COLUMBIA POWER CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2019

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Statement of Management Responsibility

The consolidated financial statements of Columbia Power Corporation have been prepared by management in accordance with International Financial Reporting Standards (IFRS) and fairly present Columbia Power Corporation's consolidated financial position, financial performance, and cashflows. The integrity of the information presented in the consolidated financial statements, including estimates and judgments relating to matters not concluded by fiscal year end, is the responsibility of management.

Management is responsible for establishing and maintaining appropriate systems of internal control (which include policies and procedures) to provide reasonable assurance that Columbia Power Corporation's assets are safeguarded and that reliable financial records are maintained.

The Auditor General of British Columbia has been appointed by the Board of Directors to audit the consolidated financial statements. The report of the Auditor General of British Columbia is attached, outlining the scope of his examination and providing his opinion on the consolidated financial statements.

Johnny Strilaeff
Acting President and CEO

Myla Jillings, CPA, CMA
Controller

May 23, 2019

OFFICE OF THE
Auditor General
of British Columbia

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Columbia Power Corporation, and
To the Minister of Children and Family Development, Province of British Columbia

Opinion

I have audited the accompanying consolidated financial statements of Columbia Power Corporation (“the group”), which comprise the consolidated statement of financial position at March 31, 2019, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the group as at March 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of my report. I am independent of the group in accordance with the ethical requirements that are relevant to my audit of the consolidated financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other Accompanying Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and my auditor’s report thereon.

My opinion on the consolidated financial statements does not cover the other information accompanying the financial statements and I do not express any form of assurance conclusion thereon.

In connection with my audit of the consolidated financial statements, my responsibility is to read the other information that I have obtained prior to the date of my auditor’s report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or my knowledge obtained during the audit or otherwise appears to be materially misstated.

Prior to the date of my auditor's report, I obtained the draft 2018/19 Annual Service Plan Report. If, based on the work I have performed on this other information, I conclude that there is a material misstatement therein, I am required to report that fact in this auditor's report. I have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements.

Those charged with governance are responsible for the oversight of the financial reporting process. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting when the group will continue its operations for the foreseeable future.

Auditor's Responsibilities for the Audit of Financial Statements

My objectives are to obtain reasonable assurance about whether the group's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement, when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decision of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit and I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Russ Jones

Russ Jones, FCPA, FCA
Deputy Auditor General

Victoria, British Columbia, Canada
June 3, 2019

COLUMBIA POWER CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at March 31

(in thousands)

	Notes		2019		2018
ASSETS					
Current assets					
Cash and cash equivalents	8	$	38,128	$	94,804
Accounts receivable	9		3,109		353
Prepaid expense			3		4
Short-term investments	10		45,000		-
Total current assets			86,240		95,161
Non-current assets					
Restricted cash	8		585		617
Investment in equity accounted joint arrangements	4, 5		236,435		232,055
Investment prior to limited partnership	6, 7		1,325		1,325
Investment in Waneta Expansion Limited Partnership	6, 7		236,726		238,630
Other investments	11		21,635		15,976
Property, plant & equipment	12		165		354
Total non-current assets			496,871		488,957
TOTAL ASSETS		$	583,111		584,118
LIABILITIES AND SHAREHOLDER'S EQUITY					
Current liabilities					
Accounts payable and accrued liabilities	13	$	27,793	$	10,532
Dividends payable	24		70,000		52,847
Total current liabilities			97,793		63,379
Non-current Liabilities					
Loans and borrowings	14		301,076		300,288
Provisions	15		-		21,684
Total non-current liabilities			301,076		321,972
Equity					
Share capital	16				
Contributed surplus	17		26,065		26,065
Retained earnings			158,177		172,702
Total Equity			184,242		198,767
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		$	583,111	$	584,118

Commitments	27
Contingencies	28

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

APPROVED ON BEHALF OF THE BOARD:

A Stanley — Director

Lillian White — Director

(Tabular amounts in thousands)

(c) Liquidity risk:

