



**Unaudited Consolidated Interim Financial Statements
For the three and six months ended June 30, 2008**

CONSOLIDATED BALANCE SHEETS

As at (Unaudited)	June 30, 2008 (\$000s)	December 31, 2007 (\$000s)
ASSETS (note 4)		
Current assets		
Cash	451	-
Accounts receivable (note 6)	27,897	42,864
Prepaid expenses	857	1,349
Deferred charges and other assets	974	976
Materials and supplies	734	523
Regulatory assets	131	136
Income taxes recoverable	580	-
	31,624	45,848
Deferred charges and other assets	12,975	11,554
Regulatory assets	19,802	18,514
Property, plant and equipment (note 3)	863,767	836,180
Goodwill	1,209	1,209
TOTAL ASSETS	929,377	913,305
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	35,246	39,358
Accrued interest	8,037	8,044
Current portion of debt (note 4)	6,903	5,438
Regulatory liabilities	156	1,132
Income taxes payable	-	301
	50,342	54,273
Long-term debt (note 4)	496,448	488,643
Obligation under capital lease and other liabilities	28,864	28,976
Other post-retirement benefits	9,525	8,749
Future income taxes	1,725	1,745
	536,562	528,113
Shareholder's equity		
Share capital (note 5)	166,851	166,851
Retained earnings	175,622	164,068
	342,473	330,919
Contingency (note 9)		
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	929,377	913,305

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

	Three months ended		Six months ended	
	June 30		June 30	
	2008	2007	2008	2007
	(\$000s)	(\$000s)	(\$000s)	(\$000s)
Revenues (note 6)				
Electricity revenue	48,547	46,593	111,555	106,566
Other revenue	1,471	1,417	2,826	3,416
	50,018	48,010	114,381	109,982
Expenses (note 6)				
Power purchases	11,761	13,197	32,740	33,290
Operating and maintenance	8,892	7,550	17,909	16,459
Depreciation	7,905	7,056	15,807	14,138
Property taxes	2,869	2,843	5,746	5,671
Water fees	1,999	1,972	3,989	3,991
Wheeling	879	867	1,758	1,728
Amortization	600	698	1,237	1,405
	34,905	34,183	79,186	76,682
Earnings from operations	15,113	13,827	35,195	33,300
Interest expense				
Long-term debt	7,951	6,618	15,852	13,258
Short-term debt	145	252	290	628
Allowance for funds used during construction	(643)	(822)	(1,465)	(1,438)
	7,453	6,048	14,677	12,448
Earnings before income taxes	7,660	7,779	20,518	20,852
Income taxes	1,314	1,183	2,564	2,917
Net earnings	6,346	6,596	17,954	17,935

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(Unaudited)

	Three months ended		Six months ended	
	June 30		June 30	
	2008	2007	2008	2007
	(\$000s)	(\$000s)	(\$000s)	(\$000s)
Retained earnings, beginning of period	172,476	154,251	164,068	145,812
Net earnings	6,346	6,596	17,954	17,935
Dividends	(3,200)	(2,900)	(6,400)	(5,800)
Retained earnings, end of period	175,622	157,947	175,622	157,947

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended		Six months ended	
	June 30		June 30	
	2008	2007	2008	2007
	(\$000s)	(\$000s)	(\$000s)	(\$000s)
Cash from (used in) operating activities				
Net earnings	6,346	6,596	17,954	17,935
Adjustments for non-cash items:				
Depreciation	7,905	7,056	15,807	14,138
Amortization	600	698	1,237	1,405
Future income taxes	(16)	6	(20)	12
Deferred charges and other non-current assets and liabilities	(1,440)	34	(2,287)	(799)
	13,395	14,390	32,691	32,691
Changes in non-cash working capital (note 7)	4,201	1,069	15,506	12,308
	17,596	15,459	48,197	44,999
Cash from (used in) investing activities				
Additions to property, plant and equipment	(22,186)	(39,620)	(43,848)	(67,215)
Additions to deferred charges and other non-current assets	(631)	(1,326)	(1,200)	(1,495)
Changes in non-cash working capital (note 7)	184	3,170	(5,220)	6,255
	(22,633)	(37,776)	(50,268)	(62,455)
Cash from (used in) financing activities				
Proceeds from bank debt	8,841	56,649	9,414	23,842
Proceeds from affiliate demand notes	-	-	-	31,000
Repayment of affiliate demand notes	-	(31,000)	-	(31,000)
Repayment of mortgage	(173)	(156)	(341)	(310)
Repayment of capital lease obligation	(146)	(134)	(146)	(134)
Dividends	(3,200)	(2,900)	(6,400)	(5,800)
Deferred financing costs	-	(69)	(5)	(69)
	5,322	22,390	2,522	17,529
Increase in cash	285	73	451	73
Cash, opening balance	166	46	-	46
Cash, closing balance	451	119	451	119
Cash flows include the following elements:				
Interest paid	8,898	9,268	16,149	13,893
Income taxes paid	1,122	1,080	2,244	2,160

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2008 and 2007
(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, 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 interim 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, 2007.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2008 and 2007
(Unaudited)

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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, 2008, FortisBC adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (“CICA”).

