



**Unaudited Consolidated Interim Financial Statements
For the three months ended March 31, 2009**

CONSOLIDATED BALANCE SHEETS (Unaudited)

As at (all amounts in thousands of Canadian dollars)

	March 31, 2009	December 31, 2008
ASSETS (note 5)		(note 2 (b))
Current assets		
Cash	\$ 91	\$ 40
Accounts receivable (note 8)	37,801	37,339
Prepaid expenses	2,807	843
Other assets	972	997
Materials and supplies	655	674
Regulatory assets	257	299
Future income taxes (note 6)	742	-
	<u>43,325</u>	40,192
Other assets	14,335	14,046
Regulatory assets	93,708	21,179
Property, plant and equipment (note 3)	898,349	873,570
Intangibles (note 4)	35,440	35,381
Goodwill	1,209	1,209
	<u>1,086,366</u>	<u>985,577</u>
TOTAL ASSETS	\$ 1,086,366	\$ 985,577
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	\$ 43,276	\$ 42,180
Accrued interest	8,811	8,031
Current portion of debt (note 5)	58,241	61,775
Regulatory liabilities	1,812	1,616
Income taxes payable	761	93
Future income taxes (note 6)	110	-
	<u>113,011</u>	113,695
Long-term debt (note 5)	470,392	465,496
Obligation under capital lease and other liabilities	28,760	28,739
Other post-retirement benefits	10,821	10,465
Regulatory liabilities	13,957	322
Future income taxes (note 6)	74,582	1,677
	<u>598,512</u>	506,699
Shareholder's equity		
Share capital (note 7)	181,851	181,851
Retained earnings	192,992	183,332
	<u>374,843</u>	365,183
Contingency (note 11)		
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 1,086,366	\$ 985,577

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE EARNINGS (Unaudited)

For the three months ended March 31 (all amounts in thousands of Canadian dollars)

	2009	2008
Revenues (note 8)		
Electricity revenue	\$ 68,492	\$ 63,008
Other revenue	1,474	1,355
	<u>69,966</u>	<u>64,363</u>
Expenses (note 8)		
Power purchases	22,346	20,979
Operating and maintenance	9,520	9,017
Depreciation	7,757	7,094
Property taxes	2,974	2,877
Water fees	2,110	1,990
Wheeling	922	879
Amortization	1,883	1,445
	<u>47,512</u>	<u>44,281</u>
Earnings from operations	<u>22,454</u>	20,082
Interest expense		
Long-term debt	7,999	7,901
Short-term debt	99	145
Allowance for funds used during construction	(767)	(822)
	<u>7,331</u>	<u>7,224</u>
Earnings before income taxes	15,123	12,858
Income taxes (note 6)	<u>1,963</u>	1,250
Net earnings and comprehensive earnings	<u>\$ 13,160</u>	<u>\$ 11,608</u>

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (Unaudited)

For the three months ended March 31 (all amounts in thousands of Canadian dollars)

	2009	2008
Retained earnings, beginning of period	\$ 183,332	\$ 164,068
Net earnings	13,160	11,608
Dividends	<u>(3,500)</u>	<u>(3,200)</u>
Retained earnings, end of period	<u>\$ 192,992</u>	<u>\$ 172,476</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

For the three months ended March 31 (all amounts in thousands of Canadian dollars)

