COLUMBIA POWER CORPORATION

ANNUAL REPORT 2005/06

Cover photo: Construction
of Brilliant Expansion
Castlegar, British Columbia

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ANNUAL REPORT • 2005/06

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Message from the Chair

It is with pleasure that I present the 2005/06 Annual Report for Columbia Power Corporation. This report reviews the activities of Columbia Power Corporation during the past year in fulfilment of its mandate to plan, construct and operate power projects in a cost-effective manner.

During the year, the 185 megawatt, $270 million Arrow Lakes Generating Station was one of three recipients of the International Hydropower Association's Blue Planet Prize for sustainable hydropower projects. The award was presented in December 2005 during the United Nations Conference on Climate Change in Montreal. The Blue Planet Prize is awarded every two years to recognize excellence in sustainable practices at hydropower facilities in operation for a minimum of three years. The Arrow Lakes Generating Station was recognized for social, environmental and technical excellence.

The Brilliant dam, powerhouse and terminal station continued to perform at a high level, with earnings from these assets maintaining their upward trend. In 2005/06, profits were enhanced through a new short-term power sales agreement with Powerex Corp., and work continued on minor capital projects.

In 2005, Columbia Power Corporation engaged the services of Haddon Jackson Associates, Inc. to provide benchmarking services that would compare the power project operating and maintenance performance of Columbia Power Corporation against that of similar facilities across North America. Haddon Jackson Associates is a leading management consulting firm specializing in hydro performance improvement. Columbia Power Corporation participated in a study (Hydro 2005) led by Haddon Jackson Associates that compared performance data from 332 powerplants. In all major areas, Columbia Power Corporation/Columbia Basin Trust powerplants performed well compared with their peers, and Brilliant dam and powerhouse was awarded "leading performer" status in the plant maintenance category.

The 120 megawatt Brilliant Expansion is now more than three years into construction. The project was originally scheduled to begin commercial operation in August 2006. However, as a result of construction delays, start-up is now expected in late May 2007. Construction of the $205 million Brilliant Expansion will create over 450 person-years of direct employment (with 85% local hires), $30 million in direct and indirect income and $15 million in local procurement. Forty percent of the power has been sold to BC Hydro for a 20 year term beginning in August 2007. Columbia Power Corporation is pursuing both short and long-term sales opportunities in British Columbia and the Pacific Northwest for the remaining plant output. A proposal has been submitted for the sale of energy in response to BC Hydro's 2006 call for tenders for new power.

Development planning for the Waneta Expansion during 2005/06 focused largely on environmental issues and culminated with submission of the project's Environmental Assessment Certificate Application on March 31, 2006. As with Arrow Lakes and the Brilliant Expansion, the 435 megawatt Waneta Expansion will use the hydraulic head and seasonal spills at an existing dam, thereby avoiding the environmental impacts that would be associated with new dam construction. The project will be built adjacent to Teck Cominco Metals Ltd.'s Waneta dam on the Pend d'Oreille River south of Trail. Subject to the results of ongoing construction feasibility and viability studies, and the receipt of regulatory approvals, the year ahead will see the start of a design-build proposal competition leading to project ground-breaking in early 2008. This will contribute long-term economic benefits to residents of the Columbia Basin and environmental benefits to the Pacific Northwest in the form of reduced dissolved gas levels in the Columbia River and greenhouse gas offsets. During construction, the project is expected to provide nearly 700 person-years of direct employment (75% local hires), $65 million in direct and indirect income, and over $30 million in local project spending.

On May 3, 2004, Columbia Power Corporation discovered damage to the concrete lining of the Arrow Lakes Generating Station approach channel following unstable hydraulic conditions. Power generation was suspended while emergency repairs were performed to ensure the structural integrity of the channel and the adjoining structures. Interim repairs were then made to allow power generation to resume safely in August 2004. Permanent channel repairs began in late 2005 and commercial operation resumed in May 2006.

Since 2001/02, the Province and Columbia Basin Trust have reviewed a number of options for restructuring the relationship among the Province, Columbia Power Corporation and Columbia Basin Trust. In January 2005, the Province directed that the existing structure for the Columbia Basin Initiative be continued, with the mandates of Columbia Power Corporation and Columbia Basin Trust remaining unchanged and Columbia Power Corporation continuing, as manager of the joint ventures, to develop, construct and operate power projects. On June 20, 2005, Columbia Basin Trust filed a "Notice of Intention" with the Province under an April 2001 Option Agreement that provided Columbia Basin Trust with an option to purchase Columbia Power Corporation. On November 15, 2005, the Province and Columbia Basin Trust announced that Columbia Basin Trust's option to purchase Columbia Power Corporation shares would not be exercised. Columbia Basin Trust and the region were given a greater role in the management of the power assets, via a one-third representation on the Columbia Power Corporation Board of Directors.

The Province's January 2005 direction also committed to supporting Columbia Power Corporation's mandate through the appointment of additional members to the Columbia Power Corporation Board of Directors. In addition to my appointment as Chair in February 2005, two other members with considerable experience as officers and directors were appointed in April 2005. Three additional appointments have recently been made to the Columbia Power Corporation Board of Directors, including the Columbia Basin Trust's new one-third representation. Work is in progress on board sub-committee structures and an overall board governance model consistent with best practices guidelines issued by the Province. The development of a Shareholder's Letter of Expectations is underway to outline the Province's future expectations of Columbia Power Corporation.

During the year, our work tracked the goals set out in our Service Plan. Although we were largely successful in meeting our objectives, the Brilliant Expansion is now delayed nine months because of difficulties encountered by the construction contractor. Income fell short of our target for the year by $4.6 million, primarily as a result of the cost of Arrow Lakes channel permanent repairs. Recovering this income is uncertain both in amount and timing. The short-term goals of Columbia Power Corporation include: pursuing the recovery of the Arrow Lakes channel repair costs; securing a satisfactory power sales agreement for the balance of the output from the Brilliant Expansion; completing construction of the Brilliant Expansion; and managing the Waneta Expansion design-build proposal competition starting in late 2006.

Effective October 1, 2005, Mr. Lorne Sivertson resigned his positions as President and board member of Columbia Power Corporation. Mr. Ed Pietraszek, previously Columbia Power Corporation's Corporate Secretary/Treasurer and a board member for 11 years, has assumed the role of Acting President until such time as a permanent replacement is selected.
Mr. Sivertson had been President and a board member since Columbia Power Corporation's inception in 1994. During his tenure, Columbia Power Corporation went from being a "paper company" to a company with over $850 million in assets under management. Columbia Power Corporation's success can, in large part, be attributed to Mr. Sivertson's leadership and determination, and the Board of Directors thanks him for his years of dedicated service.

