FORTIS INC.

St. John's, NL - May 3, 2023

# FORTIS INC. RELEASES FIRST QUARTER 2023 RESULTS

Fortis Inc. ("Fortis" or the "Corporation") (TSX/NYSE: FTS), a well-diversified leader in the North American regulated electric and gas utility industry, released its first quarter results[1].

## Highlights

- First quarter net earnings of $437 million, or $0.90 per common share, up from $350 million, or $0.74 per common share in 2022
- Adjusted net earnings per common share[2] of $0.91, up from $0.78 in the first quarter of 2022
- Capital expenditures[2] of $1.0 billion in the first quarter; $4.3 billion annual capital plan on track
- Significant regulatory applications at Tucson Electric Power and FortisBC continue to progress
- Announced the sale of the Corporation's ownership interest in the Aitken Creek Natural Gas Storage Facility in British Columbia

"Our strong first quarter results reflect the diversified nature of our business and the continued delivery of our low-risk capital plan," said David Hutchens, President and Chief Executive Officer, Fortis. "With capital expenditures of $1.0 billion in the quarter, we are on track to invest $4.3 billion in our systems this year."

"Our funding plan remains intact, and the sale of the Aitken Creek Natural Gas Storage Facility further strengthens our balance sheet and supports financing of our regulated utility investments," said Mr. Hutchens. "We remain confident in our growth strategy as we continue to provide value to shareholders while executing on the transition to a cleaner energy future and delivering safe, reliable and affordable service to our customers."

## Net Earnings

The Corporation reported net earnings attributable to common equity shareholders ("Net Earnings") of $437 million for the first quarter, or $0.90 per common share, compared to $350 million, or $0.74 per common share in the first quarter of 2022. The increase reflected rate base growth, mainly at ITC and the western Canadian utilities, as well as higher earnings at UNS Energy. Market conditions resulted in wholesale electricity sales with favourable margin and higher transmission revenue at UNS Energy in the first quarter of 2023 compared to later quarters in 2022. Higher retail electricity sales, including the impact of favourable weather, and lower depreciation expense associated with the retirement of the San Juan generating station in June 2022, also contributed to results in Arizona.

Results for the quarter also reflected higher earnings at Aitken Creek, an increase in the market value of investments that support retirement benefits at UNS Energy and ITC, and a higher U.S.-to-Canadian dollar foreign exchange rate. Growth in earnings was partially offset by higher holding company finance costs.

An increase in the weighted average number of common shares outstanding, largely associated with the Corporation's dividend reinvestment plan, also impacted earnings per share for the quarter.

## Adjusted Net Earnings[2]

Adjusted net earnings attributable to common equity shareholders ("Adjusted Net Earnings") excludes the impact of mark-to-market accounting of natural gas derivatives at Aitken Creek. Adjusted Net Earnings of $439 million for the first quarter, or $0.91 per common share, were $70 million, or $0.13 per common share higher than the same period in 2022. The increase was driven by the same factors discussed for Net Earnings.

[1] Financial information is presented in Canadian dollars unless otherwise specified.

[2] Non-U.S. GAAP Financial Measures - Fortis uses financial measures that do not have a standardized meaning under generally accepted accounting principles in the United States of America and may not be comparable to similar measures presented by other entities. Fortis presents these non-U.S. GAAP measures because management and external stakeholders use them in evaluating the Corporation's financial performance and prospects. Refer to the Non-U.S. GAAP Reconciliation provided herein.

## Non-U.S. GAAP Reconciliation

| Quarter ended March 31<br>*($ millions, except as indicated)* | **2023** | 2022 | Variance |
|---|---|---|---|
| **Adjusted Net Earnings:** | | | |
| Net Earnings | **437** | 350 | 87 |
| Adjusting item: | | | |
| Unrealized loss on mark-to-market of derivatives[3] | **2** | 19 | (17) |
| Adjusted Net Earnings | **439** | 369 | 70 |
| Adjusted net earnings per share *($)* | **0.91** | 0.78 | 0.13 |
| **Capital Expenditures:** | | | |
| Additions to property, plant and equipment | **907** | 866 | 41 |
| Additions to intangible assets | **47** | 49 | (2) |
| Adjusting item: | | | |
| Wataynikaneyap Transmission Power Project[4] | **41** | 49 | (8) |
| Capital Expenditures | **995** | 964 | 31 |

## Capital Expenditures

Fortis' $4.3 billion annual capital plan remains on track with $1.0 billion invested through March 2023.

The Corporation's major capital projects continue to progress. In March 2023, FortisBC Energy filed amended transportation rate schedules with the British Columbia Utilities Commission ("BCUC") for the Eagle Mountain Woodfibre Gas Line project. Approval from the BCUC is anticipated in May 2023, which will remove certain of FortisBC Energy's conditions for commencing construction and bring the project one step closer to construction.

The first tranche of approved projects associated with the Midcontinent Independent System Operator, Inc. ("MISO") long-range transmission plan ("LRTP") are advancing at ITC with stakeholder outreach, routing studies and design engineering underway. ITC estimates transmission investments of US$1.4 billion to US$1.8 billion through 2030 associated with six of the 18 LRTP projects.

## Regulatory Updates

In March 2023, the Federal Energy Regulatory Commission confirmed its decision to deny the complaint filed by the Iowa Coalition for Affordable Transmission requesting that ITC Midwest's common equity component of capital structure be reduced.

In March 2023, the Iowa Supreme Court granted standing to certain plaintiffs to challenge the right of first refusal ("ROFR") available to incumbent electric transmission owners in Iowa. The court also issued a temporary injunction staying enforcement of the ROFR statute, and remanded the matter to the District Court to decide the merits of the claim. Management does not believe that this proceeding will impact projects at ITC that have already been approved and are under development, including Tranche 1 projects associated with the MISO LRTP. The timing of this proceeding and any impact on future projects, is unknown.

In April 2023, hearings concluded on the Tucson Electric Power general rate application, which seeks new customer rates effective September 1, 2023 using a December 31, 2021 test year. While the timing and outcome of this proceeding is unknown, a recommended order and opinion from the administrative law judge is expected mid-year.

The generic cost of capital proceeding in British Columbia, which includes a review of the common equity component of capital structure and the rate of return on common equity for FortisBC, continues to progress as expected with a decision expected by mid-2023.

[3] Represents timing differences related to the accounting of natural gas derivatives at Aitken Creek, net of income tax recovery of $1 million for the three months ended March 31, 2023 ($7 million for the three months ended March 31, 2022)

[4] Represents Fortis' 39% share of capital spending for the Wataynikaneyap Transmission Power Project

## Pending Sale of Unregulated Asset

On May 1, 2023, the Corporation announced that FortisBC Holdings Inc. had entered into a definitive share purchase and sale agreement with a subsidiary of Enbridge Inc. to sell its 93.8% ownership interest in the Aitken Creek Natural Gas Storage Facility for approximately $400 million, subject to customary closing conditions and adjustments. The purchase is subject to required approval, principally by the BCUC, and is expected to close by the end of the year with a March 31, 2023 effective date. Net proceeds from the transaction will further strengthen the balance sheet and support financing of the Corporation's regulated utility growth strategy.

## Outlook

Fortis continues to enhance shareholder value through the execution of its capital plan, the balance and strength of its diversified portfolio of regulated utility businesses, and growth opportunities within and proximate to its service territories. While energy price volatility, global supply chain constraints and persistent inflation are issues of potential concern that continue to evolve, the Corporation does not currently expect there to be a material impact on its operations or financial results in 2023.

Fortis is executing on the transition to a cleaner energy future and is on track to achieve its corporate-wide targets to reduce greenhouse gas emissions ("GHG") by 50% by 2030 and 75% by 2035. Upon achieving these targets, 99% of the Corporation's assets will support energy delivery and renewable, carbon-free generation. The Corporation's additional 2050 net-zero direct GHG emissions target reinforces Fortis' commitment to further decarbonize over the long-term, while preserving customer reliability and affordability.

The Corporation's $22.3 billion five-year capital plan is expected to increase midyear rate base from $34.1 billion in 2022 to $46.1 billion by 2027, translating into a five-year compound annual growth rate of 6.2%[5].

Beyond the five-year capital plan, additional opportunities to expand and extend growth include: further expansion of the electric transmission grid in the U.S. to facilitate the interconnection of cleaner energy, including infrastructure investments associated with the Inflation Reduction Act of 2022 and the MISO LRTP; climate adaptation and grid resiliency investments; renewable gas solutions and liquefied natural gas infrastructure in British Columbia; and the acceleration of cleaner energy infrastructure investments across our jurisdictions.

Fortis expects its long-term growth in rate base will drive earnings that support dividend growth guidance of 4-6% annually through 2027, and is premised on the assumptions and material factors listed under "Forward-Looking Information".

## About Fortis

Fortis is a well-diversified leader in the North American regulated electric and gas utility industry with 2022 revenue of $11 billion and total assets of $65 billion as at March 31, 2023. The Corporation's 9,200 employees serve utility customers in five Canadian provinces, ten U.S. states and three Caribbean countries.

[5] Calculated using a constant United States dollar-to-Canadian dollar exchange rate

## Forward-Looking Information

*Fortis includes forward-looking information in this media release within the meaning of applicable Canadian securities laws and forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 (collectively referred to as "forward-looking information"). Forward-looking information reflects expectations of Fortis management regarding future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as anticipates, believes, budgets, could, estimates, expects, forecasts, intends, may, might, plans, projects, schedule, should, target, will, would, and the negative of these terms, and other similar terminology or expressions, have been used to identify the forward-looking information, which includes, without limitation: the expected timing and outcome of the sale of Aitken Creek; forecast capital expenditures for 2023-2027; forecast rate base and rate base growth through 2027; the nature, timing, benefits and expected costs of certain capital projects, including FortisBC Energy's Eagle Mountain Woodfibre Gas Line project and ITC's transmission projects associated with the MISO LRTP, and additional opportunities beyond the capital plan, including investments related to the Inflation Reduction Act of 2022, the MISO LRTP, climate adaptation and grid resiliency, renewable gas solutions and liquefied natural gas infrastructure in British Columbia, and the acceleration of cleaner energy infrastructure; the expected timing, outcome and impact of regulatory proceedings and decisions; the 2030 GHG emissions reduction target; the 2035 GHG emissions reduction target and projected asset mix; the 2050 net-zero direct GHG emissions target; the expectation that volatility in energy prices, global supply chain constraints and persistent inflation will not have a material impact on operations or financial results in 2023; and the expectation that long-term growth in rate base will drive earnings that support dividend growth guidance of 4-6% annually through 2027.*

*Forward-looking information involves significant risks, uncertainties and assumptions. Certain material factors or assumptions have been applied in drawing the conclusions contained in the forward-looking information, including, without limitation: no material impact from volatility in energy prices, global supply chain constraints and persistent inflation; reasonable outcomes for regulatory proceedings and the expectation of regulatory stability; the successful execution of the capital plan; no material capital project and financing cost overrun; sufficient human resources to deliver service and execute the capital plan; the realization of additional opportunities beyond the capital plan; no significant variability in interest rates; no material changes in the assumed U.S. dollar to Canadian dollar exchange rate; and the Board exercising its discretion to declare dividends, taking into account the business performance and financial condition of the Corporation. Fortis cautions readers that a number of factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking information. For additional information with respect to certain risk factors, reference should be made to the continuous disclosure materials filed from time to time by the Corporation with Canadian securities regulatory authorities and the Securities and Exchange Commission. All forward-looking information herein is given as of the date of this media release. Fortis disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.*

## Teleconference to Discuss First Quarter 2023 Results

A teleconference and webcast will be held on May 3, 2023 at 8:30 a.m. (Eastern). David Hutchens, President and Chief Executive Officer and Jocelyn Perry, Executive Vice President and Chief Financial Officer, will discuss the Corporation's first quarter financial results.

Shareholders, analysts, members of the media and other interested parties in North America are invited to participate by calling 1.888.886.7786. International participants may participate by calling 1.416.764.8658. Please dial in 10 minutes prior to the start of the call. No passcode is required.

A live and archived audio webcast of the teleconference will be available on the Corporation's website, www.fortisinc.com. A replay of the teleconference will be available two hours after the conclusion of the call until June 3, 2023. Please call 1.877.674.7070 or 1.416.764.8692 and enter passcode 430311#.

## Additional Information

This media release should be read in conjunction with the Corporation's March 31, 2023 Interim Management Discussion and Analysis and Condensed Consolidated Financial Statements. This and additional information can be accessed at www.fortisinc.com, www.sedar.com, or www.sec.gov.

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# Interim Management Discussion and Analysis

## Contents



Dated May 2, 2023

This Interim MD&A has been prepared in accordance with National Instrument 51-102 - *Continuous Disclosure Obligations*. It should be read in conjunction with the Interim Financial Statements, the 2022 Annual Financial Statements and the 2022 Annual MD&A and is subject to the cautionary statement and disclaimer provided under "Forward-Looking Information" on page 16. Further information about Fortis, including its Annual Information Form filed on SEDAR, can be accessed at www.fortisinc.com, www.sedar.com, or www.sec.gov.

Financial information herein has been prepared in accordance with U.S. GAAP (except for indicated Non-U.S. GAAP Financial Measures) and, unless otherwise specified, is presented in Canadian dollars based, as applicable, on the following U.S. dollar-to-Canadian dollar exchange rates: (i) average of 1.35 and 1.26 for the quarters ended March 31, 2023 and 2022, respectively; (ii) 1.35 and 1.25 as at March 31, 2023 and 2022, respectively; (iii) 1.36 as at December 31, 2022; and (iv) 1.30 for all forecast periods. Certain terms used in this Interim MD&A are defined in the "Glossary" on page 17.

## ABOUT FORTIS

Fortis (TSX/NYSE: FTS) is a well-diversified leader in the North American regulated electric and gas utility industry, with 2022 revenue of $11 billion and total assets of $65 billion as at March 31, 2023. The Corporation's 9,200 employees serve 3.4 million utility customers in five Canadian provinces, ten U.S. states and three Caribbean countries.

For additional information on the Corporation's operations, reportable segments and strategy, refer to the "About Fortis" section of the 2022 Annual MD&A and Note 1 to the Interim Financial Statements.

## KEY DEVELOPMENT

### Pending Sale of Unregulated Asset

On May 1, 2023, the Corporation announced that FortisBC Holdings Inc. had entered into a definitive share purchase and sale agreement with a subsidiary of Enbridge Inc. to sell its 93.8% ownership interest in Aitken Creek for approximately $400 million, subject to customary closing conditions and adjustments. The purchase is subject to required approval, principally by the BCUC, and is expected to close by the end of the year with a March 31, 2023 effective date. Net proceeds from the transaction will further strengthen the balance sheet and support financing of the Corporation's regulated utility growth strategy.