	2009	2008
Cash from (used in) operating activities		
Net earnings	\$ 13,160	\$ 11,608
Adjustments for non-cash items:		
Depreciation	7,757	7,094
Amortization	1,883	1,445
Future income taxes	(7)	(4)
Other non-current assets and liabilities	(488)	(847)
	<u>22,305</u>	<u>19,296</u>
Changes in non-cash working capital (note 9)	5,036	11,305
	<u>27,341</u>	<u>30,601</u>
Cash from (used in) investing activities		
Additions to property, plant and equipment	(19,047)	(21,218)
Additions to intangibles	(1,052)	(444)
Additions to other non-current assets	(177)	(569)
Changes in non-cash working capital (note 9)	(4,775)	(5,404)
	<u>(25,051)</u>	<u>(27,635)</u>
Cash from (used in) financing activities		
Proceeds from bank debt	1,447	573
Repayment of mortgage	(186)	(168)
Dividends	(3,500)	(3,200)
Deferred financing costs	-	(5)
	<u>(2,239)</u>	<u>(2,800)</u>
Increase in cash	51	166
Cash, opening balance	40	-
Cash, closing balance	\$ 91	\$ 166
Cash flows include the following elements:		
Interest paid	\$ 7,318	\$ 7,251
Income taxes paid	741	1,122

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

(Unaudited)

(All tabular dollar amounts are in thousands of Canadian dollars unless otherwise noted)

1. ENTITY DEFINITION AND NATURE OF OPERATIONS

FortisBC Inc. (“FortisBC” or the “Company”) was incorporated by an Act of the Legislature of British Columbia. The Company is a wholly-owned subsidiary of Fortis Pacific Holdings Inc. (“Fortis Pacific”) which is an indirect wholly-owned subsidiary of Fortis Inc. (“Fortis”), a Canadian public company.

FortisBC is an integrated, regulated electric utility which owns and operates a network of generation, transmission and distribution assets located in the southern interior of British Columbia. The Company serves residential, general service, wholesale and industrial consumers of electricity. The Company’s generation assets include four regulated hydroelectric generating plants on the Kootenay River with an aggregate capacity of 223 megawatts and a non-regulated 16 megawatt run-of-river hydroelectric generating plant near Lillooet, British Columbia. The Company’s regulated transmission and distribution assets consist of a network of transmission and distribution power lines, substations and support structures.

Interim results will fluctuate due to the seasonal demands for electricity, the movements of electricity prices and the timing and recognition of regulatory decisions. The Company’s operations normally produce higher earnings in the first quarter when demand for electricity is higher. Consequently, interim results are not necessarily indicative of annual results.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of presentation**

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”) for interim financial statements and do not include all the disclosures normally found in the Company’s annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2008.

The consolidated financial statements include the accounts of the Company and its wholly-owned partnership and subsidiaries, Walden Power Partnership (“WPP”), ESI-Power Walden Corporation Ltd. and West Kootenay Power Ltd. All significant inter-company transactions and balances have been eliminated upon consolidation.

These consolidated financial statements have been prepared following the same accounting policies and methods as those used in preparing the most recent audited consolidated financial statements except for those described under “Changes in accounting policies”.

Regulation

The Company is regulated by the British Columbia Utilities Commission (“BCUC”). The BCUC administers acts and regulations, pursuant to the *Utilities Commission Act* (British Columbia) covering such matters as tariffs, rates, construction, operations, financing and accounting.

FortisBC operates primarily under a cost of service regulation as prescribed by the BCUC. The Company applies to the BCUC for annual revenue requirements based on estimated costs of service, including, but not limited to, operating expenses, power purchases, depreciation and amortization,

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(All tabular dollar amounts are in thousands of Canadian dollars unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

income taxes, interest on debt and a return on equity (“ROE”). In addition, the regulatory framework includes some performance-based rate setting (“PBR”) attributes. PBR is subject to change as the Company’s regulatory framework evolves. The 2009 allowed ROE is 8.87% (2008 allowed ROE was 9.02%).

Electricity revenue is billed at rates approved by the BCUC and is bundled to include the cost of generating, transmitting and distributing electricity. In addition, the rate includes customer service as well as other corporate and service functions.

When the BCUC issues decisions affecting the financial statements, the effects of the decision are recorded in the period in which the decision is received.

The Company’s consolidated financial statements have been prepared in accordance with GAAP, including certain treatments that differ from that for enterprises not subject to rate regulation.

