



**Unaudited Interim Financial Statements
For the three months ended March 31, 2007**

CONSOLIDATED BALANCE SHEETS

As at (unaudited)	March 31, 2007 (\$000s)	December 31, 2006 (\$000s)
ASSETS (note 4)		
Current assets		
Cash	46	46
Accounts receivable (note 6)	39,887	45,751
Prepaid expenses	2,669	1,389
Deferred charges and other assets	867	863
Materials and supplies	678	699
Regulatory assets	299	396
	44,446	49,144
Deferred charges and other assets	11,874	15,263
Regulatory assets	18,080	18,142
Property, plant and equipment (note 3)	751,521	731,235
Goodwill	1,209	1,209
	827,130	814,993
TOTAL ASSETS		
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	39,794	32,852
Accrued interest	7,395	5,004
Current portion of debt (notes 4 and 6)	34,625	27,424
Regulatory liabilities	1,587	2,502
Income taxes payable	1,122	717
	84,523	68,499
Long-term debt (note 4)	397,858	410,649
Obligation under capital lease and other liabilities	29,325	29,289
Other post-retirement benefits	7,425	7,002
Future income taxes	1,897	1,891
	436,505	448,831
Shareholder's equity		
Share capital (note 5)	151,851	151,851
Retained earnings	154,251	145,812
	306,102	297,663
Contingencies (note 9)		
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	827,130	814,993

CONSOLIDATED STATEMENTS OF EARNINGS

 For the three months ended March 31
 (Unaudited)

	2007 (\$000s)	2006 (\$000s)
Revenues (note 6)		
Electricity revenue	59,973	59,063
Other revenue	1,999	1,293
	<u>61,972</u>	<u>60,356</u>
Expenses (note 6)		
Power purchases	20,093	19,231
Operating and maintenance	8,909	7,685
Depreciation	7,082	6,582
Property taxes	2,828	2,732
Water fees	2,019	2,116
Wheeling	861	976
Amortization of deferred charges and regulatory assets	707	485
	<u>42,499</u>	<u>39,807</u>
Earnings from operations	<u>19,473</u>	<u>20,549</u>
Interest expense		
Long-term debt	6,640	6,468
Short-term debt	376	135
Allowance for funds used during construction	(616)	(676)
	<u>6,400</u>	<u>5,927</u>
Earnings before income taxes	<u>13,073</u>	<u>14,622</u>
Income taxes	<u>1,734</u>	<u>3,309</u>
Net earnings	<u>11,339</u>	<u>11,313</u>

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

 For the three months ended March 31
 (Unaudited)

	2007 (\$000s)	2006 (\$000s)
Retained earnings, beginning of period	145,812	129,502
Net earnings	11,339	11,313
Dividends	(2,900)	(2,500)
Retained earnings, end of period	<u>154,251</u>	<u>138,315</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

 For the three months ended March 31
 (Unaudited)

	2007 (\$000s)	2006 (\$000s)
Operating activities		
Net earnings	11,339	11,313
Adjustments for non-cash items:		
Depreciation	7,082	6,582
Amortization of deferred charges and regulatory assets	707	485
Future income taxes	6	6
Deferred charges and other non-current assets and liabilities	(833)	(232)
	<u>18,301</u>	<u>18,154</u>
Changes in non-cash working capital (note 7)	<u>11,239</u>	<u>8,354</u>
	<u>29,540</u>	<u>26,508</u>
Investing activities		
Additions to property, plant and equipment	(27,595)	(23,946)
Additions to deferred charges and other non-current assets	(169)	(440)
Changes in non-cash working capital (note 7)	<u>3,085</u>	<u>(4,591)</u>
	<u>(24,679)</u>	<u>(28,977)</u>
Financing activities		
Repayment of bank debt	(32,807)	-
Proceeds from affiliate demand notes	31,000	-
Repayment of mortgage	(154)	(140)
Dividends	(2,900)	(2,500)
Deferred financing costs	-	23
	<u>(4,861)</u>	<u>(2,617)</u>
Decrease in cash	-	(5,086)
Cash, opening balance	<u>46</u>	<u>6,468</u>
Cash, closing balance	<u>46</u>	<u>1,382</u>
Cash flows include the following elements:		
Interest paid	4,625	4,212
Income taxes paid	1,080	1,440

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three-month period ended March 31, 2007 and 2006

(Unaudited)

(All tabular dollar amounts are in thousands, 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, commercial, wholesale and industrial consumers of electricity. The Company’s generation assets include four regulated hydroelectric generating plants on the Kootenay River with an aggregate installed capacity of 235 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 and fourth quarters when demand for electricity is highest. 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, 2006.