## PERFORMANCE AT A GLANCE

### Key Financial Metrics

Quarter ended March 31

| *($ millions, except as indicated)* | **2023** | 2022 | Variance |
|---|---|---|---|
| Revenue | **3,319** | 2,835 | 484 |
| Common Equity Earnings | | | |
| Actual | **437** | 350 | 87 |
| Adjusted [(1)] | **439** | 369 | 70 |
| Basic EPS *($)* | | | |
| Actual | **0.90** | 0.74 | 0.16 |
| Adjusted [(1)] | **0.91** | 0.78 | 0.13 |
| Dividends paid per common share *($)* | **0.565** | 0.535 | 0.03 |
| Weighted average number of common shares outstanding *(# millions)* | **483.1** | 475.7 | 7.4 |
| Operating Cash Flow | **915** | 813 | 102 |
| Capital Expenditures [(1)] | **995** | 964 | 31 |

[(1)] *See "Non-U.S. GAAP Financial Measures" on page 7*

### Revenue

The increase in revenue was due primarily to: (i) higher flow-through costs in customer rates, driven by commodity prices; (ii) higher retail and long-term wholesale sales, favourable pricing associated with short-term wholesale sales, and higher transmission revenue, at UNS Energy; (iii) Rate Base growth; and, (iv) favourable foreign exchange of $105 million.

### Earnings and EPS

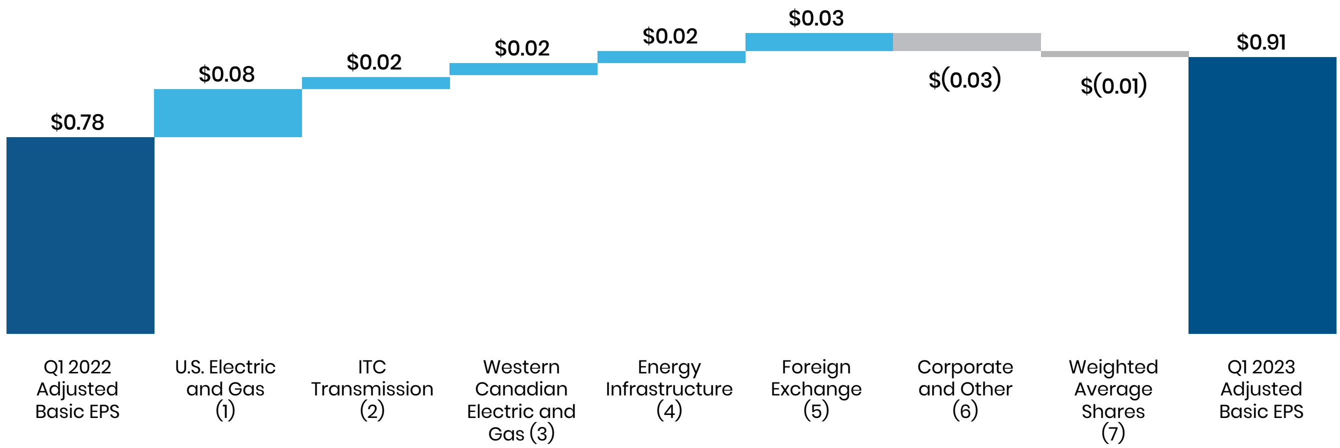
Common Equity Earnings increased by $87 million in comparison to the first quarter of 2022. The increase reflected Rate Base growth, mainly at ITC and the western Canadian utilities, as well as higher earnings at UNS Energy. Market conditions resulted in wholesale electricity sales with favourable margin and higher transmission revenue at UNS Energy in the first quarter of 2023 compared to later quarters in 2022. Higher retail electricity sales, including the impact of favourable weather, and lower depreciation expense associated with the retirement of the San Juan generating station in June 2022, also contributed to results in Arizona.

Results for the quarter also reflected higher earnings at Aitken Creek, an increase in the market value of investments that support retirement benefits at UNS Energy and ITC, and a higher U.S.-to-Canadian dollar foreign exchange rate. Growth in earnings was partially offset by higher holding company finance costs.

In addition to the above-noted items impacting earnings, the change in EPS also reflected an increase in the weighted average number of common shares outstanding, largely associated with the Corporation's DRIP.

Adjusted Common Equity Earnings and Adjusted Basic EPS increased by $70 million and $0.13, respectively. Refer to "Non-U.S. GAAP Financial Measures" on page 7 for a reconciliation of these measures. The changes in Adjusted Basic EPS are illustrated in the following charts.

FIRST QUARTER CHANGES IN ADJUSTED BASIC EPS




(1) *Includes UNS Energy and Central Hudson. Reflects higher earnings at UNS Energy due to: (i) the timing of long-term wholesale electricity sales and transmission revenue; (ii) higher retail electricity sales, including the impact of favourable weather; (iii) an increase in the market value of investments that support retirement benefits; and, (iv) lower depreciation expense associated with the retirement of the San Juan generating station in mid-2022. Also reflects lower earnings at Central Hudson driven by higher operating expenses as well as finance costs in excess of amounts collected in customer rates, partially offset by Rate Base growth*
(2) *Reflects Rate Base growth and an increase in the market value of investments that support retirement benefits, partially offset by higher holding company finance costs*
(3) *Includes FortisBC Energy, FortisAlberta and FortisBC Electric. Primarily reflects Rate Base growth*
(4) *Includes higher volumes and margins on gas sold at Aitken Creek, reflecting market conditions, and higher hydroelectric production in Belize associated with rainfall levels*
(5) *Average foreign exchange rate of 1.35 in 2023 compared to 1.26 in 2022*
(6) *Primarily reflects higher finance costs*
(7) *Weighted average shares of 483.1 million in 2023 compared to 475.7 million in 2022*

## Dividends and TSR

Fortis paid a dividend of $0.565 in the first quarter of 2023, up 5.6% from the first quarter of 2022.

Fortis has increased its common share dividend for 49 consecutive years and is targeting annual dividend growth of approximately 4-6% through 2027. See "Outlook" on page 16.

Growth of dividends and the market price of the Corporation's common shares have together yielded the following TSR.

| **TSR** [(1)] *(%)* | **1-Year** | **5-Year** | **10-Year** | **20-Year** |
|---|---|---|---|---|
| Fortis | **(3.5)** | **9.7** | **9.4** | **11.9** |

(1) *Annualized TSR per Bloomberg as at March 31, 2023*

## Operating Cash Flow

The $102 million increase in Operating Cash Flow was due primarily to the timing of flow-through costs in customer rates, including variances in the cost of natural gas, in British Columbia. The increase was also due to: (i) higher cash earnings, reflecting Rate Base growth as well as higher sales and revenue in Arizona; (ii) lower storm restoration costs at Central Hudson; and, (iii) the higher U.S.-to-Canadian dollar exchange rate. The increase was partially offset by lower collateral deposits received at UNS Energy related to derivative energy contracts, and higher interest payments.

## Capital Expenditures

Capital Expenditures were approximately $1.0 billion for the first quarter of 2023, representing 23% of the Corporation's annual $4.3 billion Capital Plan, and in-line with the first quarter of 2022.

Capital Expenditures and Capital Plan reflect Non-U.S. GAAP Financial Measures. Refer to "Non-U.S. GAAP Financial Measures" on page 7 and in the "Glossary" on page 17.

## BUSINESS UNIT PERFORMANCE

### Common Equity Earnings

| Quarter ended March 31 | | | Variance | |
|---|---|---|---|---|
| *($ millions)* | **2023** | 2022 | FX [1] | Other |
| **Regulated Utilities** | | | | |
| ITC | **126** | 109 | 8 | 9 |
| UNS Energy | **90** | 43 | 3 | 44 |
| Central Hudson | **32** | 32 | 2 | (2) |
| FortisBC Energy | **123** | 119 | — | 4 |
| FortisAlberta | **40** | 36 | — | 4 |
| FortisBC Electric | **18** | 18 | — | — |
| Other Electric [2] | **30** | 26 | 1 | 3 |
| | **459** | 383 | 14 | 62 |
| **Non-Regulated** | | | | |
| Energy Infrastructure [3] | **19** | (6) | — | 25 |
| Corporate and Other [4] | **(41)** | (27) | (1) | (13) |
| **Common Equity Earnings** | **437** | 350 | 13 | 74 |

(1) *The reporting currency of ITC, UNS Energy, Central Hudson, Caribbean Utilities, FortisTCI and Fortis Belize is the U.S. dollar. The reporting currency of Belize Electricity is the Belizean dollar, which is pegged to the U.S. dollar at BZ$2.00=US$1.00. The Corporate and Other segment includes certain transactions denominated in U.S. dollars.*
(2) *Consists of the utility operations in eastern Canada and the Caribbean: Newfoundland Power; Maritime Electric; FortisOntario; Wataynikaneyap Power; Caribbean Utilities; FortisTCI; and Belize Electricity*
(3) *Primarily consists of long-term contracted generation assets in Belize and Aitken Creek in British Columbia*
(4) *Includes Fortis net corporate expenses and non-regulated holding company expenses*

## ITC

| Quarter ended March 31 | | | Variance | |
|---|---|---|---|---|
| *($ millions)* | **2023** | 2022 | FX | Other |
| Revenue [1] | **519** | 460 | 33 | 26 |
| Earnings [1] | **126** | 109 | 8 | 9 |

(1) *Revenue represents 100% of ITC. Earnings represent the Corporation's 80.1% controlling ownership interest in ITC and reflect consolidated purchase price accounting adjustments*

### Revenue

The increase in revenue, net of foreign exchange, was due primarily to Rate Base growth and higher flow-through costs in customer rates.

### Earnings

The increase in earnings, net of foreign exchange, was due primarily to Rate Base growth and an increase in the market value of certain investments that support retirement benefits. The increase was partially offset by higher holding company finance costs.

## UNS Energy

| Quarter ended March 31 | | | Variance | |
|---|---|---|---|---|
| *($ millions, except as indicated)* | **2023** | 2022 | FX | Other |
| Retail electricity sales *(GWh)* | **2,222** | 2,175 | — | 47 |
| Wholesale electricity sales *(GWh)* [1] | **1,379** | 1,393 | — | (14) |
| Gas sales *(PJ)* | **8** | 7 | — | 1 |
| Revenue | **740** | 538 | 39 | 163 |
| Earnings | **90** | 43 | 3 | 44 |

(1) *Primarily short-term wholesale sales*

### Sales

The increase in retail electricity and gas sales was due primarily to higher heating load associated with cooler temperatures as compared to the first quarter of 2022. Customer additions also contributed to the increase in retail electricity sales.

The decrease in wholesale electricity sales was driven by lower short-term wholesale sales, partially offset by an increase in long-term wholesale sales. Revenue from short-term wholesale electricity sales is primarily credited to customers through regulatory deferral mechanisms and, therefore, does not materially impact earnings.

### Revenue

The increase in revenue, net of foreign exchange, was due primarily to: (i) the recovery of overall higher fuel and non-fuel costs through the normal operation of regulatory mechanisms; (ii) higher revenue from short-term wholesale electricity sales due to favourable pricing; (iii) higher retail and long-term wholesale sales, discussed above; and, (iv) higher transmission revenue. The increase was partially offset by lower short-term wholesale electricity sales.

### Earnings

The increase in earnings, net of foreign exchange, included the timing of long-term wholesale electricity sales and transmission revenue. Market conditions resulted in wholesale electricity sales with favourable margin and higher transmission revenue in the first quarter of 2023 compared to later quarters in 2022. Earnings growth was also due to: (i) higher retail electricity sales, including the impact of favourable weather; (ii) an increase in the market value of certain investments that support retirement benefits; and, (iii) lower depreciation expense associated with the retirement of the San Juan generating station in June 2022. The increase was partially offset by higher operating costs, primarily reflecting inflationary increases.

## Central Hudson

| Quarter ended March 31 | | | Variance | |
|---|---|---|---|---|
| *($ millions, except as indicated)* | **2023** | 2022 | FX | Other |
| Electricity sales *(GWh)* | **1,267** | 1,256 | — | 11 |
| Gas sales *(PJ)* | **9** | 10 | — | (1) |
| Revenue | **442** | 375 | 27 | 40 |
| Earnings | **32** | 32 | 2 | (2) |

### Sales

Electricity and gas sales were consistent with the first quarter of 2022.

Changes in electricity and gas sales at Central Hudson are subject to regulatory revenue decoupling mechanisms and, therefore, do not materially impact revenue and earnings.

### Revenue

The increase in revenue, net of foreign exchange, was due primarily to the flow-through of higher energy supply costs driven by commodity prices.

### Earnings

The decrease in earnings, net of foreign exchange, was due primarily to higher operating expenses as well as finance costs in excess of amounts collected in customer rates. The decrease was partially offset by Rate Base growth.

## FortisBC Energy

| Quarter ended March 31<br>*($ millions, except as indicated)* | **2023** | 2022 | Variance |
|---|---|---|---|
| Gas sales *(PJ)* | **79** | 81 | (2) |
| Revenue | **750** | 694 | 56 |
| Earnings | **123** | 119 | 4 |

### Sales

The decrease in gas sales was due primarily to lower average consumption by residential and transportation customers.

### Revenue

The increase in revenue was due primarily to a higher cost of natural gas recovered from customers, Rate Base growth and higher gas mitigation incentive revenue, partially offset by the normal operation of regulatory mechanisms.

### Earnings

The increase in earnings was due primarily to Rate Base growth and higher gas mitigation incentive revenue, partially offset by higher operating costs.

FortisBC Energy earns approximately the same margin regardless of whether a customer contracts for the purchase and delivery of natural gas or only for delivery. Due to regulatory deferral mechanisms, changes in consumption levels and commodity costs do not materially impact earnings.

## FortisAlberta

| Quarter ended March 31<br>*($ millions, except as indicated)* | **2023** | 2022 | Variance |
|---|---|---|---|
| Electricity deliveries *(GWh)* | **4,510** | 4,584 | (74) |
| Revenue | **179** | 167 | 12 |
| Earnings | **40** | 36 | 4 |

### Deliveries

The decrease in electricity deliveries was due to lower average consumption by residential customers due to milder weather in the first quarter of 2023, partially offset by customer additions.

As approximately 85% of FortisAlberta's revenue is derived from fixed or largely fixed billing determinants, changes in quantities of energy delivered are not entirely correlated with changes in revenue. Revenue is a function of numerous variables, many of which are independent of actual energy deliveries. Significant variations in weather conditions, however, can impact revenue and earnings.

### Revenue and Earnings

The increase in revenue and earnings was due primarily to Rate Base growth. An increase in revenue associated with the PBR efficiency carry-over mechanism was largely offset by lower cost recovery attributable to REAs. See "Regulatory Matters" on page 8 for further detail on REA cost recovery. The timing of operating costs also favourably impacted earnings as compared to the first quarter of 2022.

## FortisBC Electric

| Quarter ended March 31<br>*($ millions, except as indicated)* | **2023** | 2022 | Variance |
|---|---|---|---|
| Electricity sales *(GWh)* | **971** | 968 | 3 |
| Revenue | **139** | 129 | 10 |
| Earnings | **18** | 18 | — |

### Sales

Electricity sales were consistent with the first quarter of 2022.

### Revenue

The increase in revenue was due to the normal operation of regulatory deferrals and Rate Base growth, partially offset by a decrease in third party contract work.

### Earnings

Earnings were consistent with the first quarter of 2022.

