

COLUMBIA POWER CORPORATION

INTERIM REPORT

FOR THE NINE MONTHS ENDED DECEMBER 31, 2012

**COLUMBIA POWER CORPORATION
FINANCIAL HIGHLIGHTS AND OPERATIONAL REVIEW
FOR THE NINE MONTHS ENDED DECEMBER 31, 2012**

CPC earned consolidated net income of \$10.4 million for the nine month period ended December 31, 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 6th, 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. 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 \$1.9 million to \$47.1 million at December 31, 2012 (December 31, 2011 - \$44.5 million).

During the nine month period ended December 31, 2012, CPC Waneta invested \$51.1 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 \$147.2 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

January 9, 2013

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

	December 31, 2012	March 31, 2012
Assets		
Current assets		
Cash and cash equivalents	\$ 14,207	\$ 40,575
Accounts receivable	611	6,505
Prepaid expense	8	10
Other investments	88,465	100,051
Total current assets	103,291	147,141
Non-current assets		
Restricted cash	187	186
Investment in equity accounted joint arrangements	219,057	212,571
Investment prior to limited partnership	1,325	1,325
Investment in Waneta Expansion Limited Partnership	145,867	94,790
Property, plant & equipment	1,229	1,586
Total non-current assets	367,665	310,458
TOTAL ASSETS	\$ 470,956	\$ 457,599
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,354	\$ 6,524
Dividend payable	-	2,000
Total current liabilities	5,354	8,524
Non-current liabilities		
Loans and borrowings	19,890	19,887
Total non-current liabilities	19,890	19,887
Equity		
Share capital	-	-
Contributed surplus	276,065	276,065
Retained earnings	169,647	153,123
Total Equity	445,712	429,188
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 470,956	\$ 457,599

COLUMBIA POWER CORPORATION
Consolidated Statement of Comprehensive Income (Unaudited)
For the nine months ended December 31
(Expressed in thousands of dollars)

	2012	2011
Revenue	\$ 1,522	\$ 1,341
Other income	17,735	14,472
Depreciation expense	(354)	(584)
Other expenses	(2,513)	(2,167)
Results from operating activities	<u>16,390</u>	<u>13,062</u>
Finance income	991	1,553
Finance costs	(857)	(857)
Net finance income	<u>134</u>	<u>696</u>
Total comprehensive income for the period	<u>\$ 16,524</u>	<u>\$ 13,758</u>

COLUMBIA POWER CORPORATION
Consolidated Statement of Changes in Equity (Unaudited)
For the nine months ended December 31
(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 period		-	13,758	13,758
Dividend to equity holders		-	-	-
Balance at December 31, 2011	- \$	276,065 \$	154,195 \$	430,260
Balance at March 31, 2012	- \$	276,065 \$	153,123 \$	429,188
Comprehensive income for the period		-	16,524	16,524
Dividend to equity holders		-	-	-
Balance at December 31, 2012	- \$	276,065 \$	169,647 \$	445,712

COLUMBIA POWER CORPORATION
Consolidated Statement of Cash Flows (Unaudited)
For the nine months ended December 31
(Expressed in thousands of dollars)

	2012	2011
Cash flows from Operating Activities		
Total comprehensive income for the year	\$ 16,524	\$ 13,758
Adjustments to reconcile cash flow from operations		
Amortization of property, plant and equipment	354	584
Interest income	(991)	(1,553)
Interest expense	857	857
Income from equity accounted investees	(17,735)	(14,472)
Net change in non-cash working capital balances		
Accounts receivable	5,894	285
Prepaid expense	2	6
Dividends payable	(2,000)	(2,000)
Accounts payable and accrued liabilities	(887)	(547)
Due from joint venture investee	-	(294)
Net cash from operating activities	<u>2,018</u>	<u>(3,376)</u>
Cash flows from financing activities		
Interest paid	(1,138)	(574)
Borrowing	-	20,000
Net cash used in financing activities	<u>(1,138)</u>	<u>19,426</u>
Cash flows from investing activities		
Interest received	991	1,553
Dividends received	11,250	148,614
(Purchase) Sale of temporary investments	11,586	(111,944)
Investment in limited partnership	(51,077)	(45,711)
(Acquisition)/disposal of property, plant and equipment	3	(12)
Net cash used in investing activities	<u>(27,247)</u>	<u>(7,500)</u>
Increase (decrease) in cash and cash equivalents	(26,367)	8,550
Cash and cash equivalents, beginning of period	40,761	14,360
Cash and cash equivalents, end of period	<u>\$ 14,394</u>	<u>\$ 22,910</u>
CASH CONSISTS OF:		
Restricted cash	187	184
Cash available for operations	<u>14,207</u>	<u>22,726</u>
	<u>\$ 14,394</u>	<u>\$ 22,910</u>

COLUMBIA POWER CORPORATION
Statement of Income to Budget (Unaudited)
For the nine months ended December 31, 2012
(Expressed in thousands of dollars)

	Actual	Budget	Variance
REVENUES			
Services Agreement	1,522	1,496	27
	<u>1,522</u>	<u>1,496</u>	<u>27</u>
Investment Income:			
ALPC (50%)	1,807	1,056	751
BEPC (50%)	7,986	8,222	(236)
BPC (50%)	7,200	7,322	(122)
WEPC (58%)	742	1,109	(367)
	<u>17,735</u>	<u>17,709</u>	<u>27</u>
OPERATING EXPENSES			
Other expenses	2,513	2,784	271
	<u>2,513</u>	<u>2,784</u>	<u>271</u>
EBITDA	16,744	16,420	324
AMORTIZATION & FINANCING EXPENSES			
Amortization expense	354	288	(66)
Financing expense	857	851	(7)
Less: interest revenue	991	969	(22)
	<u>220</u>	<u>170</u>	<u>(51)</u>
NET INCOME	\$ <u>16,524</u>	\$ <u>16,251</u>	\$ <u>318</u>

Breakdown of Other Expense:

Budget element	Actual	Budget	Variance
Salaries & benefits	3,564,595	3,481,500	83,095
Travel & Business Expense	132,184	146,250	14,066
Board Expenses	58,250	108,000	49,750
Advisory Services & Audit	311,582	485,250	173,668
Systems and Networks	178,791	263,250	84,459
Rent Expense	190,275	225,750	35,475
Corporate Operations	159,028	163,500	4,472
Stakeholder Consultation & Advertising	12,910	18,750	5,840
First Nations Sponsorship	17,400	18,750	1,350
Training, Conferences, Memberships	106,301	111,375	5,074
Miscellaneous Expenses	37,690	24,000	13,690
Depreciation	353,973	287,250	66,723
Business Development third party costs	74,490	172,500	98,010
Loss on Disposal Fixed Assets	-	18,750	18,750
Corporate Communications	55,534	120,863	65,329
Community Sponsorship	74,466	63,750	10,716
Grants-in-Lieu	316,009	354,375	38,366
Interest and financing costs	854,097	849,750	4,347
Boat Launch recovery	- 31,788	-	31,788
	<u>6,465,787</u>	<u>6,913,613</u>	<u>447,826</u>
JV Recoveries	- 2,744,239	- 2,992,500	248,261
Net expense after JV recoveries	3,721,548	3,921,113	199,565
Remove other line items:			
Interest and financing costs	- 854,097	- 849,750	4,347
Depreciation/amortization	- 353,973	- 287,250	66,723
Other expense	<u>2,513,478</u>	<u>2,784,113</u>	<u>270,635</u>