Staff expertise and their relationships with the private sector are critical to the success of Columbia Power Corporation. Our small staff contingent is commended for managing a number of difficult issues during the year and for their ongoing effort and dedication.

The 2005/06 Columbia Power Corporation Annual Report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. I am accountable for the contents of the report, including the selection of performance measures and how the results have been reported. The information presented reflects the actual performance of Columbia Power Corporation for the 12 months ended March 31, 2006. All significant decisions, events and identified risks, as of May 19, 2006, have been considered in preparing the report. The information presented is prepared in accordance with BC Reporting Principles and represents a comprehensive picture of our actual performance in relation to our Service Plan. The measures presented are consistent with Columbia Power Corporation's mandate, goals and objectives, and focus on aspects critical to the organization's performance. I am responsible for ensuring that internal controls are in place so that performance information can be measured accurately and in a timely fashion. This report contains estimates and interpretive information that represent the best judgement of management. Any significant limitations in the reliability of data are identified in the report.

Lee Doney
Board Chair

Organizational Overview

Introduction

Columbia Power Corporation is a Crown corporation wholly owned and controlled by the Province of British Columbia, existing under the *Business Corporations Act* and reporting to the Minister of Energy, Mines and Petroleum Resources. Under the terms of its agency agreement with the Province, Columbia Power Corporation must obtain the approval of the Province's Treasury Board for all budgets and material decisions. Its mission is to efficiently develop and operate commercially viable, environmentally sound and safe power project investments for the benefit of the Province and the residents of the Columbia Basin. In making power project investments, Columbia Power Corporation's goal is to support the employment, economic development and resource management objectives of the Province and Columbia Basin Trust, within the constraints of a commercial enterprise.

Columbia Power Corporation undertakes power projects through joint ventures with subsidiaries of Columbia Basin Trust and manages the joint ventures. Columbia Power Corporation is a small organization, with fewer than 45 full-time equivalent positions, located in Castlegar and Victoria. The Corporation focuses on asset management activities while engaging private-sector firms to provide construction, plant operation and specialist consulting services. Through its joint ventures, Columbia Power Corporation is one of the largest producers of electricity in British Columbia.

The core projects of Columbia Power Corporation and Columbia Basin Trust are the Arrow Lakes Generating Station, the Brilliant Expansion and the Waneta Expansion, all of which are located in the Columbia Basin. The joint venturers may also undertake other power generation, transmission or distribution projects in the Columbia Basin. In 1996, the joint venturers made their first investment with the purchase of the Brilliant dam and powerplant from Teck Cominco Metals Ltd. and subsequently carried out a substantial sustaining capital and upgrade program. Construction of the Arrow Lakes Generating Station began in 1999 and start-up was achieved in 2002. Construction of the Brilliant Expansion began in 2003, with start-up scheduled for 2007. Environmental permitting is being pursued for the Waneta Expansion. Most of the power generated at the current operating projects is committed under long-term sales contracts to two utilities, FortisBC Inc. (FortisBC) and BC Hydro. A long-term contract with BC Hydro is also in place for the sale of a portion of the output of the Brilliant Expansion upon project completion.

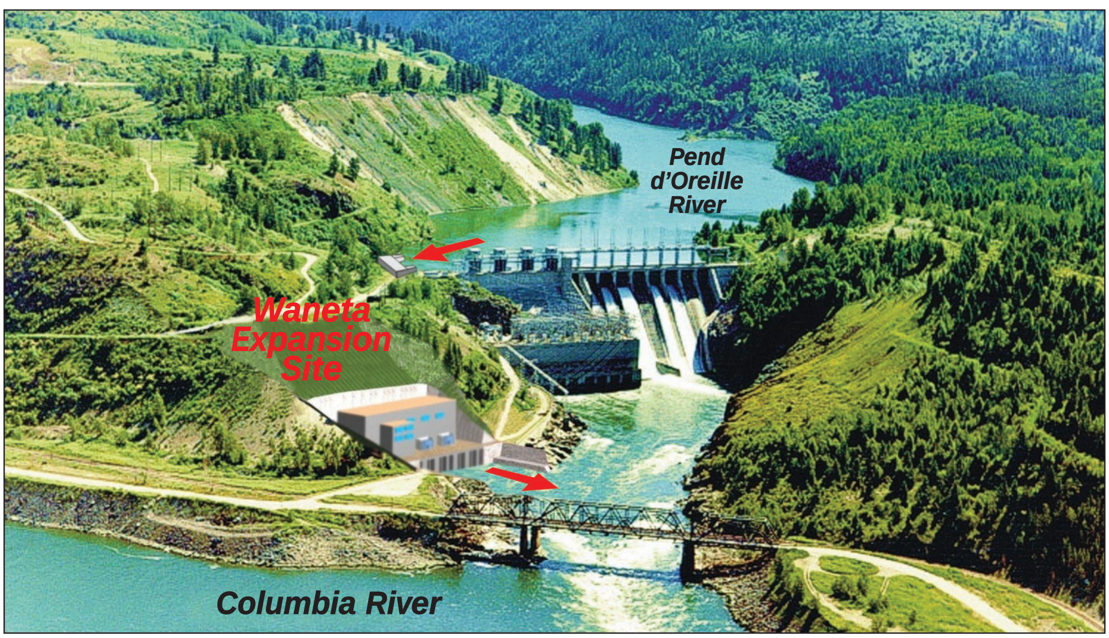
Historic Context

In 1964, Canada and the United States ratified the Columbia River Treaty. Under the Treaty, Canada, through the Province of British Columbia, agreed to build three new storage dams in the Canadian section of the Columbia River: Duncan (1968), Keenleyside (1969) and Mica (1973). The purpose of the new dams was to create 15.5 million acre-feet of water storage that would control flooding in Washington and Oregon and allow hydroelectric facilities in these states to produce about 2,000 megawatts of additional electricity capacity (BC Hydro has about 11,000 megawatts of capacity). This additional power is referred to as the downstream benefits. In exchange, the Province received $64.4 million plus one-half the downstream benefits, which it sold to a consortium of United States utilities for a period of 30 years from the completion dates of the three Canadian dams.