Due to regulatory deferral mechanisms, changes in consumption levels do not materially impact earnings.

## Other Electric

| Quarter ended March 31 | | | Variance | |
|---|---|---|---|---|
| *($ millions, except as indicated)* | **2023** | 2022 | FX | Other |
| Electricity sales *(GWh)* | **3,037** | 3,006 | — | 31 |
| Revenue | **507** | 459 | 6 | 42 |
| Earnings | **30** | 26 | 1 | 3 |

### Sales

The increase in electricity sales was due to overall higher average consumption by residential and commercial customers, as well as customer additions.

### Revenue

The increase in revenue, net of foreign exchange, was due primarily to the flow-through of higher energy supply costs and higher electricity sales, discussed above, as well as the normal operation of regulatory mechanisms at Newfoundland Power.

### Earnings

The increase in earnings, net of foreign exchange, was due to Rate Base growth and higher electricity sales, as well as equity income from Wataynikaneyap Power.

## Energy Infrastructure

| Quarter ended March 31<br>*($ millions, except as indicated)* | **2023** | 2022 | Variance |
|---|---|---|---|
| Electricity sales *(GWh)* | **31** | 17 | 14 |
| Revenue | **43** | 13 | 30 |
| Earnings | **19** | (6) | 25 |

### Sales

The increase in electricity sales reflected an increase in hydroelectric production in Belize associated with higher rainfall levels.

### Revenue and Earnings

Revenue and earnings were impacted by the mark-to-market accounting of natural gas derivatives at Aitken Creek, which resulted in unrealized losses of $2 million in the first quarter of 2023 compared to $19 million for the same period in 2022. Higher volumes and margins on gas sold at Aitken Creek, reflecting market conditions, and higher hydroelectric production in Belize also contributed to the increases in revenue and earnings.

Aitken Creek is subject to commodity price risk, as it purchases and holds natural gas in storage to earn a profit margin from its ultimate sale. Aitken Creek mitigates this risk by using derivatives to materially lock in the profit margin that will be realized upon the sale of natural gas. The fair value accounting of these derivatives creates timing differences and the resultant earnings volatility can be significant.

## Corporate and Other

| Quarter ended March 31 | | | Variance | |
|---|---|---|---|---|
| *($ millions)* | **2023** | 2022 | FX | Other |
| Net expenses | **(41)** | (27) | (1) | (13) |

The increase in net expenses, net of foreign exchange, was primarily due to higher finance costs, reflecting higher interest rates and balances outstanding on the Corporation's credit facilities.

## NON-U.S. GAAP FINANCIAL MEASURES

Adjusted Common Equity Earnings, Adjusted Basic EPS and Capital Expenditures are Non-U.S. GAAP Financial Measures and may not be comparable with similar measures used by other entities. They are presented because management and external stakeholders use them in evaluating the Corporation's financial performance and prospects.

Net earnings attributable to common equity shareholders (i.e., Common Equity Earnings) and basic EPS are the most directly comparable U.S. GAAP measures to Adjusted Common Equity Earnings and Adjusted Basic EPS, respectively. These adjusted measures reflect the removal of items that management excludes in its key decision-making processes and evaluation of operating results.

Capital Expenditures include additions to property, plant and equipment and additions to intangible assets, as shown on the condensed consolidated statements of cash flows. It also includes Fortis' 39% share of capital spending for the Wataynikaneyap Transmission Power Project, consistent with Fortis' evaluation of operating results and its role as project manager during the construction of this Major Capital Project.

### Non-U.S. GAAP Reconciliation

Quarter ended March 31

| *($ millions, except as indicated)* | **2023** | 2022 | Variance |
|---|---|---|---|
| **Adjusted Common Equity Earnings and Adjusted Basic EPS** | | | |
| Common Equity Earnings | **437** | 350 | 87 |
| Adjusting item: | | | |
| Unrealized loss on mark-to-market of derivatives [(1)] | **2** | 19 | (17) |
| Adjusted Common Equity Earnings | **439** | 369 | 70 |
| Adjusted Basic EPS *($)* | **0.91** | 0.78 | 0.13 |
| **Capital Expenditures** | | | |
| Additions to property, plant and equipment | **907** | 866 | 41 |
| Additions to intangible assets | **47** | 49 | (2) |
| Adjusting item: | | | |
| Wataynikaneyap Transmission Power Project [(2)] | **41** | 49 | (8) |
| Capital Expenditures | **995** | 964 | 31 |

(1) *Represents timing differences related to the accounting of natural gas derivatives at Aitken Creek, net of income tax recovery of $1 million for the three months ended March 31, 2023 ($7 million for the three months ended March 31, 2022), included in the Energy Infrastructure segment*

(2) *Represents Fortis' 39% share of capital spending for the Wataynikaneyap Transmission Power Project, included in the Other Electric segment*

## REGULATORY MATTERS

### ITC

***ITC Midwest Capital Structure Complaint:*** In 2022, FERC issued an order denying the complaint filed by ICAT requesting that ITC Midwest's common equity component of capital structure be reduced from 60% to 53%. In March 2023, FERC confirmed its decision following ICAT's request for rehearing.

***MISO Base ROE:*** In 2022, the D.C. Circuit Court issued a decision vacating certain FERC orders that had established the methodology for setting the base ROE for transmission owners operating in the MISO region, including ITC. This matter dates back to complaints filed at FERC in 2013 and 2015 challenging the MISO base ROE then in effect. The court has remanded the matter to FERC for further process, the timing and outcome of which is unknown. Although any potential impact to Fortis is uncertain, every 10-basis point change in ROE at ITC impacts Fortis' annual EPS by approximately $0.01.

***Transmission Incentives:*** In 2021, FERC issued a supplemental NOPR on transmission incentives modifying the proposal in the initial NOPR released by FERC in 2020. The supplemental NOPR proposes to eliminate the 50-basis point RTO ROE incentive adder for RTO members that have been members for longer than three years. The timing and outcome of this proceeding is unknown.

***Transmission ROFR:*** The State of Iowa has granted incumbent electric transmission owners, including ITC, a ROFR to construct, own and maintain certain electric transmission assets in the state. A challenge against the ROFR statute by certain plaintiffs was initially dismissed by the District Court on the grounds that the plaintiffs lacked standing. In March 2023, the Iowa Supreme Court determined that the plaintiffs have standing to challenge the Iowa ROFR statute, issued a temporary injunction staying enforcement of the ROFR statute, and remanded the matter to the District Court to decide the merits of the claim. ITC previously exercised its right to construct certain electric transmission projects approved and awarded by MISO, including projects associated with the first tranche of MISO's LRTP. Management does not believe that this proceeding will impact projects that have already been approved and under development, however, the timing of this proceeding and any impact on future projects, is unknown.

### UNS Energy

***TEP General Rate Application:*** In April 2023, hearings concluded on the TEP general rate application, which seeks new customer rates effective September 1, 2023 using a December 31, 2021 test year. While the timing and outcome of this proceeding is unknown, a recommended order and opinion from the administrative law judge is expected mid-year.

***PPFAC Mechanism:*** The PPFAC mechanism allows for the timely recovery or return of purchased power and fuel costs, as compared to that collected in customer rates, at TEP and UNSE. The PPFAC balance has increased in recent years, reflecting higher commodity costs. In January 2023, TEP filed a request to collect a PPFAC balance of US$148 million over a 12-month period. The timing and outcome of this proceeding is unknown. On May 2, 2023, the ACC approved a rate adjustment at UNSE to recover a PPFAC balance of US$104 million over a 33-month period.

### Central Hudson

*CIS Implementation:* In 2022, the PSC released a report into the deployment by Central Hudson of its new CIS. The PSC also issued an Order to Commence Proceeding and Show Cause, which directed Central Hudson to explain why the PSC should not pursue civil or administrative penalties or initiate a proceeding to review the prudence of the CIS implementation costs. Central Hudson was also required to submit a plan to eliminate bi-monthly bill estimates and to evaluate the customer impacts of such a change. Central Hudson's response was filed in January 2023. The timing and outcome of this proceeding is unknown.

### FortisBC Energy and FortisBC Electric

*GCOC Proceeding:* In 2021, the BCUC initiated a proceeding including a review of the common equity component of capital structure and the allowed ROE. FortisBC filed a final argument with the BCUC in December 2022 and the proceeding remains ongoing, with a decision expected by mid-2023.

### FortisAlberta

*2024 GCOC Proceeding:* In 2022, the AUC initiated proceedings to establish the cost of capital parameters for Alberta regulated utilities, including consideration of a formula-based approach to setting the allowed ROE for 2024 and beyond. The proceeding remains ongoing, and a decision is expected in the third quarter of 2023.

*Third PBR Term:* In 2021, the AUC issued a decision confirming that Alberta distribution utilities will be subject to a third PBR term commencing in 2024. The AUC also initiated a new proceeding to consider the design of the third PBR term. The proceeding remains ongoing, and a decision from the AUC is expected in the fourth quarter of 2023.

*REA Cost Recovery:* In 2021, the AUC determined that costs attributable to REAs, approximating $10 million annually, can no longer be recovered from FortisAlberta's rate payers, effective January 1, 2023. FortisAlberta filed an appeal with the Alberta Court of Appeal, asserting that the AUC erred in preventing the company from recovering these costs from its own rate payers to the extent that such costs cannot be recovered directly from REAs.  The Court dismissed the appeal on April 28, 2023. FortisAlberta continues to review the decision and assess other means, including legislative amendments, to recover these costs.

## FINANCIAL POSITION

### Significant Changes between March 31, 2023 and December 31, 2022

| **Balance Sheet Account** | **Increase (Decrease)** | | |
|---|---|---|---|
| *($ millions)* | **FX** | **Other** | **Explanation** |
| Cash and cash equivalents | **—** | **367** | Due to: (i) the timing of debt issuances and capital investments at UNS Energy; and, (ii) the timing of collection of flow-through costs in customer rates, as well as the receipt of a deposit related to development expenditures to be incurred for the Eagle Mountain Woodfibre Gas Line project, at FortisBC Energy. |
| Accounts receivable and other current assets | **(4)** | **(459)** | Due to: (i) a decrease in the fair value of energy contracts at UNS Energy and FortisBC Energy; and, (ii) the seasonality of sales, particularly in Canada. |
| Regulatory assets (current and long-term) | **(4)** | **145** | Due to: (i) unrealized losses on energy derivatives at FortisBC Energy and UNS Energy; (ii) the normal operation of rate stabilization accounts; and, (iii) the deferral of incremental restoration costs at Central Hudson. |
| Property, plant and equipment, net | **(75)** | **606** | Due to capital expenditures, partially offset by depreciation. |
| Short-term borrowings | **(1)** | **109** | Reflects the issuance of commercial paper at ITC to finance working capital and capital investment requirements. |
| Accounts payable and other current liabilities | **(4)** | **(326)** | Due to lower amounts owing for energy supply costs, primarily at UNS Energy and FortisBC Energy, as well as the timing of payments. |

### Significant Changes between March 31, 2023 and December 31, 2022

| **Balance Sheet Account** *($ millions)* | **Increase (Decrease)** **FX** | **Other** | **Explanation** |
|---|---|---|---|
| Long-term debt (including current portion) | **(52)** | **468** | Reflects debt issuances partially offset by debt repayments, and higher borrowings under committed credit facilities, in support of the Corporation's Capital Plan. |
| Shareholders' equity | **(39)** | **276** | Due primarily to: (i) Common Equity Earnings for the three months ended March 31, 2023, less dividends declared on common shares; and, (ii) the issuance of common shares, largely under the DRIP. |

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flow Requirements

At the subsidiary level, it is expected that operating expenses and interest costs will be paid from Operating Cash Flow, with varying levels of residual cash flow available for capital expenditures and/or dividend payments to Fortis. Remaining capital expenditures are expected to be financed primarily from borrowings under credit facilities, long-term debt offerings and equity injections from Fortis. Borrowings under credit facilities may be required periodically to support seasonal working capital requirements.

Cash required of Fortis to support subsidiary growth is generally derived from borrowings under the Corporation's committed credit facility, the operation of the DRIP and issuances of common shares, preference equity and long-term debt. The subsidiaries pay dividends to Fortis and receive equity injections from Fortis when required. Both Fortis and its subsidiaries initially borrow through their committed credit facilities and periodically replace these borrowings with long-term financing. Financing needs also arise to refinance maturing debt.

Credit facilities are syndicated primarily with large banks in Canada and the U.S., with no one bank holding more than approximately 20% of the total revolving credit facilities. Approximately $5.6 billion of the total credit facilities are committed with maturities ranging from 2023 through 2027. Available credit facilities are summarized in the following table.

### Credit Facilities

| As at *($ millions)* | Regulated Utilities | Corporate and Other | **March 31, 2023** | December 31, 2022 |
|---|---|---|---|---|
| Total credit facilities [(1)] | 3,793 | 2,048 | **5,841** | 5,850 |
| Credit facilities utilized: | | | | |
| Short-term borrowings | (361) | — | **(361)** | (253) |
| Long-term debt (including current portion) | (896) | (922) | **(1,818)** | (1,657) |
| Letters of credit outstanding | (62) | (38) | **(100)** | (128) |
| **Credit facilities unutilized** | 2,474 | 1,088 | **3,562** | 3,812 |

(1) *See Note 14 in the 2022 Annual Financial Statements for a description of the credit facilities as at December 31, 2022.*

In April 2023, ITC increased its total credit facilities available from US$900 million to US$1 billion and extended the maturity to April 2028.

On May 1, 2023, the Corporation extended the maturity on its unsecured US$500 million non-revolving term credit facility to May 2024. The facility is repayable at any time without penalty, and provides the Corporation with additional, cost effective short-term financing.

The Corporation's ability to service debt and pay dividends is dependent on the financial results of, and the related cash payments from, its subsidiaries. Certain regulated subsidiaries are subject to restrictions that limit their ability to distribute cash to Fortis, including restrictions by certain regulators limiting annual dividends and restrictions by certain lenders limiting debt to total capitalization. There are also practical limitations on using the net assets of the regulated subsidiaries to pay dividends, based on management's intent to maintain the subsidiaries' regulator-approved capital structures. Fortis does not expect that maintaining such capital structures will impact its ability to pay dividends in the foreseeable future.

As at March 31, 2023, consolidated fixed-term debt maturities/repayments are expected to average $1,392 million annually over the next five years and approximately 74% of the Corporation's consolidated long-term debt, excluding credit facility borrowings, had maturities beyond five years.

In November 2022, Fortis filed a short-form base shelf prospectus with a 25-month life under which it may issue common or preference shares, subscription receipts, or debt securities in an aggregate principal amount of up to $2.0 billion. As at March 31, 2023, $2.0 billion remained available under the short-form base shelf prospectus.

Fortis is well positioned with strong liquidity. This combination of available credit facilities and manageable annual debt maturities/repayments provides flexibility in the timing of access to capital markets. Given current credit ratings and capital structures, the Corporation and its subsidiaries currently expect to continue to have reasonable access to long-term capital in 2023.

Fortis and its subsidiaries were in compliance with debt covenants as at March 31, 2023 and are expected to remain compliant in 2023.