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., West Kootenay Power Ltd. and Kootenay River Power Corporation. 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 “new accounting policies”.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three-month period ended March 31, 2007 and 2006

(Unaudited)

(All tabular dollar amounts are in thousands, unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**New accounting policies**

Effective January 1, 2007, FortisBC adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (“CICA”).

a) Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3861, *Financial Instruments – Disclosure and Presentation*, prescribe the criteria for recognition and presentation of financial instruments on the balance sheet and the measurement of financial instruments according to prescribed classifications. These sections also address how financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized.

The Company is required to designate its financial instruments into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

All derivative financial instruments, including derivative features embedded in financial instruments or other contracts but which are not considered closely related to the host financial instrument or contract, are generally classified as held for trading and, therefore, must be measured at fair value with changes in fair value recorded in net earnings. However, if a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in net earnings.

FortisBC has designated its financial instruments as follows:

- Cash is classified as “*Financial Assets Held for Trading*”. Due to its nature, the carrying value equals its fair value.
- Accounts receivable, damage deposits, employee loans and energy management loans are classified as “*Loans and Receivables*”. These financial assets are recorded at values that approximate their amortized cost using the effective interest method.
- Accounts payable and accrued liabilities, operating credit and overdraft facilities, affiliate demand notes, secured and unsecured debentures and mortgage obligations are classified as “*Other Financial Liabilities*”. These financial liabilities are recorded at values that approximate their amortized cost using the effective interest method.

Under Section 3855, embedded derivatives are required to be separated from the host contract and accounted for as a derivative financial instrument if the embedded derivative and host contract are not closely related, and the combined contract is not held for trading or designated at fair value. While some

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three-month period ended March 31, 2007 and 2006

(Unaudited)

(All tabular dollar amounts are in thousands, unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**New accounting policies (continued)**

of the Company's long-term debt contracts have prepayment options that qualify as embedded derivatives to be separately recorded, none have been recorded as they are immaterial to the Company's results of operations and financial position.

As a result of adopting Section 3855, deferred financing costs of \$3.6 million as at March 31, 2007, relating to long-term debt, have been reclassified from deferred charges and other assets to long-term debt on the balance sheet. These costs will be taken into earnings using the effective interest method over the life of the related debt.

Certain of the Company's non-financial contracts meet the definition of a derivative but qualify for an expected usage exemption as they are used in the normal course of business. These contracts include the Brilliant Power Purchase Agreement, a power purchase agreement with BC Hydro, as well as several smaller independent power producer contracts.

b) Section 1530, *Comprehensive Income*, introduces a new financial statement "Statement of Comprehensive Income" and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including gains and losses arising on translation of self-sustaining foreign operations, gains and losses from changes in fair value of available for sale financial assets and changes in the fair value of the effective portion of cash flow hedging instruments. The Company has not recognized any adjustments through other comprehensive income for the three months ended March 31, 2007.

c) Section 3865, *Hedges* specifies the criteria under which hedge accounting may be applied, how hedge accounting should be performed under permitted hedging strategies and the required disclosures. This standard did not have an impact on the Company for the three months ended March 31, 2007.

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, income taxes, interest on debt and a return on equity. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three-month period ended March 31, 2007 and 2006
(Unaudited)

(All tabular dollar amounts are in thousands, unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Regulation (continued)**

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.

2007 Revenue Requirements

On December 20, 2006, the BCUC approved a 1.2% customer rate increase for 2007 effective January 1, 2007. The approved 2007 Revenue Requirements include an allowed Return on Equity ("ROE") of 8.77% (2006 allowed ROE was 9.20%). At that time, the BCUC ordered a separate submission concerning a change in the treatment of financing costs of large capital projects during the period of construction, which FortisBC submitted on January 5, 2007.

On March 9, 2007, the BCUC issued an order requiring FortisBC to change the treatment of financing costs of large capital projects during the period of construction. The decision allowed for an effective 2.1% incremental customer rate increase over the original 2007 rate increase of 1.2%. Because the rate increase was not implemented until April 1, 2007, the increase relating to the period January 1, 2007 through March 31, 2007 will be recovered in 2008 customer rates and at March 31, 2007 has been recorded in other revenue as a PBR incentive adjustment. As a result of the BCUC order, the customer rate increase effective April 1, 2007 is 3.3%.

