

COLUMBIA POWER CORPORATION

INTERIM REPORT

FOR THE THREE MONTHS ENDED JUNE 30, 2012

**COLUMBIA POWER CORPORATION
FINANCIAL HIGHLIGHTS AND OPERATIONAL REVIEW
FOR THE THREE MONTHS ENDED JUNE 30, 2012**

CPC earned consolidated net income of \$2.6 million for the three month period ended June 30, 2012 compared to a consolidated net loss of \$1.1 million for the corresponding period of the previous year and forecast net income of \$2.6 million. The increase over the prior year was due primarily to CPC's 50% share of Arrow Lakes Power Corporation's (ALPC) \$3.6 million of prior year costs associated with the retirement of series A bonds and Brilliant Expansion Power Corporation's (BEPC) net income reduced by \$3.4 million due to a shaft seal failure.

Brilliant Expansion Power Corporation ("BEPC") earned net income of \$6.4 million during the three month period ended June 30, 2012, compared to net income of \$3.4 million for the corresponding period of the previous year and forecast income of \$7.4 million. The decrease in net income compared to budget is due primarily to \$1.1 million of revenue losses associated with a mechanical failure which caused a forced outage in June 2012. This failure caused a further \$700,000 in losses in July 2012. The increase in net income over the prior year is due primarily to revenue losses and additional repair costs attributed to a turbine shaft seal failure that caused a forced outage for 22 days in June 2011.

The forced outage at Brilliant Expansion was 7 days in June 2012 and 5 days in July 2012. A root cause analysis is underway to determine causation and evaluate possible remedies. Although the unit has now returned to service, this incident occurred during a high entitlement period and resulted in a loss of power sales revenue of approximately \$1.8 million. The incident occurred during an extremely high water event which resulted in at flows not seen in decades. Extremely high flows continue which may cause us to operate the unit below capacity until the flows abate, this may in turn cause a partial derate for this period. We are evaluating this operating issue.. The Board has received several updates on the Brilliant Expansion outage, and will receive a full report at the July meeting.

In April 2011, ALPC issued \$350 million Series B bonds and retired its outstanding Series A bonds. A \$131 million dividend was paid by ALPC to CPC and CPC also borrowed \$20 million from the Columbia Basin Trust with these proceeds to be used to invest in the Waneta Expansion Limited Partnership.

In October 2010, CPC Waneta (32.5% interest), CBT Waneta Expansion Power Corp. (16.5% interest), and Fortis Inc. (51% interest) formed a limited liability partnership called the Waneta Expansion Limited Partnership (WELP). On October 1, 2010, all deferred development costs and expansion rights related to the Waneta Expansion Project were transferred to WELP in exchange for a \$72 million non-interest bearing Promissory note to WEPC.

The Promissory Note is non-interest bearing and is payable on the fifth anniversary of the commercial operation date of the Waneta Expansion Project. The commercial operation

date is estimated to occur in 2015, therefore the Promissory Note is estimated to be repaid in 2020, ten years from the date of issuance.

The Promissory Note was discounted, using an effective interest rate of 5.5%, to a present value at March 31, 2012 of \$45.2 million (March 31, 2011 - \$42.8 million). The Promissory Note increased in value to \$45.8 million due to accrued interest in the three month period ended June 30, 2012 (June 30, 2011 - \$43.3 million).

During the three month period, CPC invested \$27.0 million in the WELP through CPC Waneta Holdings Ltd. (CPC Waneta), compared to \$32.2 million in the same period of the previous year. CPC is the sole shareholder of CPC Waneta. The investment brings the total amount invested to date by CPC in the Waneta Expansion project to \$123.1 million.

The Waneta Expansion project is a project to install an additional power generation facility with a capacity of 335 megawatts at the existing Waneta dam and to build a 10 km transmission line from the new powerplant to the Selkirk substation owned by British Columbia Hydro and Power Authority. The Waneta dam is owned by Teck Resources Ltd. (Teck) (formerly Teck Cominco Metals Ltd.) and BC Hydro. The powerplant is being constructed under a \$587 million Design-Build Contract between the Limited Partnership and SNC-Lavalin Inc.

David de Git, CMA
Director, Finance

July 17, 2012

COLUMBIA POWER CORPORATION
Consolidated Statement of Financial Position (Unaudited)
(Expressed in thousands of dollars)

	June 30, 2012	March 31, 2012
Assets		
Current assets		
Cash and cash equivalents	\$ 15,340	\$ 40,575
Accounts receivable	1,307	6,505
Prepaid expense	266	10
Other investments	100,333	100,051
Due from joint venture investee	-	-
Total current assets	117,246	147,141
Non-current assets		
Restricted cash	186	186
Investment in equity accounted joint arrangements	215,294	212,571
Investment prior to limited partnership	1,325	1,325
Investment in Waneta Expansion Limited Partnership	121,767	94,790
Property, plant & equipment	1,464	1,586
Total non-current assets	340,036	310,458
TOTAL ASSETS	\$ 457,282	\$ 457,599
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,616	\$ 6,524
Dividend payable	-	2,000
Total current liabilities	5,616	8,524
Non-current liabilities		
Loans and borrowings	19,887	19,887
Total non-current liabilities	19,887	19,887
Equity		
Share capital	-	-
Contributed surplus	276,065	276,065
Retained earnings	155,714	153,123
Total Equity	431,779	429,188
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 457,282	\$ 457,599

