

**COLUMBIA POWER CORPORATION**

**INTERIM REPORT**

**FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2012**

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

CPC earned consolidated net income of \$10.4 million for the six month period ended September 30, 2012 compared to a consolidated net income of \$7.2 million for the corresponding period of the previous year and forecast net income of \$10.4 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 \$12.8 million during the six month period ended September 30, 2012, compared to net income of \$10.2 million for the corresponding period of the previous year and forecast income of \$13.6 million. The decrease in net income compared to budget is due primarily to \$1.8 million of revenue losses associated with a mechanical failure which caused a forced outage from June 23rd to July 6<sup>th</sup>, 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.

A root cause analysis performed on the Brilliant Expansion forced outage determined that a field design change (i.e. a deviation from the original design) occurred for the oil head piping support for the turbine. Further to the poor design, the method of installation caused a 90 – 95% loss of service life of the support. The incident occurred during an extremely high water event which resulted in flows not seen in decades. Extremely high flows continued throughout July and caused adjustments to the operation of the Unit however, a derate was not required for this period. Discussions with the construction contractor over the commercial resolution of this incident and a number of other construction deficiencies continue. The Board has received several updates on the Brilliant Expansion outage.

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 by \$1.2 million to \$46.4 million at September 30, 2012 (September 30, 2011 - \$43.9 million).

During the six month period ended September 30, 2012, CPC Waneta invested \$35.8 million in WELP, compared to \$45.7 million in the same period in the previous year. This brings the total amount invested to date in the Waneta Expansion project to \$132.0 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

October 18, 2012

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

	September 30, 2012	March 31, 2012	September 30, 2011
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 22,556	\$ 40,575	\$ 3,703
Accounts receivable	1,170	6,505	1,570
Prepaid expense	140	10	138
Other investments	95,641	100,051	127,982
Due from joint venture investee	-	-	33,025
<b>Total current assets</b>	<b>119,507</b>	<b>147,141</b>	<b>166,418</b>
<b>Non-current assets</b>			
Restricted cash	186	186	184
Investment in equity accounted joint arrangements	212,339	212,571	201,531
Investment prior to limited partnership	1,325	1,325	1,325
Investment in Waneta Expansion Limited Partnership	130,625	94,790	79,379
Property, plant & equipment	1,346	1,586	1,813
<b>Total non-current assets</b>	<b>345,821</b>	<b>310,458</b>	<b>284,232</b>
<b>TOTAL ASSETS</b>	<b>\$ 465,328</b>	<b>\$ 457,599</b>	<b>\$ 450,650</b>
<b>Liabilities and Shareholder's Equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 5,866	\$ 6,524	\$ 6,902
Dividend payable	-	2,000	-
<b>Total current liabilities</b>	<b>5,866</b>	<b>8,524</b>	<b>6,902</b>
<b>Non-current liabilities</b>			
Loans and borrowings	19,887	19,887	20,000
<b>Total non-current liabilities</b>	<b>19,887</b>	<b>19,887</b>	<b>20,000</b>
<b>Equity</b>			
Share capital	-	-	-
Contributed surplus	276,065	276,065	276,065
Retained earnings	163,510	153,123	147,683
<b>Total Equity</b>	<b>439,575</b>	<b>429,188</b>	<b>423,748</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>\$ 465,328</b>	<b>\$ 457,599</b>	<b>\$ 450,650</b>

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

	<b>2012</b>	<b>2011</b>
Revenue	\$ 1,055	\$ 921
Other income	11,017	7,583
Depreciation expense	(236)	(389)
Other expenses	(1,532)	(1,404)
<b>Results from operating activities</b>	<u>10,304</u>	<u>6,711</u>
Finance income	650	1,106
Finance costs	(567)	(571)
<b>Net finance income</b>	<u>83</u>	<u>535</u>
<b>Total comprehensive income for the period</b>	<u>\$ 10,387</u>	<u>\$ 7,246</u>

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

	Share Capital	Contributed Surplus	Retained Earnings	Total Equity
<b>Balance at March 31, 2011</b>	-	276,065	140,437	416,502
Comprehensive income for the period		-	7,246	7,246
Dividend to equity holders		-	-	-
<b>Balance at September 30, 2011</b>	- \$	276,065 \$	147,683 \$	423,748
<b>Balance at March 31, 2012</b>	- \$	276,065 \$	153,123 \$	429,188
Comprehensive income for the period		-	10,387	10,387
Dividend to equity holders		-	-	-
<b>Balance at September 30, 2012</b>	- \$	276,065 \$	163,510 \$	439,575