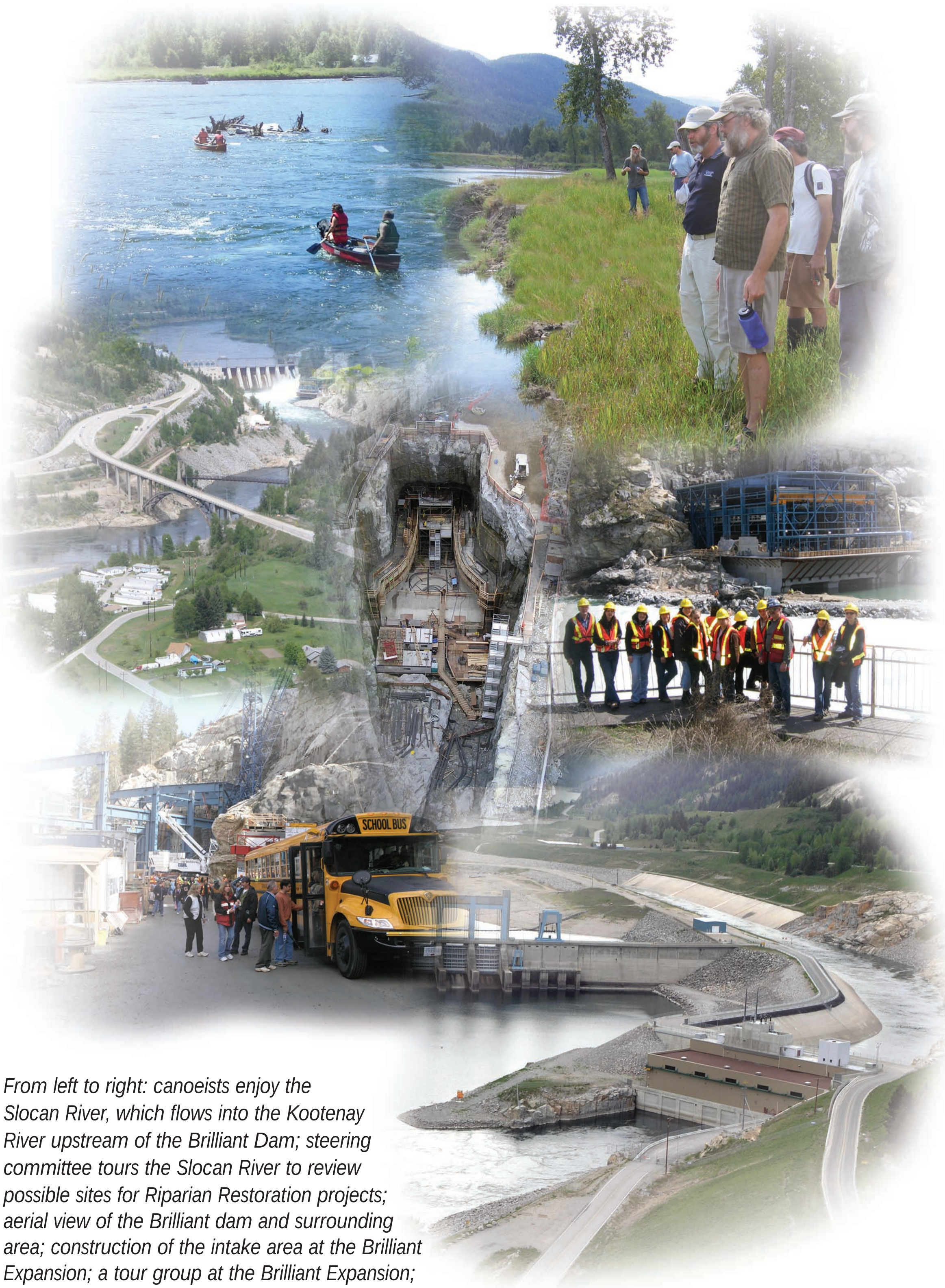
The construction of the three Treaty dams brought current and future financial benefits to the Province, but also significant economic, environmental and social costs to the residents of the Columbia Basin, both at the time and on an ongoing basis. Approximately 2,300 residents were displaced, communities were lost, lands were expropriated and properties were flooded. There continue to be negative environmental effects from reservoir and river-flow fluctuations.

In 1995, the Province, through legislation and contractual arrangements, created a unique model in recognition of the costs borne by the Columbia Basin as a result of the Treaty dams. Through the Columbia Basin Initiative, it was agreed to allocate a share (about 8%) of the value of future downstream benefits sales to the region. The mechanisms of the Columbia Basin Initiative were the *Columbia Basin Trust Act*, which created Columbia Basin Trust, and the 1995 Financial Agreement between the Province and Columbia Basin Trust, which set out the terms for the regional funding allocation.

Under the 1995 Financial Agreement, Columbia Basin Trust and Columbia Power Corporation received $250 million each over 10 years to provide equity for qualifying power project developments in the region. Three core projects were designated: Keenleyside (subsequently renamed Arrow Lakes Generating Station); Brilliant Expansion; and Waneta Expansion. The Brilliant Expansion and Waneta Expansion involve development rights purchased by Columbia Power Corporation in 1994 from Cominco Ltd., now Teck Cominco Metals Ltd. Other generation, distribution and transmission projects can be carried out by Columbia Power Corporation and Columbia Basin Trust, provided both parties agree and the projects meet the same commercial and other tests as the core projects. Returns from Columbia Power Corporation's 50% share of the power projects are available to be distributed to the Province. Returns from Columbia Basin Trust's 50% share of the power projects are available to be used by Columbia Basin Trust to provide benefits to the people of the region, in accordance with the *Columbia Basin Trust Act*.



Computer rendition of Waneta dam and proposed Waneta Expansion



From left to right: canoeists enjoy the Slocan River, which flows into the Kootenay River upstream of the Brilliant Dam; steering committee tours the Slocan River to review possible sites for Riparian Restoration projects; aerial view of the Brilliant dam and surrounding area; construction of the intake area at the Brilliant Expansion; a tour group at the Brilliant Expansion; local residents board bus for tour of Brilliant Expansion during Community Day; aerial view of the Arrow Lakes Generating Station with the Hugh Keenleyside dam in the background

Mandate, Vision and Values

In January 2005, the Province confirmed the mandate of Columbia Power Corporation to continue, as manager of the joint ventures with Columbia Basin Trust, to plan, develop and operate power projects.

The mandate, vision and values of Columbia Power Corporation are presented below.