Liquidity risk refers to the risk that Columbia Power will encounter difficulty in meeting obligations associated with financial liabilities. Columbia Power regularly monitors its cash flows and balances and maintains a cash surplus which can be utilized by the joint ventures of Columbia Power/the Trust for short-term financing. Columbia Power management does not believe that it will encounter difficulty in meeting its obligations associated with financial liabilities.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
March 31, 2018							
Accounts payable and accrued liabilities	10,532	10,532	10,532	-	-	-	-
Loans and borrowings*	300,288	281,046	2,326	5,360	10,720	32,160	230,480
Provisions	21,684	23,400	-	-	-	23,400	-
	332,504	314,978	12,858	5,360	10,720	55,560	230,480

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
March 31, 2019							
Accounts payable and accrued liabilities	27,793	27,793	27,793	-	-	-	-
Loans and borrowings*	301,076	270,327	2,326	5,360	10,720	32,160	219,760
	328,869	298,120	30,119	5,360	10,720	32,160	219,760

*Note that cash flows do not reflect contributions to the sinking fund set up to extinguish the remaining debt in 2044. See note 27 – Commitments.

(d) Market risks:

Market risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: exchange rate risk, interest rate risk and price risk. Columbia Power does not use derivative products to manage these risks.

(i) Exchange rate risk:

Exchange rate risk refers to the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Columbia Power realizes all significant revenues and expenses in Canadian dollars and is therefore not significantly exposed to currency fluctuations.

(ii) Interest rate risk:

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Columbia Power's debt is composed of the Series A debenture. While the coupon rate of this debenture is fixed, the price of the debenture is affected by the interest rate. Therefore, Columbia Power is exposed to interest rate risk. Columbia Power manages interest rate risk by issuing long term fixed rate debt, as required to fulfill its capital objectives, at favourable terms obtained through its investment grade credit rating.

(Tabular amounts in thousands)

Sensitivity analysis

An increase of 100 basis points in the fair value interest rate will incite a $25.5 million (2018 - $24.9 million) decrease in the debenture price and a decrease of 100 basis points will incite a $29.9 million (2018 - $29.3 million) increase in debenture price.

(iii) Price risk:

Price risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. None of Columbia Power's financial instruments values will change according to changes in market prices and therefore Columbia Power is not exposed to price risk.

(e) Capital management:

Columbia Power's capital consists of shareholder's equity plus loans and borrowings.

Columbia Power's capital management objectives are to:

- Maintain a debt to equity ratio that is not lower than 70/30
- Finance the debt portion of future power project investments with fiscal agency loans through the Province
- Target a long term capital structure with sufficient equity and working capital reserves to maintain commercial viability of Columbia Power and its equity accounted joint ventures

Columbia Power is in close communication with its shareholder to determine appropriate capital reserves and dividend payments in order to achieve management's objectives. Neither Columbia Power, nor any of its equity accounted investments, are subject to externally imposed capital requirements.

(f) Fair values:

The carrying values of financial instruments approximate fair value as at March 31, 2019 and March 31, 2018 except for other investments, loans and borrowings and provisions. The fair value of other investments is provided by the Province's Debt Management Branch at March 31, 2019 and 2018. The fair value of loans and borrowings and provisions is calculated by discounting the future cashflows for the same or similar issues at the date of the statement of financial position, or by using available quoted market prices. The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	2019		2018	
	Carrying amount	Fair Value	Carrying amount	Fair value
Assets carried at amortized cost	-	-	-	-
Accounts receivable (Level 1)	3,109	3,109	353	353
Other investments - bond sinking fund (Level 1)	21,635	23,227	15,975	16,470

(Tabular amounts in thousands)

	2019		2018	
	Carrying amount	Fair Value	Carrying amount	Fair value
	24,744	26,336	16,328	16,823
Liabilities carried at amortized cost				
Accounts payable and accrued liabilities (Level 1)	27,793	27,793	10,532	10,532
Loans and borrowings (Level 2)	301,076	262,229	300,288	254,979
Provision - Promissory Note (Level 2)	-	-	21,684	21,695
	328,869	290,022	332,504	287,206

Columbia Power holds a bond sinking fund with the province's Debt Management Branch (DMB) to its maturity in 2044. The amortized book value of the sinking fund at March 31, 2019 is $21,635 thousand (2018 - $15,975) which takes into account actual returns to the fund to date. DMB provided the sinking fund market value of $23,227 (2018 - $16,470).