## Cash Flow Summary

### Summary of Cash Flows

Quarter ended March 31

| *($ millions)* | **2023** | 2022 | Variance |
|---|---|---|---|
| Cash and cash equivalents, beginning of quarter | **209** | 131 | 78 |
| Cash from (used in): | | | |
| Operating activities | **915** | 813 | 102 |
| Investing activities | **(941)** | (916) | (25) |
| Financing activities | **388** | 337 | 51 |
| Effect of exchange rate changes on cash and cash equivalents | **5** | — | 5 |
| **Cash and cash equivalents, end of quarter** | **576** | 365 | 211 |

### Operating Activities

See "Performance at a Glance - Operating Cash Flow" on page 3.

### Investing Activities

The increase in cash used in investing activities reflects the higher U.S.-to-Canadian dollar exchange rate, partially offset by higher customer contributions in aid of construction as well as the timing of capital investments. The Corporation's Capital Plan for 2023 is estimated to be $4.3 billion, an increase of approximately 7% from $4.0 billion in 2022. See "Capital Plan" on page 13.

### Financing Activities

Cash flows related to financing activities will fluctuate largely as a result of changes in the subsidiaries' capital expenditures and the amount of Operating Cash Flow available to fund those capital expenditures, which together impact the amount of funding required from debt and common equity issuances. See "Cash Flow Requirements" on page 10.

## Debt Financing

### Significant Long-Term Debt Issuances

Year-to-date March 31, 2023

| *($ millions, except as noted)* | Month Issued | Interest Rate *(%)* | Maturity | | **Amount** | Use of Proceeds |
|---|---|---|---|---|---|---|
| UNS Energy | | | | | | |
| Unsecured senior notes | February | 5.50 | 2053 | **US** | **375** | (1) (2) |
| Central Hudson | | | | | | |
| Unsecured senior notes | March | 5.68 | 2033 | **US** | **40** | (2) (3) |
| Unsecured senior notes | March | 5.78 | 2035 | **US** | **15** | (2) (3) |
| Unsecured senior notes | March | 5.88 | 2038 | **US** | **35** | (2) (3) |

(1) *Repay maturing long-term debt*
(2) *General corporate purposes*
(3) *Repay short-term and/or credit facility borrowings*

### Common Equity Financing

**Common Equity Issuances and Dividends Paid**

Quarter ended March 31

| *($ millions, except as indicated)* | 2023 | 2022 | Variance |
|---|---|---|---|
| Common shares issued: | | | |
| Cash [(1)] | **14** | 22 | (8) |
| Non-cash [(2)] | **103** | 95 | 8 |
| Total common shares issued | **117** | 117 | — |
| Number of common shares issued *(# millions)* | **2.2** | 2.1 | 0.1 |
| Common share dividends paid: | | | |
| Cash | **(170)** | (160) | (10) |
| Non-cash [(3)] | **(103)** | (94) | (9) |
| Total common share dividends paid | **(273)** | (254) | (19) |
| Dividends paid per common share *($)* | **0.565** | 0.535 | 0.03 |

(1) *Includes common shares issued under stock option and employee share purchase plans*
(2) *Common shares issued under the DRIP and stock option plan*
(3) *Common share dividends reinvested under the DRIP*

On February 9, 2023, Fortis declared a dividend of $0.565 per common share payable on June 1, 2023. The payment of dividends is at the discretion of the board of directors and depends on the Corporation's financial condition and other factors.

## Contractual Obligations

There were no material changes to the contractual obligations disclosed in the 2022 Annual MD&A, except issuances of long-term debt and credit facility utilization (see "Cash Flow Summary" on page 11).

### Off-Balance Sheet Arrangements

There were no material changes to off-balance sheet arrangements from those disclosed in the 2022 Annual MD&A.

## Capital Structure and Credit Ratings

Fortis requires ongoing access to capital and, therefore, targets a consolidated long-term capital structure that will enable it to maintain investment-grade credit ratings. The regulated utilities maintain their own capital structures in line with those reflected in customer rates.

### Consolidated Capital Structure

| | March 31, 2023 | | December 31, 2022 | |
|---|---|---|---|---|
| As at | *($ millions)* | *(%)* | *($ millions)* | *(%)* |
| Debt [(1)] | **28,957** | **55.7** | 28,792 | 55.8 |
| Preference shares | **1,623** | **3.1** | 1,623 | 3.1 |
| Common shareholders' equity and non-controlling interests [(2)] | **21,460** | **41.2** | 21,219 | 41.1 |
| | **52,040** | **100.0** | 51,634 | 100.0 |

(1) *Includes long-term debt and finance leases, including current portion, and short-term borrowings, net of cash*
(2) *Includes shareholders' equity, net of preference shares, and non-controlling interests. Non-controlling interests represented 3.5% as at March 31, 2023 (December 31, 2022 - 3.5%)*

### Outstanding Share Data

As at May 2, 2023, the Corporation had issued and outstanding 484.5 million common shares and the following First Preference Shares: 5.0 million Series F; 9.2 million Series G; 7.7 million Series H; 2.3 million Series I; 8.0 million Series J; 10.0 million Series K; and 24.0 million Series M.

Only the common shares of the Corporation have voting rights. The Corporation's first preference shares do not have voting rights unless and until Fortis fails to pay eight quarterly dividends, whether or not consecutive or declared.

If all outstanding stock options were converted as at May 2, 2023, an additional 2.2 million common shares would be issued and outstanding.

### Credit Ratings

The Corporation's credit ratings shown below reflect its low risk profile, diversity of operations, the stand-alone nature and financial separation of each regulated subsidiary, and the level of holding company debt.

| As at March 31, 2023 | Rating | Type | Outlook |
|---|---|---|---|
| S&P | A- | Corporate | Stable |
| | BBB+ | Unsecured debt | |
| DBRS Morningstar | A (low) | Corporate | Stable |
| | A (low) | Unsecured debt | |
| Moody's | Baa3 | Issuer | Stable |
| | Baa3 | Unsecured debt | |

## Capital Plan

Year-to-date Capital Expenditures of $1.0 billion are consistent with expectations and the Corporation's annual $4.3 billion Capital Plan is on track.

While global supply chain constraints and persistent inflation remain issues of potential concern that continue to evolve, the Corporation does not expect a material impact on its 2023-2027 Capital Plan, although certain planned expenditures may shift within the five years. The Corporation continues to proactively work to mitigate supply chain constraints by identifying high priority materials and consolidating buying power to improve outcomes, increasing inventory levels, and closely working with suppliers to ensure material availability.

### Capital Expenditures [1]

| Year-to-date March 31, 2023 | Regulated Utilities | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *($ millions, except as indicated)* | ITC | UNS Energy | Central Hudson | FortisBC Energy | Fortis Alberta | FortisBC Electric | Other Electric | **Total Regulated Utilities** | **Non-Regulated** [2] | **Total** |
| **Total** | 336 | 185 | 78 | 113 | 119 | 27 | 134 | **992** | **3** | **995** |

[1] *See "Non-U.S. GAAP Financial Measures" on page 7*
[2] *Energy Infrastructure segment*

### Five-Year Capital Plan

The 2023-2027 Capital Plan is targeted at $22.3 billion, reflecting an average of $4.5 billion of Capital Expenditures annually. In total, Fortis expects to invest $5.9 billion in cleaner energy over the five-year period. The Capital Plan is low risk and highly executable, with 99% of planned expenditures to occur at the regulated utilities and only 17% relating to Major Capital Projects. Geographically, 55% of planned expenditures are expected in the U.S., including 26% at ITC, with 41% in Canada and the remaining 4% in the Caribbean.

Planned Capital Expenditures are based on detailed forecasts of energy demand as well as labour and material costs, including inflation, supply chain availability, general economic conditions, foreign exchange rates and other factors. These could change and cause actual expenditures to differ from forecast.

### Major Capital Project Updates

*FortisBC Energy*

In March 2023, FortisBC Energy filed amended transportation rate schedules with the BCUC for the Eagle Mountain Woodfibre Gas Line project. Approval from the BCUC is anticipated in May 2023, which will remove certain of FortisBC Energy's conditions for commencing construction and bring the project one step closer to construction.

With respect to the Tilbury LNG Storage Expansion project, the regulatory process was adjourned in March 2023 in order for FortisBC Energy to prepare further information in support of the CPCN application. In May 2023, FortisBC Energy expects to submit a supplemental filing with the BCUC to provide updates to key evidence in the proceeding for the Okanagan Capacity Upgrade project. As a result, BCUC approval of both projects could be later than originally expected.

## BUSINESS RISKS

The Corporation's business risks remain substantially unchanged from those disclosed in its 2022 Annual MD&A. See "Regulatory Matters" on page 8 and "Outlook" on page 16 for applicable updates.

## ACCOUNTING MATTERS

### Accounting Policies

The Interim Financial Statements have been prepared following the same accounting policies and methods as those used to prepare the 2022 Annual Financial Statements.

### Critical Accounting Estimates

The preparation of the Interim Financial Statements required management to make estimates and judgments, including those related to regulatory decisions, that affect the reported amounts of, and disclosures related to, assets, liabilities, revenues, expenses, gains, losses and contingencies. Actual results could differ materially from estimates.

There were no material changes to the nature of the Corporation's critical accounting estimates or contingencies from that disclosed in the 2022 Annual MD&A.

## FINANCIAL INSTRUMENTS

### Long-Term Debt and Other

As at March 31, 2023, the carrying value of long-term debt, including the current portion, was $29.0 billion (December 31, 2022 - $28.6 billion) compared to an estimated fair value of $27.0 billion (December 31, 2022 - $25.8 billion). Since Fortis does not intend to settle long-term debt prior to maturity, any excess of fair value over carrying value does not represent an actual liability.

The consolidated carrying value of the remaining financial instruments, other than derivatives, approximates fair value, reflecting their short-term maturity, normal trade credit terms and/or nature.

### Derivatives

Derivatives are recorded at fair value with certain exceptions, including those derivatives that qualify for the normal purchase and normal sale exception.

There were no material changes with respect to the nature and purpose, methodologies for fair value determination, and portfolio of the Corporation's derivatives from that disclosed in the 2022 Annual MD&A, except for interest rate locks entered into at ITC and Fortis as disclosed in Note 12 to the Interim Financial Statements.

## SUMMARY OF QUARTERLY RESULTS

| Quarter ended | Revenue *($ millions)* | Common Equity Earnings *($ millions)* | Basic EPS *($)* | Diluted EPS *($)* |
|---|---|---|---|---|
| **March 31, 2023** | **3,319** | **437** | **0.90** | **0.90** |
| December 31, 2022 | 3,168 | 370 | 0.77 | 0.77 |
| September 30, 2022 | 2,553 | 326 | 0.68 | 0.68 |
| June 30, 2022 | 2,487 | 284 | 0.59 | 0.59 |
| March 31, 2022 | 2,835 | 350 | 0.74 | 0.74 |
| December 31, 2021 | 2,583 | 328 | 0.69 | 0.69 |
| September 30, 2021 | 2,196 | 295 | 0.63 | 0.62 |
| June 30, 2021 | 2,130 | 253 | 0.54 | 0.54 |

Generally, within each calendar year, quarterly results fluctuate in accordance with seasonality. Given the diversified nature of the Corporation's subsidiaries, seasonality varies. Most of the annual earnings of the gas utilities are realized in the first and fourth quarters due to space-heating requirements. Earnings for the electric distribution utilities in the U.S. are generally highest in the second and third quarters due to the use of air conditioning and other cooling equipment.

Generally, from one calendar year to the next, quarterly results reflect: (i) continued organic growth driven by the Corporation's Capital Plan; (ii) any significant temperature fluctuations from seasonal norms; (iii) the impact of market conditions, particularly with respect to long-term wholesale sales and transmission revenue at UNS Energy, as well as margins realized on gas sold at Aitken Creek; (iv) the timing and significance of any regulatory decisions; (v) changes in the U.S.-to-Canadian dollar exchange rate; (vi) for revenue, the flow-through in customer rates of commodity costs; and (vii) for EPS, increases in the weighted average number of common shares outstanding.

### March 2023/March 2022

See "Performance at a Glance" on page 2.

### December 2022/December 2021

Common Equity Earnings increased by $42 million and basic EPS increased by $0.08 in comparison to the fourth quarter of 2021 due to: (i) Rate Base growth; (ii) higher retail electricity sales and transmission revenue at UNS Energy; (iii) higher earnings from the energy infrastructure segment driven by hydroelectric production in Belize, as well as the favourable impact of market conditions at Aitken Creek; and (iv) the timing of expenses at FortisAlberta. The translation of U.S. dollar-denominated subsidiary earnings at the higher U.S.-to-Canadian dollar foreign exchange rate and lower stock-based compensation costs also contributed to results with these impacts exceeding the related losses associated with hedging activities. The increase in earnings was partially offset by higher corporate costs, reflecting higher finance costs and a lower income tax recovery, as well as lower earnings at Central Hudson, reflecting the finalization of the company's rate application in late 2021 with retroactive application to July 1, 2021. The change in basic EPS also reflected an increase in the weighted average number of common shares outstanding, largely associated with the Corporation's DRIP.

### September 2022/September 2021

Common Equity Earnings increased by $31 million and basic EPS increased by $0.05 in comparison to the third quarter of 2021 due to: (i) Rate Base growth, mainly at ITC; (ii) higher retail electricity sales, transmission revenue and earnings associated with the Oso Grande generating facility in Arizona; (iii) higher earnings from the energy infrastructure segment mainly due to mark-to-market accounting of natural gas derivatives and higher hydroelectric production in Belize; and (iv) the impact of new customer rates and the timing of operating costs at Central Hudson.

Growth was tempered by the timing of expenses in Alberta and a favourable adjustment recognized in 2021 related to interest rate swaps at ITC. Results for the third quarter of 2022 were also impacted by significant items at ITC, including costs associated with the suspension of the Lake Erie Connector project, and the revaluation of deferred income tax assets due to a reduction in the corporate income tax rate in the state of Iowa. The impact of mark-to-market losses associated with hedging activities was more than offset by lower stock-based compensation costs and the translation of U.S. dollar-denominated subsidiary earnings at the higher U.S.-to-Canadian dollar foreign exchange rate. The change in basic EPS also reflected an increase in the weighted average number of common shares outstanding, largely associated with the Corporation's DRIP.

### June 2022/June 2021

Common Equity Earnings increased by $31 million and basic EPS increased by $0.05 in comparison to the second quarter of 2021 due to: (i) Rate Base growth; (ii) higher earnings from the energy infrastructure segment, largely reflecting favourable changes in the mark-to-market accounting of natural gas derivatives at Aitken Creek; and (iii) a higher U.S.-to-Canadian dollar foreign exchange rate. Growth in earnings was partially offset by losses on investments that support retirement benefits at UNS Energy and ITC, reflecting market conditions, and the timing of quarterly earnings from Arizona and Alberta. In comparison to the second quarter of 2021, results from UNS Energy were tempered, as expected, by the timing of earnings related to the Oso Grande generating facility, and earnings from FortisAlberta were lower due to the timing of operating expenses. The change in EPS also reflected an increase in the weighted average number of common shares outstanding, largely associated with the Corporation's DRIP.