Mandate

- Develop core hydroelectric projects and other qualifying generation, transmission and distribution projects in the Columbia Basin.
- Earn an acceptable rate of return given the risks.
- Finance power projects using the government's equity contributions, retained earnings and limited-recourse project debt, without government debt guarantees.
- Promote employment, economic development and new industry through environmentally sound, cost-competitive power project investment.

Vision

To be a respected, continually improving company that maximizes shareholder value by developing and operating power projects in a socially and environmentally responsible manner, achieving the development objectives of the Province and the Columbia Basin.

Values

- Efficiency in the use of scarce resources.
- Good value for money for the Province and the Columbia Basin.
- Socially responsible decision-making, to the extent possible guided by the market.
- Proactive and economically responsible environmental management.
- Respectful employment practices.

Business Model

The business of Columbia Power Corporation is to plan, develop and operate commercially viable, environmentally sound and safe power projects in the Columbia Basin, with the first priority being the core projects identified in 1995 (Arrow Lakes Generating Station, Brilliant Expansion and Waneta Expansion). In carrying out its business, Columbia Power Corporation relies, to a great extent, on the private sector. Project planning, design, financing, construction, operation and power sales involve private-sector firms wholly or in part. As a Crown corporation, Columbia Power Corporation follows a public-private partnership model for the design, procurement and operation of the joint venture power projects. This allows Columbia Power Corporation to properly allocate and manage risks and realize innovation and efficiency through competition. The model has five distinct components: design, evaluate, build, operate and manage.

<u>Design</u>
The design component involves the assessment of overall engineering, financial, economic and environmental feasibility. This includes the base engineering design, capital cost estimates, market price forecasts, stakeholder consultations, regulatory submissions and solicitation of contractor interest. It concludes with an initial go/no-go feasibility decision followed by a design-build competition. This component is largely carried out by Columbia Power Corporation with its consultants.

<u>Evaluate</u>
In this component, all of the design-build bids are assessed, along with power sales agreements and environmental permits, to determine if a project can proceed and if a design-build contract can and should be executed. Columbia Power Corporation, on behalf of the joint venture, is responsible for this evaluation and due diligence.

<u>Build</u>
With the signing of a design-build contract, many responsibilities are transferred to the design build contractor. Columbia Power Corporation, however, engages an "Owner's Consultant" to ensure compliance with contract terms, including monitoring of quality control and environmental permit requirements.

<u>Operate</u>
Once a project has been completed and commissioned, operations and power sales begin, and further due diligence is undertaken to ensure all deficiencies are resolved and the facility is "fit for purpose." Columbia Power Corporation has in-house engineers knowledgeable in plant operations and maintenance, but has chosen (for cost and efficiency purposes) to engage a contractor to operate and maintain the joint venture's plants, with oversight by Columbia Power Corporation. The contractor is responsible for a number of activities, including compliance with dam safety and environmental requirements.

<u>Manage</u>
Columbia Power Corporation, the manager for the joint ventures, is responsible for all activities in the business model components: negotiating and administering agreements; raising financing, paying lenders; paying taxes; complying with approvals; employing qualified staff and advisors; and, above all, serving the public interest.

The Columbia Power Corporation business model is shown in Figure 1.

Figure 1: Columbia Power Corporation (CPC) Business Model

Business Components	Design	Evaluate
Responsibility	CPC	CPC
Key Activities	• Determine financial/ technical feasibility • Communicate with community and First Nations • Environmental and other assessments	• Assess competing proposals from contractors • Assess feasibility • Negotiate contracts
Key Products	Initial Plans: • Financial • Marketing • Engineering • Community/First Nations • Environmental • Requests for proposals	Updated Plans: • Financial • Marketing • Engineering • Community/First Nations • Environmental • Updated go/no-go decision
Outcomes	• Initial go/no-go decision • Balance achieved between capital and dividend requirements	• Signed contracts • Clear expectations • Risks assessed, allocated
Results	Value for money/profitability Stakeholder support Environment protected	

Build	Operate	Manage
Contractors	Contractors	CPC
• Oversee construction • Carry out construction • Follow up on commitments • Related sub-projects	Conduct: • maintenance • upgrades • dispatch	Manage: • financial and regulatory concerns • contract administration • human resources • joint venture interface
• Compliance • Studies and reports • Stakeholder communications	• Generation • Power sales	• Budgets • Expenditures • Debt issues • Regulatory compliance
• Projects completed to specifications • Construction employment/income	• Efficient, reliable plant operations • Ongoing environmental benefits • Cash flow	• Cost-effective operations • Dividends • Shareholder value • Joint venture value

Risks managed

Motivated, skilled staff

Regulatory compliance

In carrying out its business model, Columbia Power Corporation has two roles:

- It is an owner with a 50% interest, along with Columbia Basin Trust, in joint venture power projects, each of which is a separate company. Power projects are established as separate corporations for the purpose of securing limited-recourse commercial project financing without provincial debt guarantees.
- It is the manager for the joint ventures. The corporate structure of the joint ventures is shown in Figure 2.

Key Relationships

The joint venture power project companies owned by Columbia Power Corporation and Columbia Basin Trust are wholesalers of power, primarily under long-term purchase agreements with regulated utilities. A 12 year power purchase agreement (expiring in 2015) is in place with BC Hydro for the output of the Arrow Lakes Generating Station; a 60 year power purchase agreement (expiring in 2056) is in place with FortisBC for most of the output of the Brilliant dam; and a 20 year “green power” purchase agreement (expiring in 2027) is in place with BC Hydro for 40% of the output of the Brilliant Expansion.

The joint venture hydroelectric projects have, or will have, power “entitlement agreements” with BC Hydro. These agreements provide the power projects with predetermined monthly energy and capacity quantities based on historic stream flows and the flow-versus-output characteristics of each plant. The entitlement agreements remove annual hydrology risk, making the projects more attractive to purchasers and lenders. BC Hydro controls the overall hydroelectric system in the Columbia-Kootenay region, allowing it to optimize power production for the system as a whole. BC Hydro is also compensated for the assumption of hydrology risk by being entitled to keep a small share of the average annual energy produced. BC Hydro has similar arrangements with FortisBC and Teck Cominco Metals Ltd.