Use of estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the period. The estimates relate to unbilled electricity deliveries, the useful life of property, plant and equipment, goodwill, asset retirement obligations, future removal and site restoration, future income taxes and employee future benefits, among other things. Certain estimates are also necessary since the regulatory environment in which the Company operates often requires amounts to be recorded at estimated values until finalization and adjustment, if any, is determined pursuant to subsequent regulatory decisions or other regulatory proceedings. By their nature, these estimates are subject to measurement uncertainty. The effect on the financial statements of changes in such estimates in future periods could be material and are recorded in the period they became known.

Changes in accounting policies

Effective January 1, 2009, FortisBC adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (“CICA”).

- a) Amendments to Section 1100, *Generally Accepted Accounting Principles* and Section 3465, *Income Taxes* which resulted from a Decision Summary issued by the Accounting Standards Board (“AcSB”) in August 2007. The standards prior to the amendments were intended to reflect the unique characteristics of rate regulated operations, specifically how rate regulation may result in assets and liabilities which meet the asset and liability definitions of the CICA Handbook. The Decision Summary determined that prospectively for fiscal years beginning on or after January 1, 2009:
 - The temporary exemption in Section 1100, *Generally Accepted Accounting Principles*, providing relief to entities subject to rate regulation from the requirement to apply Section 1100 to the recognition and measurement of assets and liabilities arising from rate regulation has been removed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

(Unaudited)

(All tabular dollar amounts are in thousands of Canadian dollars unless otherwise noted)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- Section 3465, *Income Taxes*, has been amended to require the recognition of future income tax liabilities and assets as well as a regulatory asset or liability for the amount of future income taxes expected to be recovered from or returned to customers in future rates.

The AcSB also decided that the current guidance pertaining to rate regulated operations in Section 1600, *Consolidated Financial Statements*, Section 3061, *Property, Plant and Equipment*, Section 3475, *Disposal of Long Lived Assets and Discontinued Operations*, and AcG-19, *Disclosures by Entities Subject to Rate Regulation* be retained.

Effective January 1, 2009, the Company applied the amended Section 1100 to the recognition and measurement of assets and liabilities arising from rate regulation. Certain assets and liabilities arising from rate regulation continue to have specific guidance under a primary source of Canadian GAAP that applies only to the particular circumstances described therein, including those arising under Sections 1600, 3061 and 3475. Certain of the Company's assets and liabilities arising from rate regulation do not have specific guidance under a primary source of Canadian GAAP. In absence of primary sources of Canadian GAAP, Section 1100 directs the Company to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in Section 1000, *Financial Statement Concepts*. In developing these accounting policies, Section 1100 directs entities to consult other sources, including pronouncements issued by bodies authorized to issue accounting standards in other jurisdictions. In accordance with Section 1100, the Company has determined that certain of its assets and liabilities qualify for recognition under Canadian GAAP and this recognition is generally consistent with the accounting prescribed by the U.S. Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation* ("FAS 71"). FAS 71 is the prevailing guidance to which the Company will refer to for the development of accounting policies and disclosures relating to certain of its assets and liabilities arising from rate regulation where there are no primary sources of Canadian GAAP available. The Company has determined that its regulatory assets and liabilities recognized in the financial statements prior and subsequent to January 1, 2009 comply with the recognition and presentation criteria under Section 1000 and FAS 71 and therefore will continue to exist under Canadian GAAP. Adoption of the amended Section 1100 standard resulted in the balance sheet reclassifications discussed below.

