 | 35 |
| Other | 9 | 7 |
| Revenue from contracts with customers | 434 | 490 |
| Alternative revenue | (6) | (34) |
| Other revenue (expense) | - | (7) |
| Total revenues | 428 | 449 |

Revenue from contracts with customers

The Corporation's tariff-based sales to residential, commercial, industrial, and transportation customers are regulated by the BCUC and recognized when gas is delivered at the amount of consideration that the Corporation expects to receive in exchange. Revenue from contracts with customers include an estimate for unbilled revenues from service that has been provided but not yet billed by the end of an accounting period. At the end of the month, amounts of gas delivered since the last meter reading are estimated and the corresponding unbilled revenue is calculated using customer tariff rates. Unbilled revenues are dependent upon a number of factors that require management's judgment including estimates of tariff sales and customer usage patterns. The Corporation then records revenue for each customer class based on the various tariff rates.

The Corporation also enters into transportation service agreements with some of its utility customers which provide for firm and interruptible transportation service of natural gas. The Corporation recognizes revenue from natural gas sales transportation over time as natural gas is delivered to customers, generally using an output measure of progress, GJ delivered.

Other revenue from contracts with customers includes fees charged for utility customer connections, as well as agreements with non-utility customers to provide transportation of natural gas over utility owned infrastructure. The Corporation recognizes this revenue as natural gas is delivered, using an output measure of progress, GJ delivered.

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12. REVENUE RECOGNITION (continued)

Alternative revenue

Alternative revenue programs allow utilities to adjust future rates in response to past activities or completed events if certain criteria established by the BCUC are met. The Corporation has identified its Earnings Sharing Mechanism, Revenue Stabilization Adjustment Mechanism, and Flow-through variances related to industrial customer revenue as alternative revenue.

The Earnings Sharing Mechanism allows for a 50/50 sharing of variances from the formula-driven operation and maintenance expenses and capital expenditures approved as part of the annual revenue requirements. This mechanism is in place until the expiry of the current performance based rate setting plan in 2019. In addition, FEI captures variances in the forecast versus actual customer use rate for residential and commercial customers throughout the year in a Revenue Stabilization Adjustment Mechanism, which is either refunded to or recovered from customers in rates within two years. Variances in the forecast versus actual customer use rate for industrial customer revenue are recognized in a flow-through deferral account to be either refunded to or recovered from customers in rates within two years.

Amounts collected from or refunded to customers for alternative revenue programs are presented in revenue from contracts from customers.

Other revenue (expense)

Other revenue is primarily comprised of regulatory deferral adjustments resulting primarily from cost recovery variances in regulated forecasts used to set rates for natural gas revenue. As part of the PBR Decision received in September 2014 and effective through to the end of the PBR term, the Corporation has a flow-through deferral account that captures variances from regulated forecast items, excluding formulaic operation and maintenance costs, that do not have separately approved deferral mechanisms, and flows those variances through customer rates in the following year.

Accounts receivable

The timing of revenue recognition, billings, and cash collections results in billed and unbilled accounts receivable. The opening and closing balances of the Corporation's accounts receivable were as follows:

| (\$ millions) | March 31, 2018 | December 31, 2017 |
|---|-------------------|----------------------|
| Billed accounts receivable from contracts with customers | 133 | 93 |
| Accrued unbilled revenue from contracts with customers | 76 | 114 |
| Fair value of derivative instruments (note 9) | 9 | 2 |
| Cash collateral posted (note 9) | 11 | 7 |
| Gas cost mitigation receivables | 21 | 12 |
| Receivables for third party services and other ¹ | 10 | 10 |
| Allowance for doubtful accounts | (9) | (7) |
| Total accounts receivable | 251 | 231 |

¹ Representative of receivables not related to contracts with customers.

Practical Expedients

The Corporation has elected three practical expedients in implementing ASC 606, *Revenue from Contracts with Customers*. The Corporation has applied a portfolio approach in evaluating consideration from residential and commercial customers. The Corporation has also applied a practical expedient to consideration received from certain customers on a tariff schedule and has not adjusted the promised amount of consideration for the effect of a significant financing component because FEI expects that the period between the transfer of natural gas to the customer and the customer's payment for that service will be one year or less. Finally, FEI has elected to recognize revenue in the amount to which FEI has a right to invoice the customer.

13. SUBSEQUENT EVENTS

On April 13, 2018, the Corporation issued 2,982,928 common shares to FHI for total proceeds of \$40 million. The proceeds from the issuance will be used to finance capital expenditures.