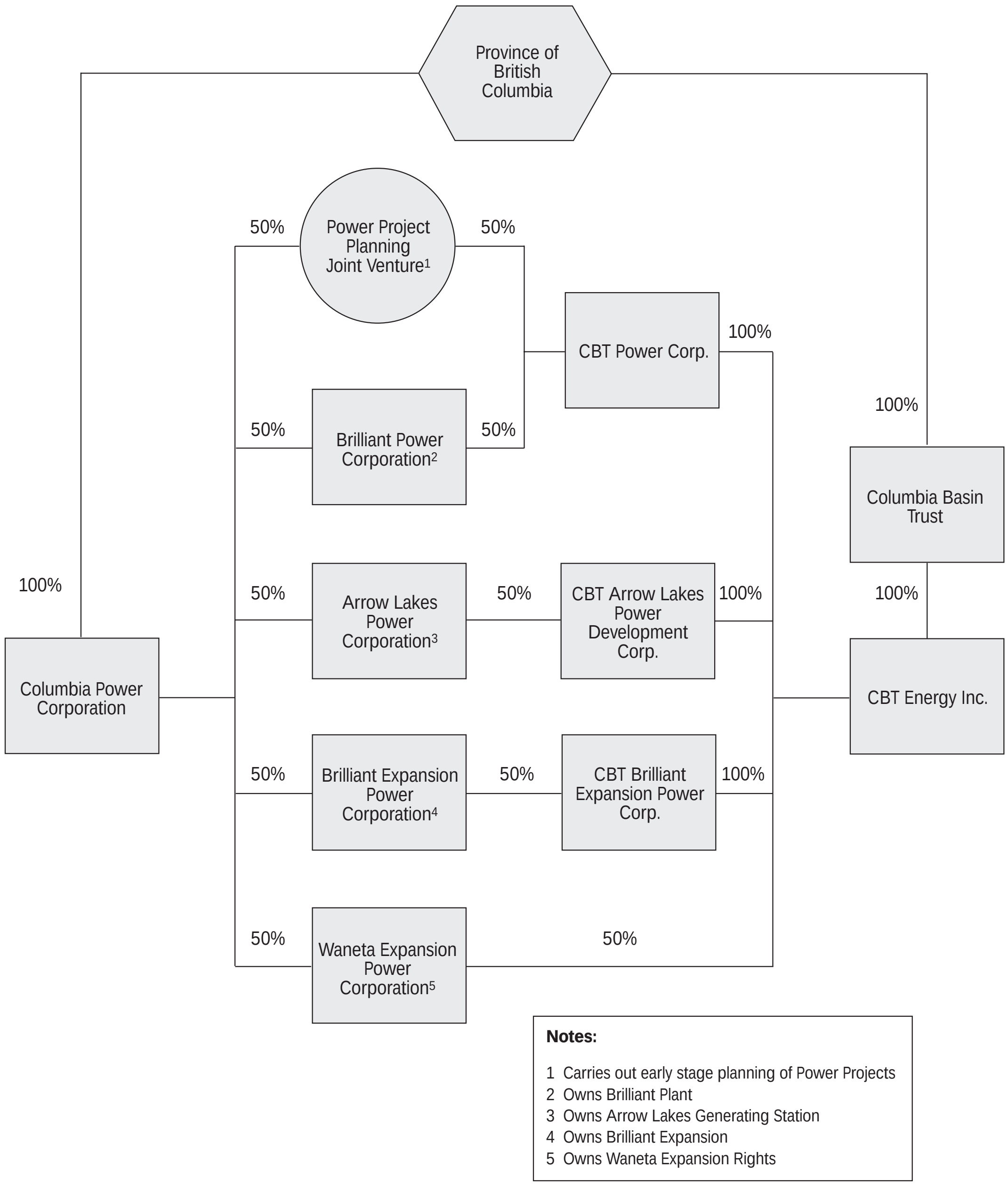
The Arrow Lakes Generating Station was constructed by Peter Kiewit Sons Co. Ltd. under a fixed-price design-build contract. Final acceptance has not been achieved, pending satisfaction of all contract requirements, including resolution of a number of deficiencies. Peter Kiewit Sons Co. Ltd. is contracted to perform the channel permanent repair work.

The Brilliant Expansion is being constructed by the Brilliant Expansion Consortium, composed of Skanska-Chant and SNC-Lavalin Inc., under a fixed-price design-build contract.

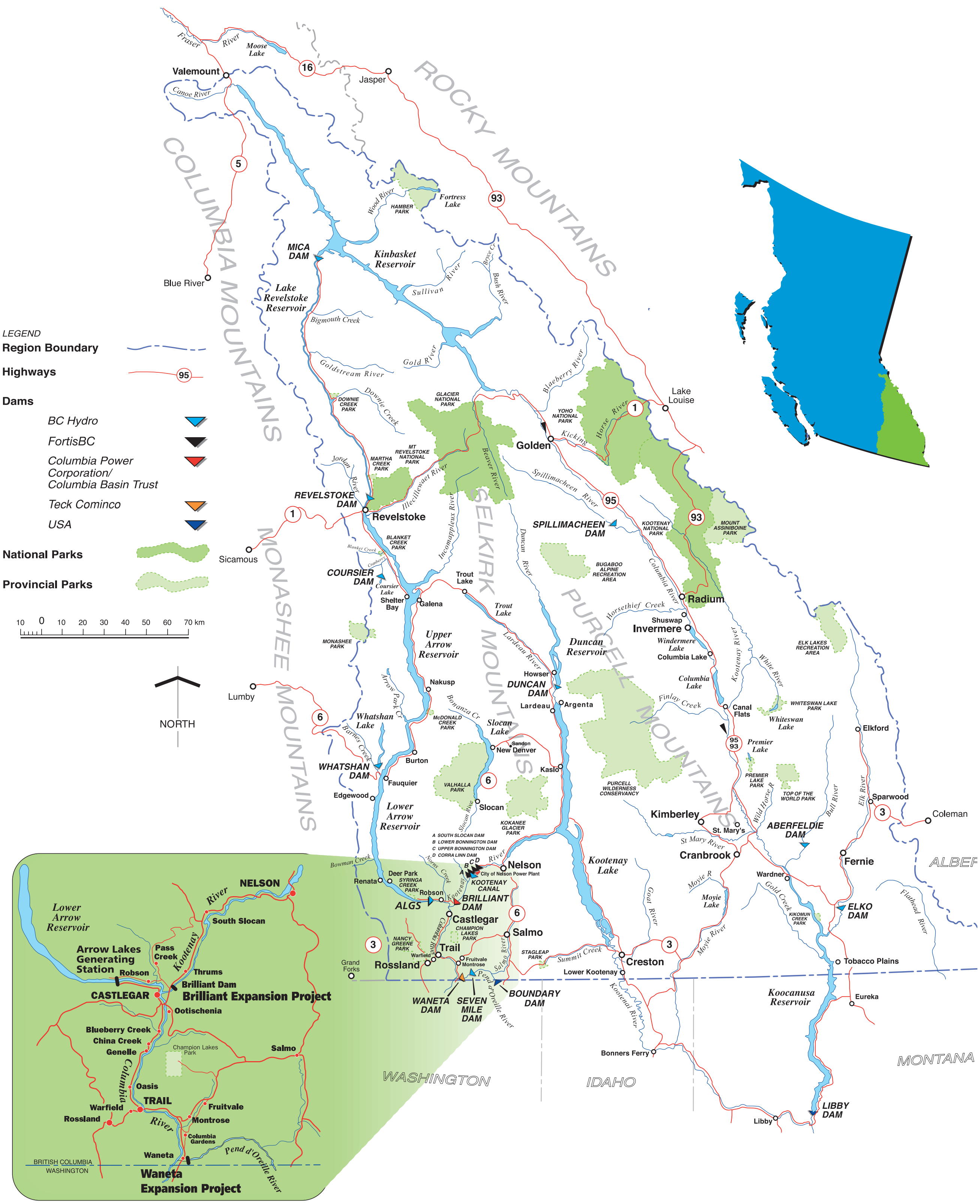
The Brilliant dam, the related Brilliant terminal substation and the Arrow Lakes Generating Station are operated and maintained by FortisBC or a related entity under contract. A similar operation and maintenance contract is contemplated for the Brilliant Expansion. FortisBC also operates and maintains Teck Cominco Metals Ltd.’s Waneta powerplant and its related transmission facilities.