Future Removal and Site Restoration

Included in FortisBC's depreciation rates is a provision for future removal and site restoration costs. Prior to January 1, 2009, actual costs of removal and site restoration incurred were recorded against accumulated depreciation as the assets were disposed of. In the absence of rate regulation, the removal and site restoration costs would be expensed in the period incurred. Effective January 1, 2009, the Company has prospectively applied the practice, consistent with other rate-regulated companies that follow FAS 71, of removing the net future site restoration provision from accumulated depreciation and reclassifying it as a long-term regulatory liability. Effective January 1, 2009, the Company reclassified \$12.3 million with no impact on earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(All tabular dollar amounts are in thousands of Canadian dollars unless otherwise noted)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***Future Income Tax*

Effective January 1, 2009, the impact on FortisBC of the amendments to Section 3465, is the prospective recognition of future income taxes and a separate regulatory asset for the amount of future income taxes expected to be included in future rates and recovered from customers. Prior to January 1, 2009, the Company used the taxes payable method of accounting for income taxes on regulated earnings. As a result of the Company adopting the amendment to Section 3465, the Company has changed its accounting policy to account for income taxes using the asset and liability method. Under this method, future tax assets and liabilities are recognized for temporary differences between the accounting and tax basis of existing assets and liabilities, the benefit of income tax reductions or tax losses available to be carried forward and the effects of changes in tax laws and enacted or substantially enacted tax rates. The effect to the Company's March 31, 2009 interim financial statements is an increase to future income taxes (net of future income tax assets) of \$72.3 million, including an amount associated with income taxes that will become payable on future revenues as they are collected from customers when the tax timing differences reverse. There is a corresponding increase in regulatory assets of \$72.3 million and no impact to earnings.

- b) Section 3064, *Goodwill and Intangible Assets*, converges Canadian GAAP for goodwill and intangible assets with International Financial Reporting Standards. The new standard provides more comprehensive guidance on intangible assets, particularly for internally developed intangible assets. Under Section 1506, *Changes in Accounting Policy*, the adoption of this new Section is to be applied retrospectively in the Company's financial statements. Effective January 1, 2009 and December 31, 2008, the Company reclassified \$14.9 million in software costs and \$20.5 million in right of way costs from property, plant and equipment to intangibles. The reclassification resulted in no impact on earnings.

Future accounting pronouncements*International Financial Reporting Standards ("IFRS")*

In February 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In March 2009, the AcSB issued a second Omnibus Exposure Draft confirming that publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended December 31, 2010 and of the opening balance sheet as at January 1, 2010. The AcSB proposes that CICA Handbook Section - *Accounting Changes*, paragraph 1506.30, which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the entity has not applied, not be applied with respect to this Exposure Draft. FortisBC is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable. FortisBC does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required, as well as system changes that may be necessary to gather and process the information.

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3. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation	Book Value March 31, 2009	Book Value December 31, 2008
Generation	\$ 197,455	\$ 44,600	\$ 152,855	\$ 142,260
Substations	290,946	54,646	236,300	231,494
Transmission	136,048	30,384	105,664	103,330
Distribution	319,015	59,656	259,359	251,104
General	102,993	35,275	67,718	68,870
Asset under capital lease	27,228	5,462	21,766	21,993
Construction work in progress	54,687	-	54,687	54,519
	\$ 1,128,372	\$ 230,023	\$ 898,349	\$ 873,570

Included in general property, plant and equipment is \$7.0 million (December 31, 2008 - \$7.2 million) of inventory held for construction or used only in connection with an item of property, plant and equipment. For the three months ended March 31, 2009, depreciation of \$0.2 million (March 31, 2008 - \$0.2 million) on the asset under capital lease was recorded in regulatory assets.

Effective January 1, 2009, accounting standards for entities subject to rate regulation were amended, which required the Company to reclassify \$12.3 million of future removal and site restoration costs from accumulated depreciation to regulatory liabilities on January 1, 2009.

4. INTANGIBLES

March 31, 2009	Cost	Accumulated Amortization	Book Value
Right of ways	\$ 22,224	\$ 1,443	\$ 20,781
Software	35,808	21,149	14,659
	\$ 58,032	\$ 22,592	\$ 35,440

December 31, 2008	Cost	Accumulated Amortization	Book Value
Right of ways	\$ 21,881	\$ 1,380	\$ 20,501
Software	35,099	20,219	14,880
	\$ 56,980	\$ 21,599	\$ 35,381

There was no impairment of intangible assets as at March 31, 2009 and December 31, 2008. During the three months ended March 31, 2009, amortization of intangibles of \$1.0 million (March 31, 2008 - \$0.8 million) was recorded. Amortization of software is recorded on a straight-line basis using an amortization rate of 10.6%. Amortization of right of ways is recorded on a straight-line basis using amortization rates that range from 1.6% to 2.6%.