Management has made the following assumptions in determining the fair value of the 2019 loans and borrowings:

- The discounted cashflow methodology is appropriate given that the amounts and timing of the cashflows are reasonably determinable
- Basing the interest rate used to discount estimated cash flows outstanding on the Series A debenture on the government yield curve at the reporting date plus an adequate credit spread is appropriate. At March 31, 2019, management selected an interest rate of 3.7% (2018 - 4.2%).
- Basing the interest rate used to discount estimated cash flows outstanding on the provision for the Promissory Note payable on the government average yield curve for 2 year bonds at the reporting date plus an adequate credit spread for non-recourse debt. At March 31, 2019, management selected an interest rate of 3.8% (2018 - 3.8%).

26. Operating leases:

Columbia Power has entered into an operating lease for office premises that provides for minimum annual lease payments totaling up to a maximum of $167,000 per year. The 10 year lease term ended on March 31, 2019. Columbia Power is in the process of renewing the lease with a smaller space requirement. At this time a long-term lease agreement has not been finalized.

The office premise lease was entered into as a combined lease of land and building. It was determined that substantially all the risks and rewards of the building reside with the landlord. As such, Columbia Power determined that the lease is an operating lease.

During the year ended March 31, 2019, an amount of $205 thousand (2018 - $247 thousand) was recognized as an expense in profit or loss in respect of operating leases. These expenditures are considered related party transactions and included in "Purchases from related party" in note 29.

(Tabular amounts in thousands)

	2019	2018
Less than 1 year	-	167
	-	167

27. Commitments:

Under the terms of debt issuance with the Province, Columbia Power has committed to make annual sinking fund payments which started June 18, 2015. Payments required over the next 5 years and thereafter are as follows:

	Sinking fund payments
2020	5,043
2021	5,043
2022	5,043
2023	5,043
2024	5,043
Thereafter	105,903
	131,118

28. Contingencies:

Columbia Power's operating and development power project activities are affected by federal, provincial and local government laws and regulations. Under its agreements with its bondholders, BPC and ALPC have agreed to comply or cause compliance in all material respects with such laws and regulations as well as to maintain all material franchises. Under current regulations, the shareholders are required to meet performance standards to minimize or mitigate negative impacts of their proposed projects. The impact, if any, of future legislative or regulatory requirements on specific projects and their related deferred costs cannot currently be estimated.

29. Related parties and related party transactions:

(a) Parent company:

Columbia Power is related through common ownership to its joint ventures with the Trust. Columbia Power is also related through indirect common ownership to all Province of British Columbia ministries, agencies, Crown corporations and public sector organizations that are included in the provincial government reporting entity.

These consolidated financial statements include amounts receivable from, amounts payable to and transactions with BC Hydro; the Trust and its affiliates; the Province; the joint ventures and WELP. All related party transactions are at market rates, except for certain transactions with the joint ventures and WELP which are determined on a cost recovery basis. The subsidiary and joint ventures stated in notes 4, 5, 6 and 7 are related parties to Columbia Power. All intercompany balances and transactions between Columbia Power and its subsidiary have been eliminated on consolidation and not shown in this note. Intercompany transactions between Columbia Power and equity accounted investees are eliminated only to the extent that one of the parties includes the amount in assets. Details of transactions between Columbia Power and related parties which have not been eliminated are summarized in the following tables.

(Tabular amounts in thousands)

(b) Due from and sales to related parties:

	2019		2018	
	Due from related party	Sales to related party	Due from related party	Sales to related party
The Trust and affiliates	65	-	-	-
BEPC	570	1,180	-	1,180
ALPC	800	1,180	-	1,180
BPC	596	670	-	670
WELP	157	895	135	1,134
	2,188	3,925	135	4,164

The Due from Related Party of $2,188 at March 31, 2019 (2018 - $135 thousand) is included in the "Accounts receivable" line item in the Consolidated Statement of Financial Position.

The Sales to WELP of $895 thousand for the year ended March 31, 2019 (2018 - $1,134 thousand) are included in the "Revenue" line item on the Consolidated Statement of Comprehensive Income.

During the year, Columbia Power as the manager charged its joint ventures amounts on a cost recovery basis for staff compensation, office space and project overhead. The total amount recovered for the year ended March 31, 2019 of $3,030 thousand (2018 - $3,030 thousand) has been included in the "Revenue" line item on the Consolidated Statement of Comprehensive Income.