- a) Section 3031, *Inventories*, which requires inventories to be measured at the lower of cost or net realizable value; disallows the use of a last-in first-out inventory costing methodology; and requires that, when circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write-down is to be reversed. This standard did not have a material impact on the Company’s earnings for the three and six month periods ended June 30, 2008.
- b) Section 1535, *Capital Disclosures*, which requires additional information in the notes to the financial statements about the Company’s capital and the manner in which it is managed. This additional disclosure, which includes qualitative and quantitative information regarding an entity’s objectives,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2008 and 2007
(Unaudited)

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

policies and processes for managing capital, has been provided in note 10.

- c) Section 3862, *Financial Instruments Disclosures*, which requires disclosure of both qualitative and quantitative information to assist users of the financial statements to evaluate the nature and extent of risks from financial instruments to which the Company is exposed. The required disclosure has been provided in note 11.

Future accounting pronouncements**a) International Financial Reporting Standards (“IFRS”)**

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises. In April 2008, the AcSB issued an IFRS Omnibus Exposure Draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011. The transition 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. Further, FortisBC anticipates a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required and any necessary system changes to gather and process the information.

b) Accounting for rate regulated operations

In March 2002, the AcSB approved a project to review the need to modify existing standards 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. In August 2007, the AcSB issued a summary regarding its March 2007 Exposure Draft “Rate Regulated Operations”, which decided 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 will be removed.
- Section 3465, *Income Taxes*, will be 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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 impact on FortisBC of the amendment to Section 3465, *Income Taxes*, will be the recognition of a future income tax liability as well as a separate regulatory asset for the amount of future income taxes expected to be included in future rates and recovered from customers. Currently, the Company uses the taxes payable method of accounting for income taxes on regulated earnings. The effect on the Company's financial statements if it had adopted amended Section 3465, *Income Taxes*, as at December 31, 2007, would have been an increase in future tax liabilities of \$63.9 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 would also be a corresponding increase in regulatory assets of \$63.9 million. The Company is continuing to assess and monitor any additional implications on its financial reporting related to accounting for rate regulated operations.

c) Goodwill and intangible assets

Effective January 1, 2009, FortisBC will be adopting the new Section 3064, *Goodwill and Intangible Assets*, which 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. The Company is investigating the impact of this new standard on the financial statements of the Company.

3. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation	Book Value June 30, 2008	Book Value December 31, 2007
Generation	\$ 183,346	\$ 42,642	\$ 140,704	\$ 141,027
Substations	265,887	53,987	211,900	202,170
Transmission	143,220	31,989	111,231	111,603
Distribution	311,617	65,940	245,677	231,165
General	130,421	51,049	79,372	76,112
Asset under capital lease	27,228	4,782	22,446	22,900
Construction work in progress	52,437	-	52,437	51,203
Total	\$ 1,114,156	\$ 250,389	\$ 863,767	\$ 836,180

Included in general property, plant and equipment is \$7.8 million (December 31, 2007 - \$6.9 million) of inventory held for construction and maintenance of property, plant and equipment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited)

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

4. DEBT

	June 30, 2008	December 31, 2007
Secured Debentures		
Series E 11.0% due December 1, 2009	\$ 4,500	\$ 4,500
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	4,840	5,181
	49,340	49,681
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	7,983	-
Overdraft facility	5,420	3,989
	13,403	3,989
Total debt	507,743	498,670
Current portion of debt	6,903	5,438
	500,840	493,232
Less: deferred financing costs	4,392	4,589
Long-term debt	\$ 496,448	\$ 488,643

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.

Operating credit facilities

On April 15, 2008, the Company amended its operating credit facility. 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited)

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

4. DEBT (continued)

days and 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. As at June 30, 2008, \$8.0 million (December 31, 2007 - \$nil) has been drawn on Facility A and \$nil (December 31, 2007 - \$nil) has been drawn on Facility B. The interest rate on the balance outstanding at June 30, 2008 is 3.61%.