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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three-month period ended March 31, 2007 and 2006
(Unaudited)

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3. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation	Book Value March 31, 2007	Book Value December 31, 2006
Generation	\$ 171,377	\$ 40,017	\$ 131,360	\$ 129,048
Substations	222,782	44,582	178,200	178,809
Transmission	123,564	25,737	97,827	98,094
Distribution	274,661	63,994	210,667	205,852
General	106,500	43,537	62,963	64,458
Asset under capital lease	27,228	3,647	23,581	23,808
Construction work in progress	46,923	-	46,923	31,166
Total	\$ 973,035	\$ 221,514	\$ 751,521	\$ 731,235

4. DEBT

	March 31, 2007	December 31, 2006
Secured Debentures		
Series E 11.0% due December 1, 2009	\$ 5,241	\$ 5,250
Series F 9.65% due October 16, 2012	14,860	15,000
Series G 8.8% due August 28, 2023	24,875	25,000
WPP mortgage 9.44% due October 31, 2013	5,663	5,817
	50,639	51,067
Unsecured Debentures		
Series H 8.77% due February 1, 2016	24,883	25,000
Series I 7.81% due December 1, 2021	24,792	25,000
Series J 6.75% due July 31, 2009	49,821	50,000
Series 04-1 5.48% due November 28, 2014	138,337	140,000
Series 05-1 5.60% due November 9, 2035	98,812	100,000
	336,645	340,000
Operating credit facilities	11,975	20,968
Overdraft facility and outstanding cheques	2,224	21,558
Affiliate demand notes	31,000	-
Princeton Light & Power Company, Limited demand facility	-	4,480
	45,199	47,006
Total debt	432,483	438,073
Current portion of debt	34,625	27,424
Long-term debt	\$ 397,858	\$ 410,649

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three-month period ended March 31, 2007 and 2006
(Unaudited)

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4. DEBT (continued)

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 and J debentures are guaranteed by FortisWest Inc., a subsidiary of Fortis.

Upon adoption, on January 1, 2007, of the new accounting standards for financial instruments, the Company has recorded deferred financing costs of \$3.6 million as an offset to the related debt balances. As of December 31, 2006, the deferred financing costs were recorded in deferred charges and other assets.

Operating credit facilities

The Company has authorized unsecured bank operating credit facilities comprised of a \$100 million revolving facility which matures on May 12, 2008 and a \$50 million, 364-day revolving facility. The \$50 million facility matures on May 10, 2007, however, between 60 and 90 days prior to the maturity date, the Company may request an extension of the maturity date for an additional 364 days. If the request for an extension is not granted, the facility will automatically convert into a non-revolving term credit facility that will mature six months from the date of conversion. The Company has requested an extension of the maturity dates as well as certain other amendments to the operating facilities. As at March 31, 2007, \$12.0 million (December 31, 2006 - \$21.0 million) has been drawn on the operating credit facilities.

Borrowings under the operating credit facilities bear interest at prime or the certificate of deposit offered rate for bankers' acceptances plus a margin based on FortisBC's debt ratings provided by certain major credit rating agencies. The interest rate on the balance outstanding at March 31, 2007 is 4.95% (December 31, 2006 - 4.94%).

The operating credit facilities are also available to support letters of credit. As at March 31, 2007, letters of credit were issued in the amount of \$4.6 million (December 31, 2006 - \$4.6 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, 2007 is 6.0% (December 31, 2006 - 6.0%). As at March 31, 2007, \$2.2 million has been drawn on the overdraft facility. As at December 31, 2006, \$7.2 million was drawn on the overdraft facility and outstanding cheques of \$14.4 million had been issued.

Fortis demand notes

During the three months ended March 31, 2007, the Company borrowed \$31.0 million by way of two 4.57% demand notes from Fortis. Interest on the demand notes of \$0.3 million (2006 - \$ nil) was expensed in the quarter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three-month period ended March 31, 2007 and 2006

 (Unaudited)

(All tabular dollar amounts are in thousands, unless otherwise noted)

5. SHARE CAPITAL

FortisBC has issued and outstanding 1,518,510 common shares (December 31, 2006 – 1,518,510 common shares), all of which are owned by Fortis Inc. through its indirect wholly owned subsidiary, Fortis Pacific.

There were no changes to share capital during the three months ended March 31, 2007 and March 31, 2006.

During the three months ended March 31, 2007, FortisBC paid dividends of \$2.9 million (2006 - \$2.5 million) to its parent company, Fortis Pacific.