The Waneta Expansion is currently in the stakeholder consultation and environmental permitting process. A similar design-build contract arrangement is planned for the Waneta Expansion, with the design-build competition and bid evaluation starting in 2006/07.

Figure 2: Corporate Structure of the Columbia Power Corporation / Columbia Basin Trust (CBT) Joint Ventures



Columbia Basin Power Projects



Review of Power Projects

Columbia Power Corporation and Columbia Basin Trust (through its indirect subsidiary, CBT Power Corp.) have formed the Power Project Planning Joint Venture for the purpose of assessing and advancing power projects. The joint venture is owned on a 50/50 basis by the two parties, who direct its activities through a management committee composed of three members from each party. Columbia Power Corporation is the joint venture manager. When a decision is made to proceed with construction of a power project, the project assets are transferred to a separate, jointly owned company. Currently, the Waneta Expansion is the focus of activities of the Power Project Planning Joint Venture, while other projects have been transferred to separate jointly owned companies as set out below.

Arrow Lakes Generating Station

The Arrow Lakes Generating Station is a hydroelectric facility with a capacity of 185 megawatts, located at the Keenleyside dam on the Columbia River and connected by a 48 kilometre, 230 kilovolt transmission line to the BC Hydro power grid at the Selkirk substation. The powerplant is situated 400 metres downstream of the Keenleyside dam and is connected to the Arrow Lakes reservoir by a 1,500 metre intake channel that bypasses the dam. The Arrow Lakes Generating Station and related assets are owned by Arrow Lakes Power Corporation, a company jointly owned, on a 50/50 basis, by Columbia Power Corporation and CBT Arrow Lakes Power Development Corp., an indirect subsidiary of Columbia Basin Trust. Columbia Power Corporation is the manager of Arrow Lakes Power Corporation.

The Keenleyside dam was constructed in the 1960s by BC Hydro under the terms of the Columbia River Treaty. The dam was built to store additional water in Arrow Lakes and to regulate water flows for the purpose of providing downstream flood control and power generation benefits in the United States. Construction of the Arrow Lakes Generating Station allows power generation benefits to be realized in British Columbia by taking advantage of otherwise unutilized water releases at the dam. Generation of power at the dam also improves fish habitat by reducing dissolved gas pressure levels downstream.

In selecting a contractor for the construction of the project, Columbia Power Corporation established the design-evaluate-build process to ensure that the most cost-effective and innovative construction methods were used. Peter Kiewit Sons Co. Ltd. was selected the winning bidder to design and construct the project under a fixed-price contract. The proposal included, as subcontractors, Harza Engineering Ltd. as the principal design engineer and GE Hydro as the turbine and generator supplier.

Construction of the project began in March 1999. The first generating unit achieved start-up status in February 2002, followed by the second unit in May 2002. These milestones were reached on budget and ahead of schedule. The owner assumed responsibility for operation of the generating station on January 1, 2003. Operation and maintenance of the generating station is performed on behalf of the owner by Fortis Pacific Holdings Inc., a corporation related to FortisBC. The power from the Arrow Lakes Generating Station is sold to BC Hydro for 12 years beginning January 1, 2003.

Construction of a new transmission terminal station at the nearby Brilliant powerplant was completed in July 2003. This new facility, owned by Brilliant Power Corporation, allows interconnection between the FortisBC transmission system and the Arrow Lakes transmission line, thereby providing a back-up transmission route for the Arrow Lakes Generating Station and improving electric power reliability in the region. The connection of the Arrow Lakes transmission line to the new terminal station was completed in April 2004.

Construction of the Arrow Lakes Generating Station and transmission line was financed with equity from Columbia Power Corporation and CBT Arrow Lakes Power Development Corp., and interest-bearing advances from Columbia Power Corporation. In August 2003, Arrow Lakes Power Corporation issued $100 million of 5.39% Series A project bonds, maturing March 31, 2015. The bonds are rated A (high) by Dominion Bond Rating Services. The proceeds of the bond issue were used to refinance construction expenditures and to facilitate a transfer of equity to the Brilliant Expansion.

For the year ended March 31, 2006, Arrow Lakes Power Corporation incurred a net loss of $2.8 million, compared with net income of $5.8 million in the previous year. The loss was primarily a result of Arrow Lakes channel permanent repair costs. Reduced operating costs and lower interest revenues also impacted the loss for the year. During 2005/06, the estimated useful life of assets has been revised, resulting in an increase in the average asset life span from 43 to 50 years. The amortization provision decreased from $6.6 million to $5.9 million using the new rates. The revised life spans are consistent with industry norms.

The amount of power sold by Arrow Lakes Power Corporation during the year, as determined by the energy entitlement received under the Keenleyside Entitlement Agreement with BC Hydro, was 613,343 megawatt-hours, compared with 582,707 megawatt-hours in the previous year. The increase reflected the availability of the plant for operation following intensive repairs in 2004/05.