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 operating credit facilities are also available to support letters of credit. As at June 30, 2008, letters of credit were issued in the amount of \$3.0 million (December 31, 2007 - \$3.1 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 June 30, 2008 is 4.75% (December 31, 2007 - 6.0%).

5. SHARE CAPITAL

FortisBC has issued and outstanding 1,668,510 common shares (December 31, 2007 - 1,668,510 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 and six months ended June 30, 2008 and June 30, 2007.

During the three and six months ended June 30, 2008, FortisBC paid dividends of \$3.2 million (three months ended June 30, 2007 - \$2.9 million) and \$6.4 million (six months ended June 30, 2007 - \$5.8 million) respectively to its parent company, Fortis Pacific.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2008 and 2007
(Unaudited)

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

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		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
Revenues charged to related parties	\$ 187	\$ 215	\$ 314	\$ 344
Operating costs charged from related parties	598	484	918	804
Operating costs recovered from related parties	1,783	2,767	3,196	3,933
Interest expense on affiliate demand notes	-	225	-	480
Interest revenue on accounts receivable	8	28	14	34
Capital costs charged from related parties	159	-	159	-

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

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.

During the six months ended June 30, 2007, the Company borrowed and repaid affiliate demand notes from Fortis totalling \$31.0 million at 4.57%. Interest expense on the affiliate demand notes was recorded in short-term interest expense.

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.

Capital costs charged consist of electrical equipment sold to the Company by a related Fortis subsidiary.

The following amounts due to and from the Company's parent and other related companies under common control are unsecured and due on demand:

	June 30,	December 31,
	2008	2007
Included in accounts receivable	\$ 635	\$ 2,743
Included in accounts payable and accrued liabilities	345	125

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2008 and 2007
(Unaudited)

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

7. CHANGES IN NON-CASH WORKING CAPITAL

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
Changes in non-cash working capital:				
Accounts receivable	\$ 10,912	\$ 7,742	\$ 14,967	\$ 13,606
Prepaid expenses	1,888	1,537	492	257
Deferred charges and other assets	30	(213)	38	(232)
Income taxes recoverable / payable	(506)	(141)	(881)	264
Materials and supplies	18	54	(211)	75
Accounts payable and accrued liabilities	(7,155)	(2,342)	(4,112)	4,600
Accrued interest	(802)	(2,398)	(7)	(7)
	<u>4,385</u>	<u>4,239</u>	<u>10,286</u>	<u>18,563</u>
Changes in non-cash working capital attributable to:				
Operating activities	4,201	1,069	15,506	12,308
Investing activities	184	3,170	(5,220)	6,255
	<u>\$ 4,385</u>	<u>\$ 4,239</u>	<u>\$ 10,286</u>	<u>\$ 18,563</u>

8. PENSION BENEFITS

During the three and six months ended June 30, 2008, the Company recorded defined benefit pension expenses of \$0.7 million (three months ended June 30, 2007 - \$1.0 million) and \$1.4 million (six months ended June 30, 2007 - \$1.9 million).

9. 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, FortisBC has been served with two Writs and Statements of Claim by private land owners in relation to the same matter. FortisBC is communicating with its insurers and has filed a Statement of Defence in relation to all 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.

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

10. 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 June 30, 2008 and December 31, 2007, the Company's capital structure was as follows:

	June 30, 2008		December 31, 2007	
	\$	Percent	\$	Percent
Total Debt ¹	507,743	59.7	498,670	60.1
Shareholder's Equity	342,473	40.3	330,919	39.9
Total	850,216	100.0	829,589	100.0

¹ Excludes debt issue costs.

11. 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 fair values are as follows:

- The fair values of cash, accounts receivable, deposits, employee loans and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of these instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited)

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

11. FINANCIAL INSTRUMENTS (continued)

- The fair values of energy management loans and operating credit and overdraft facilities 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 June 30, 2008, the fair value of these liabilities exceeded the carrying value by \$17.5 million (December 31, 2007 - \$34.0 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 into derivative financial instruments to reduce exposure to fluctuations in any of the risks impacting the Company’s operations.

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.

At June 30, 2008 the balance of customer accounts receivable past due over 60 days was \$1.9 million (December 31, 2007 - \$2.8 million). The Company has provided an allowance for doubtful accounts of \$0.9 million (December 31, 2007 - \$1.3 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 immaterial.

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11. FINANCIAL INSTRUMENTS (continued)*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.