(c) Due to and purchases from related parties:

	2019		2018	
	Due to related party	Purchases from related party	Due to related party	Purchases from related party
The Trust and affiliates*	454	1,642	31	1,185
Province	3,145	11,854	3,122	11,830
BC Pension Corp	116	100	127	192
	3,715	13,596	3,280	13,207

* the Trust and Columbia Power implemented an expanded Shared Services Agreement (Agreement) effective September 1, 2017, wherein the Trust will provide support in the areas of human resources, accounting, payroll, records management, and other support functions to Columbia Power. This Agreement expanded on the existing shared services arrangement for information technology services that the Trust provides to Columbia Power. Ten former Columbia Power staff are now employed directly by the Trust and continue to provide services under the

(Tabular amounts in thousands)

Agreement to Columbia Power. The direct costs associated with these employees are billed back to Columbia Power. The President and CEO of the Trust is currently the Acting CEO of Columbia Power. Compensation for the President and CEO is split equally between the Trust and Columbia Power.

The Due to Related Party of $3,715 thousand at March 31, 2019 (2018 - $3,280 thousand) is included in the "Accounts payable" line item in the Consolidated Statement of Financial Position. Purchases from Related Party of $13,596 thousand for the year ended March 31, 2019 (2018 - $13,207 thousand) are included in the "Finance costs" line item on the Consolidated Statement of Comprehensive Income, the "Property, plant, & equipment" line item on the Consolidated Statement of Financial Position, and the "Administration and management" line item in note 22 - Other expenses.

(d) Pension plan:

Columbia Power has a pension plan which is a related party by virtue of IAS 24, Related Party Disclosures. Refer to note 23 – Employee benefits for detailed information on the transactions with the pension plan.

(e) Loans from related party:

At March 31, 2019 and March 31, 2018, Columbia Power has a debenture outstanding payable to the Province. Details of these loans are provided in note 14 – Loans and borrowings.

(f) Dividends:

During the year, Columbia Power declared and accrued dividends payable of $70 million to the Province (2018 – $52.8 million) as per note 24 – Dividends payable.

(g) Executive management compensation and board compensation:

(i) Executive management compensation:

At the beginning of the year, corporate management was comprised of the Acting President and Chief Executive Officer, the Director, Operations, the Vice President, Capital Projects and the Director, Finance Projects. In addition to their salaries, Columbia Power provides non-cash benefits to directors and executive officers, and contributes to the Public Service Pension Plan (PSPP) on behalf of executives (see note 23 – Employee benefits). Executive officers are entitled to receive a pension in accordance with the terms of the PSPP.

Pension and other benefits paid on behalf of executive management by Columbia Power are as follows:

	2019	2018
Public Service Superannuation Plan	22	76
Standard Benefits	11	27
	33	103

There have been no loans or pledges granted to executive management or family members. The total salaries and other benefits paid to executive management for the year ended March 31, 2019 amounted to $383 thousand (2018 - $855 thousand) as follows:

(Tabular amounts in thousands)

Executive management compensation	2019	2018
Salary	308	784
Holdback/Bonus	30	29
Other	33	24
Expenses	12	18
	383	855

(ii) Board compensation:

The board has no remuneration agreements other than the director's fee and remuneration for participating in committee work, nor have any loans or pledges been granted to directors of the board or their family members. Total compensation to the board for the year ended March 31, 2019 was $58 thousand (March 31, 2018 - $85 thousand) as follows:

	2019	2018
Retainers	41	52
Meeting fees	8	15
Expenses	9	18
	58	85

30. Events after the reporting period:

On April 16, 2019 Columbia Power and the Trust finalized an agreement to purchase Fortis Inc.'s 51% interest in the Waneta Expansion Limited Partnership for $991 million. Columbia Power currently holds a 32.5% ownership in WELP and is purchasing an additional 17.5%, equal to $340 million of the purchase price. In addition to the purchase, the Promissory Note that was due to WEPC was also fully recognized by WELP. This purchase restored ownership to the originally mandated 50/50 partnership between Columbia Power and the Trust. A new Corporation was formed, Waneta Expansion Power Corporation, to hold the investment in the Waneta Expansion.