Included in the cost of right of ways at March 31, 2009 is \$9.1 million (December 31, 2008 - \$9.2 million) not subject to amortization.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

(Unaudited)

(All tabular dollar amounts are in thousands of Canadian dollars unless otherwise noted)

5. DEBT

	March 31, 2009	December 31, 2008
Secured Debentures		
Series E 11.0% due December 1, 2009	\$ 3,750	\$ 3,750
Series F 9.65% due October 16, 2012	15,000	15,000
Series G 8.8% due August 28, 2023	25,000	25,000
WPP mortgage 9.44% due October 31, 2013	4,296	4,482
	48,046	48,232
Unsecured Debentures		
Series H 8.77% due February 1, 2016	25,000	25,000
Series I 7.81% due December 1, 2021	25,000	25,000
Series J 6.75% due July 31, 2009	50,000	50,000
Series 04-1 5.48% due November 28, 2014	140,000	140,000
Series 05-1 5.60% due November 9, 2035	100,000	100,000
Series 07-1 5.90% due July 4, 2047	105,000	105,000
	445,000	445,000
Operating credit facilities	35,970	30,971
Overdraft facility	3,705	7,257
	39,675	38,228
Total debt	532,721	531,460
Current portion of debt	58,241	61,775
	474,480	469,685
Less: deferred financing costs	4,088	4,189
Long term debt	\$ 470,392	\$ 465,496

Secured and unsecured debentures

The Series E, F and G secured debentures are collateralized by a fixed and floating first charge on the assets of the Company. The secured Series E, F, G and unsecured Series H, I, J debentures are guaranteed by FortisWest Inc., a subsidiary of Fortis.

The WPP mortgage is collateralized by a fixed and floating charge over the assets of WPP, FortisBC's wholly-owned partnership.

Operating credit facilities

On April 15, 2008, the Company amended its operating credit facility provided by a syndicate of Canadian Chartered banks. The amended operating credit facility is comprised of a \$50.0 million three-year revolving facility maturing on May 11, 2011 ("Facility A") and a \$100.0 million, 364-day revolving facility maturing on May 7, 2009 ("Facility B"). Two years prior to the current Facility A maturity date, the Company may request an extension of the maturity date for Facility A for a further period of 364 days and if the request for extension is not granted, all amounts outstanding under Facility A become due on the Facility A maturity date. Similarly, prior to the current Facility B maturity date, the Company may request the lenders to extend the term for an additional 364 days and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

(Unaudited)

 (All tabular dollar amounts are in thousands of Canadian dollars unless otherwise noted)

5. DEBT (continued)

if the request for extension is not granted, Facility B will automatically convert into a non-revolving term credit facility that will mature six months from that date. The operating credit facility also allows the Company to request that the lenders provide up to \$50.0 million of additional financing under Facility A or Facility B or a combination of the two facilities.

During the first quarter of 2009, the syndicate of Canadian Chartered banks unanimously consented to the Company's request to extend the Facility A maturity date to May 9, 2012 and the Facility B maturity date to May 6, 2010 and certain other amendments to its operating credit facility. An amended agreement is expected to be finalized during the second quarter of 2009.

As at March 31, 2009, \$36.0 million (December 31, 2008 - \$31.0 million) has been drawn on Facility A and \$nil (December 31, 2008 - \$nil) has been drawn on Facility B. The interest rate on the balance outstanding at March 31, 2009 was 1.15% (December 31, 2008 - 2.40%).