## RELATED-PARTY AND INTER-COMPANY TRANSACTIONS

Related-party transactions are in the normal course of operations and are measured at the amount of consideration agreed to by the related parties. There were no material related-party transactions for the three months ended March 31, 2023 and 2022.

The lease of gas storage capacity and gas sales from Aitken Creek to FortisBC Energy of $9 million for the three months ended March 31, 2023 (three months ended March 31, 2022 - $13 million) are inter-company transactions between non-regulated and regulated entities, which were not eliminated on consolidation.

As at March 31, 2023, accounts receivable included $4 million due from Belize Electricity (December 31, 2022 - $7 million).

Fortis periodically provides short-term financing to subsidiaries to support capital expenditures and seasonal working capital requirements, the impacts of which are eliminated on consolidation. As at March 31, 2023 and December 31, 2022, there were no inter-segment loans outstanding. Interest charged on inter-segment loans was not material for the three months ended March 31, 2023 and 2022.

## OUTLOOK

Fortis continues to enhance shareholder value through the execution of its Capital Plan, the balance and strength of its diversified portfolio of regulated utility businesses, and growth opportunities within and proximate to its service territories. While energy price volatility, global supply chain constraints and persistent inflation are issues of potential concern that continue to evolve, the Corporation does not currently expect there to be a material impact on its operations or financial results in 2023.

Fortis is executing on the transition to a cleaner energy future and is on track to achieve its corporate-wide targets to reduce GHG emissions by 50% by 2030 and 75% by 2035. Upon achieving these targets, 99% of the Corporation's assets will support energy delivery and renewable, carbon-free generation. The Corporation's additional 2050 net-zero direct GHG emissions target reinforces Fortis' commitment to further decarbonize over the long-term, while preserving customer reliability and affordability.

The Corporation's $22.3 billion five-year Capital Plan is expected to increase midyear Rate Base from $34.1 billion in 2022 to $46.1 billion by 2027, translating into a five-year CAGR of 6.2%.

Beyond the five-year Capital Plan, additional opportunities to expand and extend growth include: further expansion of the electric transmission grid in the U.S. to facilitate the interconnection of cleaner energy, including infrastructure investments associated with the IRA and the MISO LRTP; climate adaptation and grid resiliency investments; renewable gas solutions and LNG infrastructure in British Columbia; and the acceleration of cleaner energy infrastructure investments across our jurisdictions.

Fortis expects its long-term growth in Rate Base will drive earnings that support dividend growth guidance of 4-6% annually through 2027, and is premised on the assumptions and material factors listed under "Forward-Looking Information".

## FORWARD-LOOKING INFORMATION

*Fortis includes forward-looking information in the MD&A within the meaning of applicable Canadian securities laws and forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, (collectively referred to as "forward-looking information"). Forward-looking information reflects expectations of Fortis management regarding future growth, results of operations, performance, business prospects and opportunities. Wherever possible, words such as anticipates, believes, budgets, could, estimates, expects, forecasts, intends, may, might, plans, projects, schedule, should, target, will, would, and the negative of these terms, and other similar terminology or expressions, have been used to identify the forward-looking information, which includes, without limitation: the expected timing and outcome of the sale of Aitken Creek; forecast capital expenditures for 2023 and 2023-2027, including cleaner energy investments; the expected timing, outcome and impact of regulatory proceedings and decisions; the expectation that volatility in energy prices, global supply chain constraints and persistent inflation will not have a material impact on operations or financial results in 2023 or the 2023-2027 capital plan; forecast Rate Base and Rate Base growth through 2027; the nature, timing, benefits and expected costs of certain capital projects, including FortisBC Energy's Eagle Mountain Woodfibre Gas Pipeline project, Tilbury LNG Storage Expansion project and Okanagan Capacity Upgrade project, and additional opportunities beyond the Capital Plan, including investments associated with the IRA, the MISO LRTP, climate adaptation and grid resiliency, renewable gas solutions and LNG infrastructure in British Columbia, and the acceleration of cleaner energy infrastructure; the 2030 GHG emissions reduction target; the 2035 GHG emissions reduction target and projected asset mix; the 2050 net-zero direct GHG emissions target; the expected funding sources for operating expenses, interest costs and capital expenditures; the expectation that maintaining the capital structures of the regulated operating subsidiaries will not have an impact on the Corporation's ability to pay dividends in the foreseeable future; the expected consolidated fixed-term debt maturities and repayments over the next five years; the expectation that the Corporation and its subsidiaries will continue to have access to long-term capital and will remain compliant with debt covenants in 2023; and the expectation that long-term growth in Rate Base will drive earnings that support dividend growth guidance of 4-6% annually through 2027.*

*Forward-looking information involves significant risks, uncertainties and assumptions. Certain material factors or assumptions have been applied in drawing the conclusions contained in the forward-looking information including, without limitation: no material impact from volatility in energy prices, global supply chain constraints and persistent inflation; reasonable regulatory decisions and the expectation of regulatory stability; the successful execution of the Capital Plan; no material capital project or financing cost overrun; sufficient human resources to deliver service and execute the Capital Plan; the realization of additional opportunities beyond the Capital Plan; no significant variability in interest rates; the Board exercising its discretion to declare dividends, taking into account the financial performance and condition of the Corporation; no significant operational disruptions or environmental liability or upset; the continued ability to maintain the performance of the electricity and gas systems; no severe and prolonged economic downturn; sufficient liquidity and capital resources; the ability to hedge exposures to fluctuations in foreign exchange rates, natural gas prices and electricity prices; the continued availability of natural gas, fuel, coal and electricity supply; continuation of power supply and capacity purchase contracts; no significant changes in government energy plans, environmental laws and regulations that could have a material negative impact; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; no significant changes in tax laws and the continued tax deferred treatment of earnings from the Corporation's foreign operations; continued maintenance of information technology infrastructure and no material breach of cybersecurity; continued favourable relations with Indigenous Peoples; and favourable labour relations.*

*Fortis cautions readers that a number of factors could cause actual results, performance or achievements to differ materially from those discussed or implied in the forward-looking information. These factors should be considered carefully and undue reliance should not be placed on the forward-looking information. Risk factors which could cause results or events to differ from current expectations are detailed under the heading "Business Risks" in the 2022 Annual MD&A and in other continuous disclosure materials filed from time to time with Canadian securities regulatory authorities and the Securities and Exchange Commission. Key risk factors for 2023 include, but are not limited to: uncertainty regarding changes in utility regulation, including the outcome of regulatory proceedings at the Corporation's utilities; the physical risks associated with the provision of electric and gas service, which are exacerbated by the impacts of climate change; risks related to environmental laws and regulations; risks associated with capital projects and the impact on the Corporation's continued growth; risks associated with cybersecurity and information and operations technology; the impact of weather variability and seasonality on heating and cooling loads, gas distribution volumes and hydroelectric generation; risks associated with commodity price volatility and supply of purchased power; and risks related to general economic conditions, including inflation, interest rate and foreign exchange risks.*

*All forward-looking information herein is given as of May 2, 2023. Fortis disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.*

## GLOSSARY

**2022 Annual Financial Statements:** the Corporation's audited consolidated financial statements and notes thereto for the year ended December 31, 2022

**2022 Annual MD&A**: the Corporation's management discussion and analysis for the year ended December 31, 2022

**ACC:** Arizona Corporation Commission

**Adjusted Basic EPS:** Adjusted Common Equity Earnings divided by the basic weighted average number of common shares outstanding

**Adjusted Common Equity Earnings:** net earnings attributable to common equity shareholders adjusted as shown under "Non-U.S. GAAP Financial Measures" on page 7

**Aitken Creek:** Aitken Creek Gas Storage ULC, a direct 93.8% owned subsidiary of FortisBC Holdings Inc.

**AUC:** Alberta Utilities Commission

**Belize Electricity:** Belize Electricity Limited, in which Fortis indirectly holds a 33% equity interest

**BCUC:** British Columbia Utilities Commission

**CAGR(s):** compound average growth rate of a particular item. CAGR = $(EV/BV)^{1-N}-1$, where: (i) EV is the ending value of the item; (ii) BV is the beginning value of the item; and (iii) N is the number of periods. Calculated on a constant U.S. dollar-to-Canadian dollar exchange rate

**Capital Expenditures:** cash outlay for additions to property, plant and equipment and intangible assets as shown in the Interim Financial Statements, as well as Fortis' 39% share of capital spending for the Wataynikaneyap Transmission Power Project. See "Non-U.S. GAAP Financial Measures" on page 7

**Capital Plan:** forecast Capital Expenditures. Represents a non-U.S. GAAP financial measure calculated in the same manner as Capital Expenditures

**Caribbean Utilities:** Caribbean Utilities Company, Ltd., an indirect approximately 60%-owned (as at December 31, 2022) subsidiary of Fortis, together with its subsidiary

**Central Hudson:** CH Energy Group Inc., an indirect wholly owned subsidiary of Fortis, together with its subsidiaries, including Central Hudson Gas & Electric Corporation

**CIS:** customer information system

**Common Equity Earnings:** net earnings attributable to common equity shareholders

**Corporation:** Fortis Inc.

**CPCN**: Certificate of Public Convenience and Necessity

**DBRS Morningstar:** DBRS Limited

**D.C. Circuit Court:** U.S. Court of Appeals for the District of Columbia Circuit

**DRIP:** dividend reinvestment plan

**EPS:** earnings per common share

**FERC:** Federal Energy Regulatory Commission

**Fortis:** Fortis Inc.

**FortisAlberta:** FortisAlberta Inc., an indirect wholly owned subsidiary of Fortis

**FortisBC Electric:** FortisBC Inc., an indirect wholly owned subsidiary of Fortis, together with its subsidiaries

**FortisBC Energy:** FortisBC Energy Inc., an indirect wholly owned subsidiary of Fortis, together with its subsidiaries

**FortisOntario:** FortisOntario Inc., a direct wholly owned subsidiary of Fortis, together with its subsidiaries

**FortisTCI:** FortisTCI Limited, an indirect wholly owned subsidiary of Fortis, together with its subsidiary

**Fortis Belize:** Fortis Belize Limited, an indirect wholly owned subsidiary of Fortis

**FX:** foreign exchange associated with the translation of U.S. dollar-denominated amounts. Foreign exchange is calculated by applying the change in the U.S. dollar-to-Canadian dollar FX rates to the prior period U.S. dollar balance

**GCOC:** generic cost of capital

**GHG:** greenhouse gas

**GWh:** gigawatt hour(s)

**ICAT:** Iowa Coalition for Affordable Transmission

**Interim Financial Statements:** the Corporation's unaudited condensed consolidated interim financial statements and notes thereto for the three months ended March 31, 2023

**Interim MD&A:** the Corporation's management discussion and analysis for the three months ended March 31, 2023

**IRA:** Inflation Reduction Act of 2022

**ITC:** ITC Investment Holdings Inc., an indirect 80.1%-owned subsidiary of Fortis, together with its subsidiaries, including International Transmission Company, Michigan Electric Transmission Company, LLC, ITC Midwest, and ITC Great Plains, LLC

**ITC Midwest:** ITC Midwest LLC

**LNG:** liquefied natural gas

**LRTP:** long-range transmission plan

**Major Capital Projects:** projects, other than ongoing maintenance projects, individually costing $200 million or more in the forecast/planning period

**Maritime Electric:** Maritime Electric Company, Limited, an indirect wholly owned subsidiary of Fortis

**MISO:** Midcontinent Independent System Operator, Inc

**Moody's:** Moody's Investor Services, Inc.

**Newfoundland Power:** Newfoundland Power Inc., a direct wholly owned subsidiary of Fortis

**Non-U.S. GAAP Financial Measures:** financial measures that do not have a standardized meaning prescribed by U.S. GAAP

**NOPR:** notice of proposed rulemaking

**NYSE:** New York Stock Exchange

**Operating Cash Flow:** cash from operating activities

**PBR:** performance-based rate setting

**PJ:** petajoule(s)

**PPFAC:** Purchased Power and Fuel Adjustment Clause

**PSC:** New York State Public Service Commission

**Rate Base:** the stated value of property on which a regulated utility is permitted to earn a specified return in accordance with its regulatory construct

**REA:** Rural Electrification Association

**ROE:** rate of return on common equity

**ROFR:** right of first refusal

**RTO:** regional transmission organization

**S&P:** Standard & Poor's Financial Services LLC

**SEDAR:** Canadian System for Electronic Document Analysis and Retrieval

**TEP:** Tucson Electric Power Company, a direct wholly owned subsidiary of UNS Energy

**TSR:** total shareholder return, which is a measure of the return to common equity shareholders in the form of share price appreciation and dividends (assuming reinvestment) over a specified time period in relation to the share price at the beginning of the period

**TSX:** Toronto Stock Exchange

**UNSE:** UNS Electric, Inc.

**UNS Energy:** UNS Energy Corporation, an indirect wholly owned subsidiary of Fortis, together with its subsidiaries, including TEP, UNSE and UNS Gas, Inc.

**U.S.:** United States of America

**U.S. GAAP:** accounting principles generally accepted in the U.S.

**Wataynikaneyap Power:** Wataynikaneyap Power Limited Partnership, in which Fortis indirectly holds a 39% equity interest

# FORTIS INC.

Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2023 and 2022
(Unaudited)

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS (Unaudited)

**FORTIS INC.**

| As at (in millions of Canadian dollars) | March 31, 2023 | December 31, 2022 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | **$ 576** | $ 209 |
| Accounts receivable and other current assets (Note 5) | **1,876** | 2,339 |
| Prepaid expenses | **145** | 146 |
| Inventories | **569** | 661 |
| Regulatory assets (Note 6) | **995** | 914 |
| **Total current assets** | **4,161** | 4,269 |
| Other assets | **1,176** | 1,213 |
| Regulatory assets (Note 6) | **3,155** | 3,095 |
| Property, plant and equipment, net | **42,194** | 41,663 |
| Intangible assets, net | **1,511** | 1,548 |
| Goodwill | **12,433** | 12,464 |
| **Total assets** | **$ 64,630** | $ 64,252 |
| **LIABILITIES AND EQUITY** | | |
| **Current liabilities** | | |
| Short-term borrowings (Note 7) | **$ 361** | $ 253 |
| Accounts payable and other current liabilities | **2,958** | 3,288 |
| Regulatory liabilities (Note 6) | **469** | 595 |
| Current installments of long-term debt (Note 7) | **2,362** | 2,481 |
| **Total current liabilities** | **6,150** | 6,617 |
| Regulatory liabilities (Note 6) | **3,367** | 3,320 |
| Deferred income taxes | **4,092** | 4,060 |
| Long-term debt (Note 7) | **26,466** | 25,931 |
| Finance leases | **344** | 336 |
| Other liabilities | **1,128** | 1,146 |
| **Total liabilities** | **41,547** | 41,410 |
| Commitments and contingencies (Note 13) | | |
| **Equity** | | |
| Common shares (1) | **14,773** | 14,656 |
| Preference shares | **1,623** | 1,623 |
| Additional paid-in capital | **8** | 10 |
| Accumulated other comprehensive income | **967** | 1,008 |
| Retained earnings | **3,896** | 3,733 |
| Shareholders' equity | **21,267** | 21,030 |
| Non-controlling interests | **1,816** | 1,812 |
| **Total equity** | **23,083** | 22,842 |
| **Total liabilities and equity** | **$ 64,630** | $ 64,252 |

(1) No par value. Unlimited authorized shares. 484.4 million and 482.2 million issued and outstanding as at March 31, 2023 and December 31, 2022, respectively.