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

	<b>2012</b>	<b>2011</b>
<b>Cash flows from Operating Activities</b>		
Total comprehensive income for the year	\$ 10,387	\$ 7,246
<b>Adjustments to reconcile cash flow from operations</b>		
Amortization of property, plant and equipment	236	389
Ineligible costs capitalized in WELP	-	-
Interest income	(650)	(1,106)
Interest expense	567	571
Income from equity accounted investees	(11,017)	(7,583)
<b>Net change in non-cash working capital balances</b>		
Accounts receivable	5,335	1,014
Prepaid expense	(130)	(124)
Dividends payable	(2,000)	(2,000)
Accounts payable and accrued liabilities	(658)	(75)
Due from joint venture investee	-	(207)
<b>Net cash from operating activities</b>	<u>2,070</u>	<u>(1,875)</u>
<b>Cash flows from financing activities</b>		
Interest paid	(567)	(571)
Borrowing	-	20,000
Borrowing costs	-	-
Related party loan received	-	-
Dividends declared	-	-
<b>Net cash used in financing activities</b>	<u>(567)</u>	<u>19,429</u>
<b>Cash flows from investing activities</b>		
Interest received	650	1,106
Dividends received	11,250	143,787
(Purchase) Sale of temporary investments	4,410	(127,203)
Investment prior to limited partnership	-	-
Investment in limited partnership	(35,835)	(45,710)
(Acquisition)/disposal of property, plant and equipment	3	(7)
<b>Net cash used in investing activities</b>	<u>(19,522)</u>	<u>(28,027)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	(18,019)	(10,473)
<b>Cash and cash equivalents, beginning of period</b>	40,761	14,360
<b>Cash and cash equivalents, end of period</b>	<u>\$ 22,742</u>	<u>\$ 3,887</u>
<b>CASH CONSISTS OF:</b>		
Restricted cash	186	184
Cash available for operations	<u>22,556</u>	<u>3,703</u>
	<u>\$ 22,742</u>	<u>\$ 3,887</u>

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

	Actual	Budget	Variance
<b>REVENUES</b>			
Services Agreement	1,055	997	58
	<u>1,055</u>	<u>997</u>	<u>58</u>
Investment Income:			
ALPC (50%)	(410)	(814)	404
BEPC (50%)	6,394	6,801	(407)
BPC (50%)	4,541	4,581	(40)
WEPC (58%)	491	628	(137)
	<u>11,016</u>	<u>11,196</u>	<u>(180)</u>
<b>OPERATING EXPENSES</b>			
Other expenses	1,532	1,856	324
	<u>1,532</u>	<u>1,856</u>	<u>324</u>
<b>EBITDA</b>	10,539	10,337	202
<b>AMORTIZATION &amp; FINANCING EXPENSES</b>			
Amortization expense	236	192	(44)
Financing expense	567	567	-
Less: interest revenue	650	646	(4)
	<u>153</u>	<u>113</u>	<u>(40)</u>
<b>NET INCOME</b>	\$ <u>10,386</u>	\$ <u>10,224</u>	<u>202</u>

**Breakdown of Other Expense:**

Budget element	Actual	Budget	Variance
Salaries & benefits	2,312,319	2,321,000	8,681
Travel & Business Expense	74,079	97,500	23,421
Board Expenses	34,375	72,000	37,625
Advisory Services & Audit	267,015	323,500	56,485
Systems and Networks	117,945	175,500	57,555
Rent Expense	122,638	150,500	27,862
Corporate Operations	66,790	109,000	42,210
Stakeholder Consultation & Advertising	8,143	12,500	4,357
First Nations Sponsorship	12,400	12,500	100
Training, Conferences, Memberships	20,882	74,250	53,368
Miscellaneous Expenses	19,647	16,000	- 3,647
Depreciation	235,982	191,500	- 44,482
Business Development third party costs	14,922	115,000	100,078
Loss on Disposal Fixed Assets	-	12,500	12,500
Corporate Communications	18,004	72,000	53,996
Community Sponsorship	62,966	51,000	- 11,966
Grants-in-Lieu	197,516	236,250	38,734
Interest expense	567,736	566,500	- 1,236
Financing cost	1,822	-	- 1,822
Boat Launch recovery	- 30,673	-	30,673
	<u>4,124,508</u>	<u>4,609,000</u>	<u>484,492</u>
JV Recoveries	- 1,788,030	- 1,995,000	- 206,970
Net expense after JV recoveries	2,336,478	2,614,000	277,522
<b>Remove other line items:</b>			
Interest expense	- 567,736	- 566,500	1,236
Depreciation/amortization	- 235,982	- 191,500	44,482
<b>Other expense</b>	<u>1,532,760</u>	<u>1,856,000</u>	<u>323,240</u>