On May 3, 2004, Arrow Lakes Power Corporation discovered damage to the concrete lining of the approach channel. This damage followed unstable hydraulic conditions that led to portions of the concrete lining being displaced or cracked. Power generation was suspended while investigations took place and repairs were made to the channel. The repair process has been carried out in three stages, namely:

1. immediate emergency repairs required to stop the ingress of reservoir water into the channel under-drainage system;
2. interim repairs as approved by the Comptroller of Water Rights, required to enable the safe resumption of power generation until such time that permanent repairs can be carried out; and
3. permanent repairs, as approved by the Comptroller of Water Rights, required to remove the emergency and interim repairs and restore the channel to its original design, and to provide a fail-safe measure to prevent any recurrence of the channel damages.

The first two stages of repair, which involved placing a high-density polyethylene liner over the damaged area and then covering the liner with multiple layers of concrete, were completed on a priority basis. Production of power was resumed in August 2004 with additional controls and operating restrictions. There was insufficient time in 2004 to plan, design and implement the permanent repairs, so those were scheduled to coincide with the low reservoir level period in 2005/06. During 2005, permanent repair options were developed, evaluated and approved by the Comptroller of Water Rights.

Permanent repairs were undertaken by Peter Kiewit Sons Co. Ltd. under a Permanent Repair Agreement. Preparatory work on the permanent repairs began in September 2005. Work proceeded on a fast track basis to take advantage of low reservoir levels. Commercial operation resumed in mid-May 2006.

Arrow Lakes Power Corporation is taking all necessary steps, including pursuing its remedies under the design-build contract and its insurance policies, to recover its losses. Sufficient working capital is being retained to ensure that its obligations to creditors and regulators will be satisfied and that funds will be in place as needed to complete the permanent repairs to the channel. Accordingly, payment of dividends by Arrow Lakes Power Corporation was suspended during the year. The total cost of the channel damage repairs to March 31, 2006, was $41.7 million, including lost revenues. As of March 31, 2006, Arrow Lakes Power Corporation received advances totalling $14 million from its property insurer toward the settlement of its insurance claim, and has recorded in its financial statements an expected further recovery of $2.8 million. The final financial impact of the channel damage cannot be determined with certainty at this time.

Arrow Lakes Generating Station Operations Summary Information

($ in thousands unless otherwise stated)

	2005/06	2004/05	2003/04	2002/03	2001/02
Power Sales Revenue	$ 23,724	$ 21,974	$ 26,597	$ 61,990	$ 1,005
Interest Revenue	727	1,485	1,945	-	-
Power Sales Revenue Sharing	-	-	-	29,779	336
Operating Expenses	2,755	3,543	3,255	2,338	51
Water Rentals	3,120	3,512	3,009	812	45
Interest Expense	4,738	5,097	3,197	474	108
Amortization	7,854	8,478	8,653	5,764	77
Net Income Before Channel Repairs	5,984	2,829	10,428	22,823	388
Channel Repair Costs	14,722	7,853	-	-	-
Recovery of Repair Costs and Losses	5,929	10,778	-	-	-
Net Income	(2,809)	5,754	10,428	22,823	388
Equity	225,147	227,956	258,847	276,176	232,338
Dividend Payments	-	-	4,290	-	-
Capital Expenditures	6,481	2,446	2,343	20,686	93,592
Long-term Debt	78,467	85,658	92,477	-	-
Current Portion of Long-term Debt	7,192	6,819	6,466	-	-
Advance from Columbia Power Corporation	$ -	$ -	$ -	$ 31,834	$ 61,199
Total Sales (megawatt-hours)	613,343	582,707	726,868	663,746	9,651
Average Price ($/megawatt-hour)	38.68	37.71	36.59	93.39	10413
Annual Return on Equity	-1.2%	2.4%	3.9%	9.0%	.2%
Debt Service Coverage Ratio	.85	1.67	-	-	-

Brilliant Dam and Powerplant

The Brilliant dam and powerplant is a power generation facility with a capacity of 145 megawatts, located on the Kootenay River just upstream of the confluence with the Columbia River. The facility, constructed in 1944, was purchased from Cominco Ltd. (now Teck Cominco Metals Ltd.) in 1996. The dam, powerplant and related assets are owned by Brilliant Power Corporation, which is jointly owned, on a 50/50 basis, by Columbia Power Corporation and CBT Power Corp., an indirect subsidiary of Columbia Basin Trust. Columbia Power Corporation is the manager of Brilliant Power Corporation.

Most of the power entitlement for the Brilliant dam and powerplant is sold under a 60 year Brilliant Power Purchase Agreement with FortisBC (formerly known as Aquila Networks Canada) and agreements with its bondholders. The Brilliant facility is operated by FortisBC on behalf of Brilliant Power Corporation. The company has largely completed a multi-year capital program, including upgrades and life extension work for each of the four generating units.

Net income for Brilliant Power Corporation for the year ended March 31, 2006, was $9.7 million, compared with $7.0 million in the previous year. The increase in net income was due primarily to escalation of power sales revenues, sales of upgrade regulated entitlement to Powerex Corp., and reduced depreciation charges during the year. In this fiscal year, depreciation rates were changed to amortize costs over the life span of the assets rather than matching revenue cycles. The annual amortization provision decreased from $5.3 million to $4.7 million using the new rates. The adopted life spans are consistent with industry norms.

The amount of power sold by Brilliant Power Corporation during the year, as determined by the Brilliant energy entitlement received under the Canal Plant Agreement, was 989,538 megawatt-hours, compared with 980,848 megawatt-hours in the previous year. Sales were made to FortisBC under the terms of the Brilliant Power Purchase Agreement except for approximately 60 gigawatt-hours of Brilliant upgrades energy recalled from FortisBC for resale into the market. An agreement was signed with Powerex Corp. (a subsidiary of BC Hydro), effective November 1, 2005, for the sale of the Upgrade Regulated Entitlement under a short-term contract. Sales to Powerex Corp. under this agreement were 46,553 megawatt-hours for the period. FortisBC manages the Brilliant power facility for Brilliant Power Corporation.

Capital expenditures during the year were $1.8 million, compared with $4.0 million in the previous year. Capital expenditures are expected to total $12.3 million over the next three years, reflecting the reduced need for improvements following the completion of the upgrade and life extension program and the construction of the Brilliant Terminal Station. As of March 31, 2006, Brilliant Power Corporation had invested $107 million in the project, including the construction of the Brilliant Terminal Station, since purchasing the assets from Teck Cominco Metals Ltd. This investment will be recovered through increased revenues under the power sales agreement with FortisBC.