Borrowings under the Company's operating credit facilities bear interest at prime plus a margin or the certificate of deposit offered rate for bankers' acceptances plus a margin. The margin applied is based on FortisBC's debt ratings provided by its credit rating agencies. The operating credit facilities are also available to support letters of credit. As at March 31, 2009, letters of credit were issued in the amount of \$3.0 million (December 31, 2008 - \$3.0 million).

Overdraft facility

The overdraft facility is an unsecured \$10.0 million demand credit facility which bears interest at prime. The interest rate on the balance outstanding at March 31, 2009 was 2.50% (December 31, 2008 - 3.50%).

6. INCOME TAXES

The Company's income tax expense consists of:

For the three months ended March 31	2009	2008
Current income tax expense	\$ 1,970	\$ 1,254
Future income taxes		
Change in temporary differences and other	2,170	(4)
Change in statutory tax rates	(3,708)	-
Regulatory adjustment	1,531	-
Future income tax recovery	(7)	(4)
Income tax expense	\$ 1,963	\$ 1,250

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For the three months ended March 31, 2009 and 2008

(Unaudited)

(All tabular dollar amounts are in thousands of Canadian dollars unless otherwise noted)

6. INCOME TAXES (continued)

Future income taxes (net of future income tax assets) consists of:

	March 31, 2009	December 31, 2008
Property, plant and equipment	\$ 65,062	\$ 1,677
Intangibles	5,126	-
Regulatory assets	1,792	-
Other	1,970	-
Future income taxes (net of future income tax asset)	73,950	1,677
Current future income tax asset	(742)	-
Current future income tax liability	110	-
Long-term future income tax liability	74,582	1,677
Future income taxes (net of future income tax asset)	\$ 73,950	\$ 1,677

The long-term future income tax liability as at March 31, 2009, includes \$1.7 million (December 31, 2008 - \$1.7 million) related to non-regulated operations.

7. SHARE CAPITAL

FortisBC has issued and outstanding 1,818,510 common shares (December 31, 2008 – 1,818,510 common shares), all of which are owned by Fortis through its indirect wholly owned subsidiary, Fortis Pacific.

There were no changes to share capital during the three months ended March 31, 2009 and March 31, 2008.

During the three months ended March 31, 2009, FortisBC paid dividends of \$3.5 million (for the three months ended March 31, 2008 - \$3.2 million) to its parent company, Fortis Pacific.

8. RELATED PARTY TRANSACTIONS

In addition to transactions and balances disclosed elsewhere, in the normal course of business the Company transacts with its parent and other related companies under common control. The following transactions were measured at the exchange amount.

Three months ended March 31	2009	2008
Revenue charged to related parties	\$ 139	\$ 127
Operating costs charged by related parties	511	320
Operating costs recovered from related parties	1,466	1,413
Interest revenue on accounts receivable	3	6

The revenues charged represent electricity and services sold to related parties.

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(Unaudited)

(All tabular dollar amounts are in thousands of Canadian dollars unless otherwise noted)

8. RELATED PARTY TRANSACTIONS (continued)

The operating costs charged consist of information technology expenses, contract and direct labour charges, meter shop charges, stock options, rent, natural gas utility charges consumed in operating the Company's facilities, and corporate governance costs.

The operating costs recovered consist of labour and materials charges to the Company's parent and other related parties.

Included in accounts receivable are amounts due from Fortis Pacific which bear interest at prime. Interest on the related party accounts receivable was recorded in other revenue.

Inter-corporate charges between FortisBC and other related companies under common control are included in accounts receivable and accounts payable and are unsecured and due on demand. Also included in accounts receivable are amounts due from officers of the Company for employee share purchase plan loans and stock option loans which are non-interest bearing and due within one to two years from the grant date.