6. 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	
	2007	2006
Revenues charged to related parties	\$ 135	\$ 1,139
Operating costs charged by related parties	320	426
Operating costs recovered from related parties	1,166	1,122
Interest expense on debt	255	-
Capital costs charged from related parties	-	62
	As at March 31 2007	As at December 31 2006
Included in accounts receivable	\$ 614	\$ 975
Included in accounts payable	225	181
Included in current debt	31,000	-

The revenues identified represent electricity and services sold to related parties. The operating costs charged above consist of information technology expenses, contract and direct labour charges, meter shop charges, and corporate governance costs. The operating recoveries above consist of labour and materials charges to the Company's parent and other related parties. Capital costs charged in 2006 consist of distribution upgrades and new customer connects performed by the former Princeton Light & Power Company, Limited, which was acquired by FortisBC on December 31, 2006 and wound up on January 1, 2007. Included in current debt are affiliate demand notes due to Fortis. Interest on the demand notes of \$0.3 million (2006 - \$nil) was expensed in the quarter. Except as disclosed elsewhere in these financial statements, the amounts due to and from the Company's parent and other related companies under common control are unsecured and due on demand.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three-month period ended March 31, 2007 and 2006
(Unaudited)

(All tabular dollar amounts are in thousands, unless otherwise noted)

7. CHANGES IN NON-CASH WORKING CAPITAL

	Three Months Ended	
	March 31	
	2007	2006
	<hr/>	<hr/>
Changes in non-cash working capital:		
Accounts receivable	\$ 5,864	\$ (1,894)
Prepaid expenses	(1,280)	(365)
Deferred charges and other assets	(19)	64
Income taxes recoverable / payable	405	1,685
Materials and supplies	21	65
Accounts payable and accrued liabilities	6,942	1,817
Accrued interest	2,391	2,391
	<hr/>	<hr/>
	14,324	3,763
Changes in non-cash working capital attributable to:		
Operating activities	11,239	8,354
Investing activities	3,085	(4,591)
	<hr/>	<hr/>
	\$ 14,324	\$ 3,763
	<hr/>	<hr/>

8. PENSION BENEFITS

During the three months ended March 31, 2007, the Company recorded defined benefit pension expenses of \$0.9 million (three months ended March 31, 2006 - \$1.1 million).

9. CONTINGENCIES

The Provincial Ministry 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. The Company is currently communicating with the Ministry and its insurers. In addition, the Company has been served with two filed Writs and Statements of Claim by private land owners in relation to the same matter. The outcome cannot be reasonably determined and estimated at this time, and accordingly no amount has been accrued in the financial statements.

FortisBC was served a Writ and Statement of Claim which was filed with the B.C. Supreme Court under the Class Proceedings Act, 1995 on behalf of a class consisting of all persons who are or were customers of FortisBC and who paid or have been charged FortisBC's late payment penalties at any time between April 1, 1981 and the date of any judgment in this action. The claim was that forfeitures of the prompt payment discount offered to customers constitute "interest" within the meaning of s. 347 of the Criminal Code and, since the effective annual rate of such interest exceeds 60%, they were illegal and void. In the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three-month period ended March 31, 2007 and 2006

(Unaudited)

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9. CONTINGENCIES (continued)

action the Plaintiff sought damages and restitution of all late payment penalties which were forfeited. On December 13, 2006, the application to certify the action as a class action was heard in the B.C. Supreme Court. In a decision delivered on January 11, 2007, the B.C. Supreme Court dismissed the application to certify the action as a class action. The Plaintiff filed an appeal of the decision with the Court of Appeal of British Columbia. The parties have now reached an agreement whereby the Plaintiff's appeal is abandoned, and it is agreed that a consent dismissal order will be entered with the Court, without costs to either party.

10. FINANCIAL INSTRUMENTS

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

- The fair values of cash, accounts receivable, damage deposits, employee loans, accounts payable and accrued liabilities, operating credit and overdraft facilities, and affiliate demand notes approximate their carrying values due to the short-term maturity of these instruments.
- The fair values of energy management loans and the obligation under capital lease approximate their carrying values since their interest rates are comparable to market rates.
- Since the Company has classified secured and unsecured debentures and mortgage obligations as "*Other Financial Liabilities*", the Company has measured these debt instruments at amortized cost using the effective interest method as required under CICA Handbook Section 3855. As at March 31, 2007, the fair value of these liabilities exceeded the carrying value by \$44.2 million (December 31, 2006 - \$45.7 million).

11. COMPARATIVE FIGURES

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