See accompanying Notes to Condensed Consolidated Interim Financial Statements

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EARNINGS (Unaudited)

**FORTIS INC.**

| *For the quarter ended March 31 (in millions of Canadian dollars, except per share amounts)* | **2023** | 2022 |
|---|---|---|
| **Revenue** | **$ 3,319** | $ 2,835 |
| **Expenses** | | |
| Energy supply costs | **1,312** | 1,083 |
| Operating expenses | **741** | 669 |
| Depreciation and amortization | **436** | 407 |
| **Total expenses** | **2,489** | 2,159 |
| **Operating income** | **830** | 676 |
| Other income, net (Note 9) | **69** | 42 |
| Finance charges | **315** | 258 |
| **Earnings before income tax expense** | **584** | 460 |
| Income tax expense | **100** | 67 |
| **Net earnings** | **$ 484** | $ 393 |
| **Net earnings attributable to:** | | |
| Non-controlling interests | **$ 31** | $ 27 |
| Preference equity shareholders | **16** | 16 |
| Common equity shareholders | **437** | 350 |
| | **$ 484** | $ 393 |
| **Earnings per common share** (Note 10) | | |
| Basic | **$ 0.90** | $ 0.74 |
| Diluted | **$ 0.90** | $ 0.74 |

See accompanying Notes to Condensed Consolidated Interim Financial Statements

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

| *For the quarter ended March 31 (in millions of Canadian dollars)* | **2023** | 2022 |
|---|---|---|
| **Net earnings** | **$ 484** | $ 393 |
| **Other comprehensive (loss) income** | | |
| Unrealized foreign currency translation losses [1] | **(44)** | (161) |
| Other [2] | **(2)** | 20 |
| | **(46)** | (141) |
| **Comprehensive income** | **$ 438** | $ 252 |
| **Comprehensive income attributable to:** | | |
| Non-controlling interests | **$ 26** | $ 14 |
| Preference equity shareholders | **16** | 16 |
| Common equity shareholders | **396** | 222 |
| | **$ 438** | $ 252 |

[1] Net of hedging activities and income tax expense of $nil and $1 million, respectively
[2] Net of income tax expense of $1 million and $8 million, respectively

See accompanying Notes to Condensed Consolidated Interim Financial Statements

# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (Unaudited)

**FORTIS INC.**

| *For the quarter ended March 31 (in millions of Canadian dollars)* | **2023** | 2022 |
|---|---|---|
| **Operating activities** | | |
| Net earnings | **$ 484** | $ 393 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation - property, plant and equipment | **378** | 356 |
| Amortization - intangible assets | **38** | 35 |
| Amortization - other | **20** | 16 |
| Deferred income tax expense | **31** | 23 |
| Equity component, allowance for funds used during construction (Note 9) | **(23)** | (17) |
| Other | **6** | 40 |
| Change in long-term regulatory assets and liabilities | **21** | (10) |
| Change in working capital (Note 11) | **(40)** | (23) |
| **Cash from operating activities** | **915** | 813 |
| **Investing activities** | | |
| Additions to property, plant and equipment | **(907)** | (866) |
| Additions to intangible assets | **(47)** | (49) |
| Contributions in aid of construction | **51** | 39 |
| Other | **(38)** | (40) |
| **Cash used in investing activities** | **(941)** | (916) |
| **Financing activities** | | |
| Proceeds from long-term debt, net of issuance costs | **634** | 829 |
| Repayments of long-term debt and finance leases | **(333)** | (227) |
| Borrowings under committed credit facilities | **1,903** | 1,424 |
| Repayments under committed credit facilities | **(1,737)** | (1,600) |
| Net change in short-term borrowings | **108** | 76 |
| Issue of common shares, net of costs and dividends reinvested | **14** | 22 |
| Dividends | | |
| Common shares, net of dividends reinvested | **(170)** | (160) |
| Preference shares | **(16)** | (16) |
| Subsidiary dividends paid to non-controlling interests | **(23)** | (20) |
| Other | **8** | 9 |
| **Cash from financing activities** | **388** | 337 |
| Effect of exchange rate changes on cash and cash equivalents | **5** | — |
| **Change in cash and cash equivalents** | **367** | 234 |
| Cash and cash equivalents, beginning of period | **209** | 131 |
| **Cash and cash equivalents, end of period** | **$ 576** | $ 365 |

Supplementary Cash Flow Information (Note 11)

See accompanying Notes to Condensed Consolidated Interim Financial Statements

# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (Unaudited)

**FORTIS INC.**

| *For the quarter ended March 31 (in millions of Canadian dollars, except share numbers)* | **Common Shares** *(# millions)* | **Common Shares** | **Preference Shares** | **Additional Paid-In Capital** | **Accumulated Other Comprehensive Income (Loss)** | **Retained Earnings** | **Non-Controlling Interests** | **Total Equity** |
|---|---|---|---|---|---|---|---|---|
| As at December 31, 2022 | **482.2** | **$ 14,656** | **$ 1,623** | **$ 10** | **$ 1,008** | **$ 3,733** | **$ 1,812** | **$ 22,842** |
| Net earnings | **—** | **—** | **—** | **—** | **—** | **453** | **31** | **484** |
| Other comprehensive loss | **—** | **—** | **—** | **—** | **(41)** | **—** | **(5)** | **(46)** |
| Common shares issued | **2.2** | **117** | **—** | **—** | **—** | **—** | **—** | **117** |
| Subsidiary dividends paid to non-controlling interests | **—** | **—** | **—** | **—** | **—** | **—** | **(23)** | **(23)** |
| Dividends declared on common shares ($0.565 per share) | **—** | **—** | **—** | **—** | **—** | **(274)** | **—** | **(274)** |
| Dividends on preference shares | **—** | **—** | **—** | **—** | **—** | **(16)** | **—** | **(16)** |
| Other | **—** | **—** | **—** | **(2)** | **—** | **—** | **1** | **(1)** |
| **As at March 31, 2023** | **484.4** | **$ 14,773** | **$ 1,623** | **$ 8** | **$ 967** | **$ 3,896** | **$ 1,816** | **$ 23,083** |
| As at December 31, 2021 | 474.8 | $ 14,237 | $ 1,623 | $ 10 | $ (40) | $ 3,458 | $ 1,628 | $ 20,916 |
| Net earnings | — | — | — | — | — | 366 | 27 | 393 |
| Other comprehensive loss | — | — | — | — | (128) | — | (13) | (141) |
| Common shares issued | 2.1 | 117 | — | (1) | — | — | — | 116 |
| Subsidiary dividends paid to non-controlling interests | — | — | — | — | — | — | (20) | (20) |
| Dividends declared on common shares ($0.535 per share) | — | — | — | — | — | (255) | — | (255) |
| Dividends on preference shares | — | — | — | — | — | (16) | — | (16) |
| Other | — | — | — | (1) | — | — | 2 | 1 |
| As at March 31, 2022 | 476.9 | $ 14,354 | $ 1,623 | $ 8 | $ (168) | $ 3,553 | $ 1,624 | $ 20,994 |

See accompanying Notes to Condensed Consolidated Interim Financial Statements

# 1. DESCRIPTION OF BUSINESS

### Nature of Operations

Fortis Inc. ("Fortis" or the "Corporation") is a well-diversified North American regulated electric and gas utility holding company.

Earnings for interim periods may not be indicative of annual results due to: (i) the impact of seasonal weather conditions on customer demand and market pricing; (ii) the impact of market conditions, particularly with respect to long-term wholesale sales and transmission revenue at UNS Energy, as well as margins realized on gas sold at Aitken Creek; (iii) changes in foreign exchange rates; and (iv) the timing and significance of regulatory decisions. Earnings of the gas utilities tend to be highest in the first and fourth quarters due to space-heating requirements. Earnings of the electric distribution utilities in the U.S. tend to be highest in the second and third quarters due to the use of air conditioning and other cooling equipment.

Entities within the reporting segments that follow operate with substantial autonomy.

### Regulated Utilities

*ITC:* ITC Investment Holdings Inc., ITC Holdings Corp. and the electric transmission operations of its regulated operating subsidiaries, which include International Transmission Company, Michigan Electric Transmission Company, LLC, ITC Midwest LLC ("ITC Midwest") and ITC Great Plains, LLC. Fortis owns 80.1% of ITC and an affiliate of GIC Private Limited owns a 19.9% minority interest.

*UNS Energy:* UNS Energy Corporation, which primarily includes Tucson Electric Power Company ("TEP"), UNS Electric, Inc. ("UNSE") and UNS Gas, Inc.

*Central Hudson:* CH Energy Group, Inc., which primarily includes Central Hudson Gas & Electric Corporation.

*FortisBC Energy:* FortisBC Energy Inc.

*FortisAlberta:* FortisAlberta Inc.

*FortisBC Electric:* FortisBC Inc.

*Other Electric:* Eastern Canadian and Caribbean utilities, as follows: Newfoundland Power Inc.; Maritime Electric Company, Limited; FortisOntario Inc.; a 39% equity investment in Wataynikaneyap Power Limited Partnership; an approximate 60% controlling interest in Caribbean Utilities Company, Ltd. ("Caribbean Utilities"); FortisTCI Limited and Turks and Caicos Utilities Limited (collectively "FortisTCI"); and a 33% equity investment in Belize Electricity Limited ("Belize Electricity").

### Non-Regulated

*Energy Infrastructure:* Long-term contracted generation assets in Belize and the Aitken Creek natural gas storage facility ("Aitken Creek") in British Columbia.

*Corporate and Other*: Captures expenses and revenues not specifically related to any reportable segment and those business operations that are below the required threshold for segmented reporting, including net corporate expenses of Fortis and non-regulated holding company expenses.

# 2. REGULATORY MATTERS

Regulation of the Corporation's utilities is generally consistent with that disclosed in Note 2 of the Corporation's annual audited consolidated financial statements ("2022 Annual Financial Statements"). A summary of significant outstanding regulatory matters follows.

### ITC

*ITC Midwest Capital Structure Complaint:* In 2022, FERC issued an order denying the complaint filed by the Iowa Coalition for Affordable Transmission ("ICAT") requesting that ITC Midwest's common equity component of capital structure be reduced from 60% to 53%. In March 2023, FERC confirmed its decision following ICAT's request for rehearing.

*MISO Base ROE:* In 2022, the U.S. Court of Appeals for the District of Columbia Circuit issued a decision vacating certain FERC orders that had established the methodology for setting the base return on equity ("ROE") for transmission owners operating in the Midcontinent Independent System Operator, Inc. ("MISO") region, including ITC. This matter dates back to complaints filed at FERC in 2013 and 2015 challenging the MISO base ROE then in effect. The court has remanded the matter to FERC for further process, the timing and outcome of which is unknown.

*Transmission Incentives:* In 2021, FERC issued a supplemental notice of proposed rulemaking ("NOPR") on transmission incentives modifying the proposal in the initial NOPR released by FERC in 2020. The supplemental NOPR proposes to eliminate the 50-basis point regional transmission organization ("RTO") ROE incentive adder for RTO members that have been members for longer than three years. The timing and outcome of this proceeding is unknown.

### 2. REGULATORY MATTERS (cont'd)

***Transmission Right of First Refusal ("ROFR"):*** The State of Iowa has granted incumbent electric transmission owners, including ITC, a ROFR to construct, own and maintain certain electric transmission assets in the state. A challenge against the ROFR statute by certain plaintiffs was initially dismissed by the District Court on the grounds that the plaintiffs lacked standing. In March 2023, the Iowa Supreme Court determined that the plaintiffs have standing to challenge the Iowa ROFR statute, issued a temporary injunction staying enforcement of the ROFR statute, and remanded the matter to the District Court to decide the merits of the claim. Management does not believe that this proceeding will impact projects that have already been approved and under development, however, the timing of this proceeding and any impact on future projects, is unknown.

### UNS Energy

***TEP General Rate Application:*** In April 2023, hearings concluded on the TEP general rate application, which seeks new customer rates effective September 1, 2023 using a December 31, 2021 test year. While the timing and outcome of this proceeding is unknown, a recommended order and opinion from the administrative law judge is expected mid-year.

***PPFAC Mechanism:*** The Purchased Power and Fuel Adjustment Clause ("PPFAC") mechanism allows for the timely recovery or return of purchased power and fuel costs, as compared to that collected in customer rates, at TEP and UNSE. The PPFAC balance has increased in recent years, reflecting higher commodity costs. In January 2023, TEP filed a request to collect a PPFAC balance of US$148 million over a 12-month period. The timing and outcome of this proceeding is unknown. On May 2, 2023, the ACC approved a rate adjustment at UNSE to recover a PPFAC balance of US$104 million over a 33-month period.

### Central Hudson

***Customer Information System ("CIS") Implementation:*** In 2022, the New York Public Service Commission ("PSC") released a report into the deployment by Central Hudson of its new CIS. The PSC also issued an Order to Commence Proceeding and Show Cause, which directed Central Hudson to explain why the PSC should not pursue civil or administrative penalties or initiate a proceeding to review the prudence of the CIS implementation costs. Central Hudson was also required to submit a plan to eliminate bi-monthly bill estimates and to evaluate the customer impacts of such a change. Central Hudson's response was filed in January 2023. The timing and outcome of this proceeding is unknown.

### FortisBC Energy and FortisBC Electric

***Generic Cost of Capital ("GCOC") Proceeding:*** In 2021, the British Columbia Utilities Commission ("BCUC") initiated a proceeding including a review of the common equity component of capital structure and the allowed ROE. FortisBC filed a final argument with the BCUC in December 2022 and the proceeding remains ongoing, with a decision expected by mid-2023.

### FortisAlberta

***2024 GCOC Proceeding:*** In 2022, the Alberta Utilities Commission ("AUC") initiated proceedings to establish the cost of capital parameters for Alberta regulated utilities, including consideration of a formula-based approach to setting the allowed ROE for 2024 and beyond. The proceeding remains ongoing, and a decision is expected in the third quarter of 2023.

***Third PBR Term***: In 2021, the AUC issued a decision confirming that Alberta distribution utilities will be subject to a third performance-based rate setting ("PBR") term commencing in 2024. The AUC also initiated a new proceeding to consider the design of the third PBR term. The proceeding remains ongoing, and a decision from the AUC is expected in the fourth quarter of 2023.