Amounts due to and from the Company's parent, and other related companies under common control and officers of the Company are as follows:

	March 31,	December 31,
	2009	2008
Included in accounts receivable	\$ 1,090	\$ 621
Included in accounts payable and accrued liabilities	474	344

9. CHANGES IN NON-CASH WORKING CAPITAL

Three months ended March 31	2009	2008
Changes in non-cash working capital:		
Accounts receivable	\$ (462)	\$ 4,055
Prepaid expenses	(1,964)	(1,396)
Other assets	124	8
Materials and supplies	19	(375)
Accounts payable and accrued liabilities	1,096	(229)
Accrued interest	780	3,043
Income taxes payable	668	795
	\$ 261	\$ 5,901
Changes in non-cash working capital attributable to:		
Operating activities	5,036	11,305
Investing activities	(4,775)	(5,404)
	\$ 261	\$ 5,901

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(All tabular dollar amounts are in thousands of Canadian dollars unless otherwise noted)

10. PENSION BENEFITS

During the three months ended March 31, 2009, the Company recorded defined benefit pension expenses of \$1.1 million (three months ended March 31, 2008 - \$0.7 million).

11. CONTINGENCY

The Province of British Columbia has alleged breaches of the Forest Practices Code and negligence relating to a forest fire near Vaseux Lake and has filed and served a Writ and Statement of Claim against FortisBC. In addition, private land owners have filed a separate Writ and Statement of Claim in relation to the same matter. FortisBC is communicating with its insurers and has filed a Statement of Defence in relation to both of the actions. The outcome cannot be reasonably determined and estimated at this time, and accordingly no amount has been accrued in the financial statements.

12. CAPITAL DISCLOSURES

The objectives of the Company to manage capital are to:

- target a long-term capital structure that includes approximately 40% equity and 60% debt;
- finance the debt portion of the capital structure primarily with fixed rate, longer term debt in order to match the long term nature of the property, plant and equipment the capital is primarily financing; and
- maintain investment grade credit ratings to support continued access to cost effective capital.

The Company defines its capital as shareholder's equity (consisting of share capital and retained earnings) plus debt (consisting of secured and unsecured debentures gross of deferred financing costs, the WPP mortgage, operating credit facilities, overdraft facility and other short term borrowings).

The Company's long term capital structure target of 40% equity and 60% debt is consistent with the deemed capital structure allowed by the BCUC when determining the costs to finance the operations included in customer rates. The Company meets its objectives when managing capital by estimating the amount and timing for the issuance of common shares and the payment of dividends, by issuing long term debentures when the Company's capital structure includes a relatively high proportion of floating rate debt and by maintaining adequate borrowing capacity on its operating credit facilities.

As at March 31, 2009 and December 31, 2008, the Company's capital structure was as follows:

	March 31, 2009		December 31, 2008	
	\$	Percent	\$	Percent
Total debt ⁽¹⁾	532,721	58.7	531,460	59.3
Shareholder's equity	374,843	41.3	365,183	40.7
Total	907,564	100.0	896,643	100.0

⁽¹⁾ Excludes debt issue costs.

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(Unaudited)

(All tabular dollar amounts are in thousands of Canadian dollars unless otherwise noted)

12. CAPITAL DISCLOSURES (continued)

The Company has externally imposed capital requirements to which it is subject to that include interest coverage ratios and limitations on the amount of debt that can be incurred relative to equity. The Company was in compliance with these externally imposed capital requirements as at March 31, 2009.

13. FINANCIAL INSTRUMENTS

(a) Designation and valuation of financial instruments

The Company enters into financial instruments to finance the Company's operations in the normal course of business.

The carrying values of the Company's financial instruments compared to their estimated fair values are as follows:

	March 31, 2009		December 31, 2008	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Held for trading				
Cash ⁽¹⁾	\$ 91	\$ 91	\$ 40	\$ 40
Loans and receivables				
Accounts receivable ⁽¹⁾⁽²⁾	37,801	37,801	37,339	37,339
Energy management loans ⁽¹⁾⁽²⁾	4,860	4,860	4,984	4,984
Other financial liabilities				
Accounts payable and accrued liabilities ⁽¹⁾⁽²⁾	43,276	43,276	42,180	42,180
Operating credit and overdraft facilities ⁽¹⁾⁽²⁾	39,675	39,675	38,228	38,228
Long-term debt, including current portion ⁽³⁾⁽⁴⁾⁽⁵⁾	493,046	489,412	493,232	467,913

⁽¹⁾ Due to the nature and/or short-term maturity of these financial instruments, carrying value approximates fair value.