COLUMBIA POWER CORPORATION
Consolidated Statement of Comprehensive Income (Unaudited)
For the three months ended June 30
(Expressed in thousands of dollars)

	2012	2011
Revenue	\$ 537	\$ 468
Other income	2,721	-
Depreciation expense	(118)	(194)
Other expenses	(572)	(1,634)
Results from operating activities	<u>2,568</u>	<u>(1,360)</u>
Finance income	306	509
Finance costs	(283)	(288)
Net finance income	<u>23</u>	<u>221</u>
Total comprehensive income for the year	<u>\$ 2,591</u>	<u>\$ (1,139)</u>

COLUMBIA POWER CORPORATION
Consolidated Statement of Changes in Equity (Unaudited)
For the three months ended June 30
(Expressed in thousands of dollars)

	Share Capital	Contributed Surplus	Retained Earnings	Total Equity
Balance at March 31, 2011	-	276,065	140,437	416,502
Comprehensive income for the year		-	1,139	1,139
Dividend to equity holders		-	-	-
Balance at June 30, 2011	- \$	276,065 \$	139,298 \$	415,363
Balance at March 31, 2012	- \$	276,065 \$	153,123 \$	429,188
Comprehensive income for the year		-	2,591	2,591
Dividend to equity holders		-	-	-
Balance at June 30, 2012	- \$	276,065 \$	155,714 \$	431,779

COLUMBIA POWER CORPORATION
Consolidated Statement of Cash Flows (Unaudited)
For the three months ended June 30
(Expressed in thousands of dollars)

	2012	2011
Cash flows from Operating Activities		
Total comprehensive income for the year	\$ 2,591	\$ (1,139)
Adjustments to reconcile cash flow from operations		
Amortization of property, plant and equipment	118	194
Ineligible costs capitalized in WELP	-	-
Interest income	(306)	(509)
Interest expense	283	288
(Income) loss from equity accounted investees	(2,721)	965
Net change in non-cash working capital balances		
Accounts receivable	5,198	532
Prepaid expense	(256)	(247)
Dividends payable	(2,000)	(2,000)
Accounts payable and accrued liabilities	(625)	(81)
Due from joint venture investee	-	(92)
Net cash from operating activities	<u>2,282</u>	<u>(2,089)</u>
Cash flows from financing activities		
Interest paid	(566)	
Borrowing	-	20,000
Borrowing costs	-	-
Related party loan received	-	-
Dividends declared	-	-
Net cash used in financing activities	<u>(566)</u>	<u>20,000</u>
Cash flows from investing activities		
Interest received	306	222
Dividends received	-	131,000
(Purchase) Sale of temporary investments	(282)	(130,261)
Investment prior to limited partnership	-	-
Investment in limited partnership	(26,977)	(32,177)
Investment in Brilliant Expansion	-	-
Investment in WEPC (PPPJV)	-	-
(Acquisition)/disposal of property, plant and equipment	2	2
Net cash used in investing activities	<u>(26,951)</u>	<u>(31,214)</u>
Increase (decrease) in cash and cash equivalents	(25,235)	(13,303)
Cash and cash equivalents, beginning of period	40,761	14,360
Cash and cash equivalents, end of period	<u>\$ 15,526</u>	<u>\$ 1,057</u>
CASH CONSISTS OF:		
Restricted cash	186	185
Cash available for operations	<u>15,340</u>	<u>872</u>
	<u>\$ 15,526</u>	<u>\$ 1,057</u>

COLUMBIA POWER CORPORATION
Statement of Income to Budget (Unaudited)
For the three months ended June 30, 2012
(Expressed in thousands of dollars)

	Actual	Budget	Variance
REVENUES			
Services Agreement	537	499	39
	<u>537</u>	<u>499</u>	<u>39</u>
Investment Income:			
ALPC (50%)	(3,118)	(3,335)	217
BEPC (50%)	3,193	3,679	(486)
BPC (50%)	2,284	2,369	(85)
WEPC (58%)	362	370	(8)
	<u>2,721</u>	<u>3,083</u>	<u>(361)</u>
OPERATING EXPENSES			
Other expenses	572	928	356
	<u>572</u>	<u>928</u>	<u>356</u>
EBITDA	2,686	2,653	33
AMORTIZATION & FINANCING EXPENSES			
Amortization expense	118	96	(22)
Financing expense	283	284	1
Less: interest revenue	306	323	17
	<u>95</u>	<u>57</u>	<u>(39)</u>
NET INCOME	\$ <u>2,591</u>	\$ <u>2,597</u>	\$ <u>34</u>