***Rural Electrification Association ("REA") Cost Recovery***: In 2021, the AUC determined that costs attributable to REAs, approximating $10 million annually, can no longer be recovered from FortisAlberta's rate payers, effective January 1, 2023. FortisAlberta filed an appeal with the Alberta Court of Appeal, asserting that the AUC erred in preventing the company from recovering these costs from its own rate payers to the extent that such costs cannot be recovered directly from REAs. The Court dismissed the appeal on April 28, 2023. FortisAlberta continues to review the decision and assess other means, including legislative amendments, to recover these costs.

## 3. ACCOUNTING POLICIES

These condensed consolidated interim financial statements ("Interim Financial Statements") have been prepared and presented in accordance with accounting principles generally accepted in the United States of America for rate-regulated entities and are in Canadian dollars unless otherwise indicated.

The Interim Financial Statements include the accounts of the Corporation and its subsidiaries and reflect the equity method of accounting for entities in which Fortis has significant influence, but not control, and proportionate consolidation for assets that are jointly owned with non-affiliated entities.

Intercompany transactions have been eliminated, except for transactions between non-regulated and regulated entities in accordance with U.S. GAAP for rate-regulated entities.

These Interim Financial Statements do not include all of the disclosures required in the annual financial statements and should be read in conjunction with the Corporation's 2022 Annual Financial Statements. In management's opinion, these Interim Financial Statements include all adjustments that are of a normal recurring nature, necessary for fair presentation.

### *3. ACCOUNTING POLICIES (cont'd)*

The preparation of the Interim Financial Statements required management to make estimates and judgments, including those related to regulatory decisions, that affect the reported amounts of, and disclosures related to, assets, liabilities, revenues, expenses, gains, losses and contingencies. Actual results could differ materially from estimates.

The accounting policies applied herein are consistent with those outlined in the Corporation's 2022 Annual Financial Statements.

### Future Accounting Pronouncements

The Corporation considers the applicability and impact of all Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board. Any ASUs not included in these Interim Financial Statements were assessed and determined to be either not applicable to the Corporation or are not expected to have a material impact on the Interim Financial Statements.

## 4. SEGMENTED INFORMATION

Fortis segments its business based on regulatory jurisdiction and service territory, as well as the information used by its President and Chief Executive Officer in deciding how to allocate resources. Segment performance is evaluated principally on net earnings attributable to common equity shareholders.

### Related-Party and Inter-Company Transactions

Related-party transactions are in the normal course of operations and are measured at the amount of consideration agreed to by the related parties. There were no material related-party transactions for the three months ended March 31, 2023 and 2022.

The lease of gas storage capacity and gas sales from Aitken Creek to FortisBC Energy of $9 million for the three months ended March 31, 2023 (three months ended March 31, 2022 - $13 million) are inter-company transactions between non-regulated and regulated entities, which were not eliminated on consolidation.

As at March 31, 2023, accounts receivable included $4 million due from Belize Electricity (December 31, 2022 - $7 million).

Fortis periodically provides short-term financing to subsidiaries to support capital expenditures and seasonal working capital requirements, the impacts of which are eliminated on consolidation. As at March 31, 2023 and December 31, 2022, there were no inter-segment loans outstanding. Interest charged on inter-segment loans was not material for the three months ended March 31, 2023 and 2022.

### 4. SEGMENTED INFORMATION (cont'd)

| | Regulated | | | | | | | | Non-Regulated | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ($ millions) | ITC | UNS Energy | Central Hudson | FortisBC Energy | Fortis Alberta | FortisBC Electric | Other Electric | **Sub Total** | **Energy Infra-structure** | **Corporate and Other** | **Inter-segment eliminations** | **Total** |
| **Quarter ended March 31, 2023** | | | | | | | | | | | | |
| Revenue | 519 | 740 | 442 | 750 | 179 | 139 | 507 | **3,276** | **43** | **—** | **—** | **3,319** |
| Energy supply costs | — | 337 | 207 | 375 | — | 47 | 344 | **1,310** | **2** | **—** | **—** | **1,312** |
| Operating expenses | 135 | 190 | 162 | 96 | 42 | 30 | 60 | **715** | **12** | **14** | **—** | **741** |
| Depreciation and amortization | 101 | 87 | 28 | 77 | 64 | 24 | 50 | **431** | **4** | **1** | **—** | **436** |
| Operating income | 283 | 126 | 45 | 202 | 73 | 38 | 53 | **820** | **25** | **(15)** | **—** | **830** |
| Other income, net | 17 | 14 | 14 | 7 | — | 1 | 7 | **60** | **—** | **9** | **—** | **69** |
| Finance charges | 99 | 36 | 18 | 41 | 30 | 20 | 21 | **265** | **—** | **50** | **—** | **315** |
| Income tax expense | 47 | 14 | 9 | 45 | 3 | 1 | 6 | **125** | **6** | **(31)** | **—** | **100** |
| Net earnings | 154 | 90 | 32 | 123 | 40 | 18 | 33 | **490** | **19** | **(25)** | **—** | **484** |
| Non-controlling interests | 28 | — | — | — | — | — | 3 | **31** | **—** | **—** | **—** | **31** |
| Preference share dividends | — | — | — | — | — | — | — | **—** | **—** | **16** | **—** | **16** |
| Net earnings attributable to common equity shareholders | 126 | 90 | 32 | 123 | 40 | 18 | 30 | **459** | **19** | **(41)** | **—** | **437** |
| Additions to property, plant and equipment and intangible assets | 336 | 185 | 78 | 113 | 119 | 27 | 93 | **951** | **3** | **—** | **—** | **954** |
| **As at March 31, 2023** | | | | | | | | | | | | |
| Goodwill | 8,295 | 1,868 | 610 | 913 | 228 | 235 | 257 | **12,406** | **27** | **—** | **—** | **12,433** |
| Total assets | 23,686 | 12,674 | 5,244 | 8,826 | 5,617 | 2,619 | 4,975 | **63,641** | **796** | **209** | **(16)** | **64,630** |
| Quarter ended March 31, 2022 | | | | | | | | | | | | |
| Revenue | 460 | 538 | 375 | 694 | 167 | 129 | 459 | 2,822 | 13 | — | — | 2,835 |
| Energy supply costs | — | 210 | 162 | 354 | — | 43 | 312 | 1,081 | 2 | — | — | 1,083 |
| Operating expenses | 123 | 162 | 149 | 83 | 42 | 33 | 53 | 645 | 12 | 12 | — | 669 |
| Depreciation and amortization | 92 | 89 | 25 | 75 | 60 | 17 | 44 | 402 | 4 | 1 | — | 407 |
| Operating income | 245 | 77 | 39 | 182 | 65 | 36 | 50 | 694 | (5) | (13) | — | 676 |
| Other income, net | 9 | 3 | 15 | 4 | 1 | 2 | 2 | 36 | — | 6 | — | 42 |
| Finance charges | 80 | 31 | 13 | 36 | 26 | 18 | 18 | 222 | — | 36 | — | 258 |
| Income tax expense | 41 | 6 | 9 | 31 | 4 | 2 | 5 | 98 | 1 | (32) | — | 67 |
| Net earnings | 133 | 43 | 32 | 119 | 36 | 18 | 29 | 410 | (6) | (11) | — | 393 |
| Non-controlling interests | 24 | — | — | — | — | — | 3 | 27 | — | — | — | 27 |
| Preference share dividends | — | — | — | — | — | — | — | — | — | 16 | — | 16 |
| Net earnings attributable to common equity shareholders | 109 | 43 | 32 | 119 | 36 | 18 | 26 | 383 | (6) | (27) | — | 350 |
| Additions to property, plant and equipment and intangible assets | 335 | 162 | 64 | 130 | 111 | 30 | 78 | 910 | 5 | — | — | 915 |
| As at March 31, 2022 | | | | | | | | | | | | |
| Goodwill | 7,674 | 1,728 | 564 | 913 | 228 | 235 | 244 | 11,586 | 27 | — | — | 11,613 |
| Total assets | 21,075 | 11,331 | 4,486 | 8,214 | 5,266 | 2,570 | 4,403 | 57,345 | 724 | 281 | (148) | 58,202 |

## 5. ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses balance, which is recorded in accounts receivable and other current assets, changed as follows.

| *($ millions)* | **2023** | 2022 |
|---|---|---|
| **Quarter ended March 31** | | |
| Balance, beginning of period | **(58)** | (53) |
| Credit loss expense | **(8)** | (5) |
| Credit loss deferral | **(1)** | — |
| Write-offs, net of recoveries | **8** | 5 |
| Balance, end of period | **(59)** | (53) |

See Note 12 for disclosure on the Corporation's credit risk.

## 6. REGULATORY ASSETS AND LIABILITIES

Detailed information about the Corporation's regulatory assets and liabilities is provided in Note 8 to the 2022 Annual Financial Statements. A summary follows.

| | **As at** | |
|---|---|---|
| *($ millions)* | **March 31, 2023** | December 31, 2022 |
| **Regulatory assets** | | |
| Deferred income taxes | **1,862** | 1,874 |
| Rate stabilization and related accounts | **573** | 557 |
| Deferred energy management costs | **453** | 445 |
| Employee future benefits | **200** | 207 |
| Derivatives | **177** | 84 |
| Deferred lease costs | **142** | 132 |
| Deferred restoration costs | **112** | 91 |
| Manufactured gas plant site remediation deferral | **93** | 97 |
| Generation early retirement costs | **77** | 78 |
| Other regulatory assets | **461** | 444 |
| **Total regulatory assets** | **4,150** | 4,009 |
| **Less: Current portion** | **(995)** | (914) |
| **Long-term regulatory assets** | **3,155** | 3,095 |
| **Regulatory liabilities** | | |
| Deferred income taxes | **1,351** | 1,364 |
| Future cost of removal | **1,336** | 1,306 |
| Rate stabilization and related accounts | **355** | 297 |
| Employee future benefits | **265** | 306 |
| Renewable energy surcharge | **126** | 126 |
| Energy efficiency liability | **87** | 89 |
| Derivatives | **83** | 224 |
| Other regulatory liabilities | **233** | 203 |
| **Total regulatory liabilities** | **3,836** | 3,915 |
| **Less: Current portion** | **(469)** | (595) |
| **Long-term regulatory liabilities** | **3,367** | 3,320 |

## 7. LONG-TERM DEBT

| | As at | |
|---|---|---|
| *($ millions)* | **March 31, 2023** | December 31, 2022 |
| Long-term debt | **27,179** | 26,921 |
| Credit facility borrowings | **1,818** | 1,657 |
| Total long-term debt | **28,997** | 28,578 |
| Less: Deferred financing costs and debt discounts | **(169)** | (166) |
| Less: Current installments of long-term debt | **(2,362)** | (2,481) |
| | **26,466** | 25,931 |

| **Significant Long-Term Debt Issuances Year-to-Date March 31, 2023** *($ millions, except as noted)* | **Month Issued** | **Interest Rate** *(%)* | **Maturity** | | **Amount** | **Use of Proceeds** |
|---|---|---|---|---|---|---|
| UNS Energy | | | | | | |
| Unsecured senior notes | February | 5.50 | 2053 | **US** | **375** | (1) (2) |
| Central Hudson | | | | | | |
| Unsecured senior notes | March | 5.68 | 2033 | **US** | **40** | (2) (3) |
| Unsecured senior notes | March | 5.78 | 2035 | **US** | **15** | (2) (3) |
| Unsecured senior notes | March | 5.88 | 2038 | **US** | **35** | (2) (3) |

(1) *Repay maturing long-term debt*
(2) *General corporate purposes*
(3) *Repay short-term and/or credit facility borrowings*

In November 2022, Fortis filed a short-form base shelf prospectus with a 25-month life under which it may issue common or preference shares, subscription receipts, or debt securities in an aggregate principal amount of up to $2.0 billion. As at March 31, 2023, $2.0 billion remained available under the short-form base shelf prospectus.

| | | | As at | |
|---|---|---|---|---|
| **Credit facilities** *($ millions)* | Regulated Utilities | Corporate and Other | **March 31, 2023** | December 31, 2022 |
| Total credit facilities | 3,793 | 2,048 | **5,841** | 5,850 |
| Credit facilities utilized: | | | | |
| Short-term borrowings (1) | (361) | — | **(361)** | (253) |
| Long-term debt (including current portion) (2) | (896) | (922) | **(1,818)** | (1,657) |
| Letters of credit outstanding | (62) | (38) | **(100)** | (128) |
| Credit facilities unutilized | 2,474 | 1,088 | **3,562** | 3,812 |

(1) *The weighted average interest rate was 5.3% (December 31, 2022 - 4.9%).*
(2) *The weighted average interest rate was 5.6% (December 31, 2022 - 5.1%). The current portion was $1,441 million (December 31, 2022 - $1,376 million).*

Credit facilities are syndicated primarily with large banks in Canada and the U.S., with no one bank holding more than approximately 20% of the Corporation's total revolving credit facilities. Approximately $5.6 billion of the total credit facilities are committed with maturities ranging from 2023 through 2027.

See Note 14 in the 2022 Annual Financial Statements for a description of the credit facilities as at December 31, 2022.

In April 2023, ITC increased its total credit facilities available from US$900 million to US$1 billion and extended the maturity to April 2028.

On May 1, 2023, the Corporation extended the maturity on its unsecured US$500 million non-revolving term credit facility to May 2024. The facility is repayable at any time without penalty.

## 8. EMPLOYEE FUTURE BENEFITS

Fortis and each subsidiary maintain one or a combination of defined benefit pension plans and defined contribution pension plans, as well as other post-employment benefit ("OPEB") plans, including health and dental coverage and life insurance benefits, for qualifying members. The net benefit cost is detailed below.

| | Defined Benefit Pension Plans | | OPEB Plans | |
|---|---|---|---|---|
| *($ millions)* | **2023** | 2022 | **2023** | 2022 |
| **Quarter ended March 31** | | | | |
| Service costs | **15** | 26 | **5** | 9 |
| Interest costs | **40** | 28 | **8** | 5 |
| Expected return on plan assets | **(50)** | (49) | **(6)** | (6) |
| Amortization of actuarial (gains) losses | **(2)** | 1 | **(4)** | (2) |
| Regulatory adjustments | **4** | (2) | **2** | 1 |
| **Net benefit cost** | **7** | 4 | **5** | 7 |

Defined contribution pension plan expense for the three months ended March 31, 2023 was $16 million (2022 - $14 million).