⁽²⁾ Carrying values approximate amortized cost.

⁽³⁾ Includes secured and unsecured debentures and mortgage obligations for which the carrying value is measured at amortized cost using the effective interest method.

⁽⁴⁾ Fair value is calculated by discounting the future cash flow of each debt issue at the estimated yield to maturity for the same or similar issues at the measurement date or by using quoted market sources.

⁽⁵⁾ Excludes deferred financing costs of \$4.1 million, at March 31, 2009 (December 31, 2008 - \$4.2 million).

(b) Risks

Exposure to credit risk, foreign exchange risk, interest rate risk and liquidity risk occur in the normal course of the Company's operations. The Company currently does not enter derivative financial instruments to reduce exposure to fluctuations in any of the risks impacting the Company's operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

(Unaudited)

(All tabular dollar amounts are in thousands of Canadian dollars unless otherwise noted)**13. FINANCIAL INSTRUMENTS (continued)***Credit risk*

The Company extends credit to customers in its role as a regulated electric utility service provider. Credit risk on accounts receivable is managed based on the terms and conditions of the Electric Tariff BCUC No.1 for Service in the West Kootenay and Okanagan Areas. The Company manages credit risk for its accounts receivables by requiring customer deposits or credit checks for new customers and by issuing notices, performing disconnections and using third party collection agencies for overdue accounts. The Company's credit risk is also mitigated through the annual Revenue Requirement Application which includes a forecast amount for uncollectible accounts receivable. The maximum exposure to credit risk is the net carrying value of accounts receivable.

At March 31, 2009 the balance of customer accounts receivable past due over 60 days was \$1.0 million (December 31, 2008 - \$1.2 million). The Company has provided an allowance for doubtful accounts of \$1.1 million (December 31, 2008 - \$1.1 million) on outstanding accounts receivable.

Foreign exchange risk

The Company realizes all of its sales and a significant majority of its expenses in Canadian dollars and is therefore not exposed to significant foreign exchange rate fluctuations.

Interest rate risk

The Company's secured and unsecured debentures bear fixed interest rates, while the Company's operating credit facility and overdraft facility are subject to variable interest rates. Under the current PBR regulatory framework the Company currently operates within, any variations in regulated interest expense are flowed through to be paid by or returned to customers in future customer rates. Because of this mechanism, the Company's exposure to interest rate risk on its variable interest rate debt is mitigated.

Liquidity risk

The Company endeavors to maintain committed operating credit facilities with capacity sufficient to repay its financial liabilities when they became due. The Company regularly monitors the maturity dates, committed amounts and balances drawn on its operating credit facilities in order to reduce its liquidity risk to an appropriate level when considering upcoming financial liabilities.

The recent volatility experienced in the global capital markets may increase the cost of issuance of long-term capital by the Company. Capital market volatility may also impact the Company's future funding obligations and/or net benefit cost associated with its defined benefit pension plans and supplemental pension arrangements. There are a number of risks associated with the Company's pension plans including: there is no assurance that the Company's pension plans will earn the assumed rate of return, market driven changes may result in changes in the discount rates and other variables which would result in the Company being required to make contributions in the future that differ significantly from the estimates, and there is measurement incorporated into the actuarial valuation process. Under the current PBR regulatory framework the Company currently operates within, these pension risks are mitigated because the net benefit cost is flowed through customer rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

(Unaudited)

(All tabular dollar amounts are in thousands of Canadian dollars unless otherwise noted)

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to comply with the current year's classifications.