## 9. OTHER INCOME, NET

| *($ millions)* | **2023** | 2022 |
|---|---|---|
| **Quarter ended March 31** | | |
| Equity component, allowance for funds used during construction | **23** | 17 |
| Non-service component of net periodic benefit cost | **16** | 24 |
| Interest income [(1)] | **16** | 1 |
| Gain on derivatives, net | **9** | 4 |
| Gain (loss) on retirement investments, net | **4** | (8) |
| Other | **1** | 4 |
| | **69** | 42 |

[(1)] *Includes interest on regulatory deferrals, including the PPFAC at TEP and UNSE*

## 10. EARNINGS PER COMMON SHARE

Diluted earnings per share ("EPS") was calculated using the treasury stock method for stock options.

| | **2023** | | | 2022 | | |
|---|---|---|---|---|---|---|
| | **Net Earnings to Common Shareholders** *($ millions)* | **Weighted Average Shares** *(# millions)* | **EPS** *($)* | Net Earnings to Common Shareholders *($ millions)* | Weighted Average Shares *(# millions)* | EPS *($)* |
| **Quarter ended March 31** | | | | | | |
| Basic EPS | **437** | **483.1** | **0.90** | 350 | 475.7 | 0.74 |
| Potential dilutive effect of stock options | **—** | **0.3** | | — | 0.4 | |
| Diluted EPS | **437** | **483.4** | **0.90** | 350 | 476.1 | 0.74 |

## 11. SUPPLEMENTARY CASH FLOW INFORMATION

| *($ millions)* | **2023** | 2022 |
|---|---|---|
| **Quarter ended March 31** | | |
| **Change in working capital** | | |
| Accounts receivable and other current assets | **281** | (95) |
| Prepaid expenses | **—** | 5 |
| Inventories | **91** | 69 |
| Regulatory assets - current portion | **(4)** | (12) |
| Accounts payable and other current liabilities | **(405)** | 8 |
| Regulatory liabilities - current portion | **(3)** | 2 |
| | **(40)** | (23) |
| **Non-cash investing and financing activities** | | |
| Accrued capital expenditures | **381** | 353 |
| Common share dividends reinvested | **103** | 94 |
| Contributions in aid of construction | **11** | 12 |

## 12. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Derivatives

The Corporation generally limits the use of derivatives to those that qualify as accounting, economic or cash flow hedges, or those that are approved for regulatory recovery.

Derivatives are recorded at fair value with certain exceptions including those derivatives that qualify for the normal purchase and normal sale exception. Fair values reflect estimates based on current market information about the derivatives 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 flow.

Cash flow associated with the settlement of all derivatives is included in operating activities on the condensed consolidated interim statements of cash flows.

***Energy Contracts Subject to Regulatory Deferral***

UNS Energy holds electricity power purchase contracts, customer supply contracts and gas swap contracts to reduce its exposure to energy price risk. Fair values are measured primarily under the market approach using independent third-party information, where possible. When published prices are not available, adjustments are applied based on historical price curve relationships, transmission costs and line losses.

Central Hudson holds swap contracts for electricity and natural gas to minimize price volatility by fixing the effective purchase price. Fair values are measured using forward pricing provided by independent third-party information.

FortisBC Energy holds gas supply contracts to fix the effective purchase price of natural gas. Fair values reflect the present value of future cash flows based on published market prices and forward natural gas curves.

Unrealized gains or losses associated with changes in the fair value of these energy contracts are deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates, as permitted by the regulators. As at March 31, 2023, unrealized losses of $177 million (December 31, 2022 - $84 million) were recognized as regulatory assets and unrealized gains of $83 million (December 31, 2022 - $224 million) were recognized as regulatory liabilities.

***Energy Contracts Not Subject to Regulatory Deferral***

UNS Energy holds wholesale trading contracts to fix power prices and realize potential margin, of which 10% of any realized gains is shared with customers through rate stabilization accounts. Fair values are measured using a market approach incorporating, where possible, independent third-party information.

Aitken Creek holds gas swap contracts to manage its exposure to changes in natural gas prices, capture natural gas price spreads, and manage the financial risk posed by physical transactions. Fair values are measured using forward pricing from published market sources.

Unrealized gains or losses associated with changes in the fair value of these energy contracts are recognized in revenue. During the three months ended March 31, 2023, unrealized gains of $14 million were recognized in revenue (three months ended March 31, 2022 - unrealized losses of $17 million).

### 12. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

*Total Return Swaps*

The Corporation holds total return swaps to manage the cash flow risk associated with forecast future cash settlements of certain stock-based compensation obligations. The swaps have a combined notional amount of $119 million and terms of one to three years expiring at varying dates through January 2026. Fair value is measured using an income valuation approach based on forward pricing curves. Unrealized gains and losses associated with changes in fair value are recognized in other income, net. During the three months ended March 31, 2023, unrealized gains of $6 million were recognized in other income, net (three months ended March 31, 2022 - unrealized losses of $6 million).

*Foreign Exchange Contracts*

The Corporation holds U.S. dollar denominated foreign exchange contracts to help mitigate exposure to foreign exchange rate volatility. The contracts expire at varying dates through November 2024 and have a combined notional amount of $417 million. Fair value was measured using independent third-party information. Unrealized gains and losses associated with changes in fair value are recognized in other income, net. During the three months ended March 31, 2023, unrealized gains recognized in other income, net were $2 million (three months ended March 31, 2022 - $nil).

*Interest Rate Locks*

In March 2023, the Corporation entered into an interest rate lock with a total notional value of $100 million to manage the interest rate risk associated with the refinancing of long-term debt maturing in the fall of 2023. The lock has a 10-year term and will be terminated no later than November 1, 2023. Fair value is measured using a discounted cash flow method based on Canadian dollar offered rates. Unrealized gains and losses associated with changes in fair value are recognized in other comprehensive income, and will be reclassified to earnings as a component of interest expense over the life of the debt. Unrealized gains were immaterial for the three months ended March 31, 2023.

In April 2023, ITC entered into interest rate locks with 10-year terms and a total notional value of US$260 million to manage interest rate risk associated with the anticipated issuance of long-term debt in 2023.

*Cross-Currency Interest Rate Swaps*

In May 2022, the Corporation entered into cross-currency interest rate swaps with a 7-year term to effectively convert its $500 million, 4.43% unsecured senior notes to US$391 million, 4.34% debt. The Corporation designated this notional U.S. debt as an effective hedge of its foreign net investments and unrealized gains and losses associated with exchange rate fluctuations on the notional U.S. debt are recognized in other comprehensive income, consistent with the translation adjustment related to the net investments. Other changes in the fair value of the swaps are also recognized in other comprehensive income but are excluded from the assessment of hedge effectiveness. Fair value is measured using a discounted cash flow method based on secured overnight financing rates. Unrealized gains of $1 million were recorded in other comprehensive income for the three months ended March 31, 2023.

*Other Investments*

UNS Energy holds investments in money market accounts, and ITC and Central Hudson hold investments in trust associated with supplemental retirement benefit plans for select employees, which include mutual funds and money market accounts. These investments are recorded at fair value based on quoted market prices in active markets. Gains and losses are recognized in other income, net. During the three months ended March 31, 2023, gains of $2 million was recognized in other income, net (three months ended March 31, 2022 - losses of $4 million).

### 12. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

## Recurring Fair Value Measures

The following table presents assets and liabilities that are accounted for at fair value on a recurring basis.

| ($ millions) | Level 1 [(1)] | Level 2 [(1)] | Level 3 [(1)] | Total |
|---|---|---|---|---|
| **As at March 31, 2023** | | | | |
| **Assets** | | | | |
| Energy contracts subject to regulatory deferral [(2)] [(3)] | **—** | **106** | **—** | **106** |
| Energy contracts not subject to regulatory deferral [(2)] | **—** | **62** | **—** | **62** |
| Total return swaps and interest rate lock [(2)] | **—** | **4** | **—** | **4** |
| Other investments [(4)] | **127** | **—** | **—** | **127** |
| | **127** | **172** | **—** | **299** |
| **Liabilities** | | | | |
| Energy contracts subject to regulatory deferral [(3)] [(5)] | **—** | **(200)** | **—** | **(200)** |
| Energy contracts not subject to regulatory deferral [(5)] | **—** | **(8)** | **—** | **(8)** |
| Foreign exchange contracts and cross currency swaps [(5)] | **—** | **(21)** | **—** | **(21)** |
| | **—** | **(229)** | **—** | **(229)** |
| As at December 31, 2022 | | | | |
| **Assets** | | | | |
| Energy contracts subject to regulatory deferral [(2)] [(3)] | — | 304 | — | 304 |
| Energy contracts not subject to regulatory deferral [(2)] | — | 49 | — | 49 |
| Other investments [(4)] | 150 | — | — | 150 |
| | 150 | 353 | — | 503 |
| **Liabilities** | | | | |
| Energy contracts subject to regulatory deferral [(3)] [(5)] | — | (164) | — | (164) |
| Energy contracts not subject to regulatory deferral [(5)] | — | (8) | — | (8) |
| Foreign exchange contracts, total return and cross-currency interest rate swaps [(5)] | — | (26) | — | (26) |
| | — | (198) | — | (198) |

(1) *Under the hierarchy, fair value is determined using: (i) level 1 - unadjusted quoted prices in active markets; (ii) level 2 - other pricing inputs directly or indirectly observable in the marketplace; and (iii) level 3 - unobservable inputs, used when observable inputs are not available. Classifications reflect the lowest level of input that is significant to the fair value measurement.*
(2) *Included in accounts receivable and other current assets or other assets*
(3) *Unrealized gains and losses arising from changes in fair value of these contracts are deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates as permitted by the regulators, with the exception of long-term wholesale trading contracts and certain gas swap contracts.*
(4) *Included in cash and cash equivalents and other assets*
(5) *Included in accounts payable and other current liabilities or other liabilities*

## Energy Contracts

The Corporation has elected gross presentation for its derivative contracts under master netting agreements and collateral positions, which apply only to its energy contracts. The following table presents the potential offset of counterparty netting.

| ($ millions) | Gross Amount Recognized in Balance Sheet | Counterparty Netting of Energy Contracts | Cash Collateral Received/Posted | Net Amount |
|---|---|---|---|---|
| **As at March 31, 2023** | | | | |
| Derivative assets | **168** | **37** | **28** | **103** |
| Derivative liabilities | **(208)** | **(37)** | **—** | **(171)** |
| As at December 31, 2022 | | | | |
| Derivative assets | 353 | 54 | 63 | 236 |
| Derivative liabilities | (172) | (54) | — | (118) |

### *12. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)*

#### Volume of Derivative Activity

As at March 31, 2023, the Corporation had various energy contracts that will settle on various dates through 2029. The volumes related to electricity and natural gas derivatives are outlined below.

| | As at | |
|---|---|---|
| | **March 31, 2023** | December 31, 2022 |
| **Energy contracts subject to regulatory deferral** [1] | | |
| Electricity swap contracts *(GWh)* | **130** | 586 |
| Electricity power purchase contracts *(GWh)* | **420** | 224 |
| Gas swap contracts *(PJ)* | **186** | 185 |
| Gas supply contract premiums *(PJ)* | **128** | 148 |
| **Energy contracts not subject to regulatory deferral** [1] | | |
| Wholesale trading contracts *(GWh)* | **4,074** | 1,886 |
| Gas swap contracts *(PJ)* | **19** | 34 |

[1] *GWh means gigawatt hours and PJ means petajoules.*

#### Credit Risk

For cash equivalents, accounts receivable and other current assets, and long-term other receivables, credit risk is generally limited to the carrying value on the consolidated balance sheets. The Corporation's subsidiaries generally have a large and diversified customer base, which minimizes the concentration of credit risk. Policies in place to minimize credit risk include requiring customer deposits, prepayments and/or credit checks for certain customers, performing disconnections and/or using third-party collection agencies for overdue accounts.

ITC has a concentration of credit risk as approximately 70% of its revenue is derived from three customers. The customers have investment-grade credit ratings and credit risk is further managed by MISO by requiring a letter of credit or cash deposit equal to the credit exposure, which is determined by a credit-scoring model and other factors.

FortisAlberta has a concentration of credit risk as distribution service billings are to a relatively small group of retailers. Credit risk is managed by obtaining from the retailers either a cash deposit, letter of credit, an investment-grade credit rating, or a financial guarantee from an entity with an investment-grade credit rating.

Central Hudson has seen an increase in accounts receivable due to the suspension of collection efforts in response to the COVID-19 pandemic, as well as higher commodity prices. Central Hudson continues to proactively contact customers regarding past-due balances to advise them of financial assistance available through federal and state programs, and collection efforts are expected to expand in 2023. Under its regulatory framework, Central Hudson can defer uncollectible write-offs that exceed 10 basis points above the amounts collected in customer rates for future recovery.

UNS Energy, Central Hudson, FortisBC Energy, Aitken Creek and the Corporation may be exposed to credit risk in the event of non-performance by counterparties to derivatives. Credit risk is managed by net settling payments, when possible, and dealing only with counterparties that have investment-grade credit ratings. At UNS Energy, Central Hudson and FortisBC Energy, certain contractual arrangements require counterparties to post collateral.

The value of derivatives in net liability positions under contracts with credit risk-related contingent features that, if triggered, could require the posting of a like amount of collateral was $63 million as at March 31, 2023 (December 31, 2022 - $178 million).

#### Hedge of Foreign Net Investments

The reporting currency of ITC, UNS Energy, Central Hudson, Caribbean Utilities, FortisTCI, Fortis Belize Limited and Belize Electricity is, or is pegged to, the U.S. dollar. The earnings and cash flow from, and net investments in, these entities are exposed to fluctuations in the U.S. dollar-to-Canadian dollar exchange rate. The Corporation has reduced this exposure through hedging.

As at March 31, 2023, US$3.0 billion (December 31, 2022 - US$2.9 billion) of corporately issued U.S. dollar-denominated long-term debt has been designated as an effective hedge of net investments, leaving approximately US$10.7 billion (December 31, 2022 - US$10.6 billion) unhedged. Exchange rate fluctuations associated with the hedged net investment in foreign subsidiaries and the debt serving as the hedge are recognized in accumulated other comprehensive income.

#### Financial Instruments Not Carried at Fair Value

Excluding long-term debt, the consolidated carrying value of the Corporation's remaining financial instruments approximates fair value, reflecting their short-term maturity, normal trade credit terms and/or nature.

As at March 31, 2023, the carrying value of long-term debt, including current portion, was $29.0 billion (December 31, 2022 - $28.6 billion) compared to an estimated fair value of $27.0 billion (December 31, 2022 - $25.8 billion).

# 13. COMMITMENTS AND CONTINGENCIES

## Commitments

There were no material changes in commitments from that disclosed in the Corporation's 2022 Annual Financial Statements.

## Contingencies

In April 2013, FortisBC Holdings Inc. ("FHI") and Fortis were named as defendants in an action in the British Columbia Supreme Court by the Coldwater Indian Band ("Band") regarding interests in a pipeline right-of-way on reserve lands. The pipeline was transferred by FHI (then Terasen Inc.) to Kinder Morgan Inc. in 2007. The Band seeks cancellation of the right-of-way and damages for wrongful interference with the Band's use and enjoyment of reserve lands. In 2016, the Federal Court dismissed the Band's application for judicial review of the ministerial consent. In 2017, the Federal Court of Appeal set aside the minister's consent and returned the matter to the minister for redetermination. No amount has been accrued in the Interim Financial Statements as the outcome cannot yet be reasonably determined.

# 14. SUBSEQUENT EVENT

On May 1, 2023, the Corporation announced that FHI had entered into a definitive share purchase and sale agreement with a subsidiary of Enbridge Inc. to sell its 93.8% ownership interest in Aitken Creek for approximately $400 million, subject to customary closing conditions and adjustments. The purchase is subject to required approval, principally by the BCUC, and is expected to close by the end of the year with a March 31, 2023 effective date.