The new Canal Plant Agreement became effective as of April 12, 2006. The new agreement, which continues in force until at least December 31, 2035, replaced the original Canal Plant Agreement and confirms the entitlement of the Brilliant plant.

Brilliant Dam Operations
Summary Information
($ in thousands unless otherwise stated)

	2005/06	2004/05	2003/04	2002/03	2001/02
Power Sales Revenue	$ 33,219	$ 30,986	$ 29,563	$ 27,310	$ 24,554
Brilliant Terminal Station Revenue	2,937	2,822	1,567	-	-
Interest Revenue	429	366	282	300	386
Operating Expenses	2,643	2,689	2,413	2,089	1,868
Taxes and Water Rentals	7,012	6,764	5,984	5,798	5,885
Interest Expense	12,363	12,348	11,612	10,368	9,765
Amortization	4,845	5,364	4,841	3,821	3,279
Net Income	9,722	7,009	6,562	5,534	4,143
Equity	68,993	67,395	66,966	58,836	53,642
Dividends	9,200	8,900	8,530	6,250	4,950
Capital Expenditures	1,851	4,012	24,174	18,681	17,954
Long-term Debt	157,597	161,088	114,524	116,384	118,096
Current Portion of Long-term Debt	3,491	3,248	1,858	1,712	1,580
Advance from Related Corporations	$ -	$ -	$ 42,439	$ 23,921	$ 9,674
Total Sales (megawatt-hours)	989,538	980,848	975,182	822,739	854,492
Average Price ($/megawatt-hour)	33.57	31.59	30.32	33.19	28.72
Annual Return on Equity	14.3%	10.4%	10.4%	9.8%	7.9%
Debt Service Coverage Ratio	1.72	1.64	1.67	1.63	1.55

Brilliant dam and Brilliant Expansion (under construction)

Brilliant Expansion

The Brilliant Expansion consists of the construction of a new power generation facility adjacent to the Brilliant dam on the Kootenay River. The objective of the project is to take advantage of unutilized hydraulic potential at the Brilliant dam by making use of the seasonal water flow that would otherwise be spilled.

The project includes a short open channel leading to an intake structure, a power tunnel, a surface powerhouse and an access tunnel linking the powerhouse area to the intake area. Tailrace improvements will provide additional power benefits. The project is owned by Brilliant Expansion Power Corporation, which is jointly owned, on a 50/50 basis, by Columbia Power Corporation and CBT Brilliant Expansion Power Corp., an indirect subsidiary of Columbia Basin Trust. Columbia Power Corporation is the manager of Brilliant Expansion Power Corporation.

The Brilliant Expansion will have a capacity of 120 megawatts, generating approximately 500 gigawatt-hours of energy annually. The construction budget has been set at $205 million. Construction will create over 450 person-years of direct employment (85% local hires).

The project will be connected to the transmission grid by a 410 metre, 230 kilovolt line to the Brilliant Terminal Station, located uphill from the Brilliant dam. It will be connected to BC Hydro's Selkirk substation through the Arrow Lakes transmission line, and to the FortisBC transmission system.

The Brilliant Expansion is being developed using Columbia Power Corporation's design-evaluate-build strategy, as successfully applied in the development of the Arrow Lakes Generating Station. This approach was chosen to ensure that the most cost-effective construction methods are used for the project, while most of the construction risk is transferred to the contractor.

Expressions of interest were received from three international teams of construction, engineering and turbine/generator supply firms, two of which submitted proposals in July 2002. These were reviewed and scored by an expert technical evaluation panel, and then ranked on the basis of that score and the proposal price. This resulted in the selection of the Brilliant Expansion Consortium as the winning bidder, formed by SNC-Lavalin Inc. and a joint venture of Skanska International Civil Engineering AB and Chant Construction Limited, with Alstom Canada as the subcontractor for turbine/generator supply. A design-build contract was signed in February 2003. Construction of the project began in April 2003.

In the past year, there has been increased pressure on the schedule. Commercial operation, originally scheduled for August 2006, is now scheduled for May 2007. Brilliant Expansion Power Corporation may be subject to contractor claims arising in the course of project construction. The financial impact, if any, of such future claims cannot be reasonably estimated at this time.

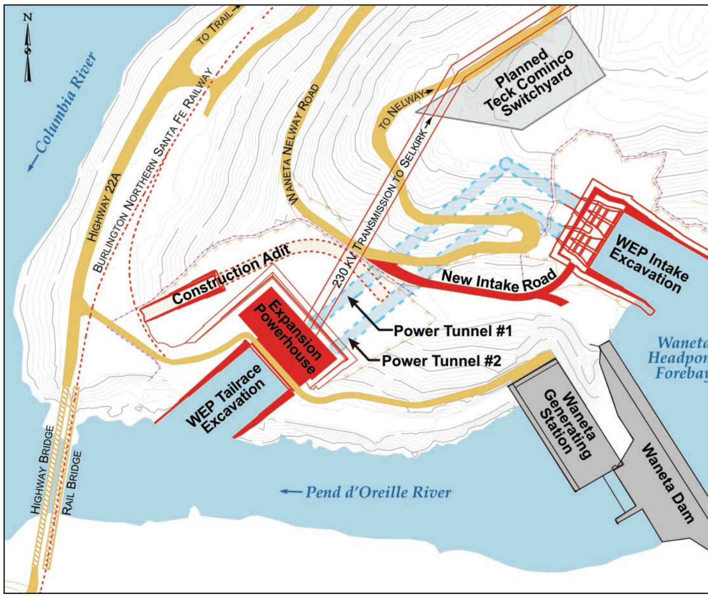
Approximately 40% of the output of the Brilliant Expansion has been sold to BC Hydro under a 20 year sales agreement, which begins in August 2007. Proposals from buyers and market service providers have been received for short-term sales of Brilliant Expansion power once operations start. Additionally, a proposal has been submitted for the sale of energy in response to BC Hydro's 2006 call for tenders for new power.

The Brilliant Expansion will create significant environmental benefits. It will improve fish habitat by reducing the amount of total gas pressure downstream of the dam and will displace approximately 400,000 tonnes annually of greenhouse gas that would otherwise be produced by fossil-fuelled electricity projects. The project has been endorsed by nine United States agencies, including the Environmental Protection Agency.

Waneta Expansion

The Waneta Expansion, currently in its pre-approval development phase, is a project to construct a second powerhouse at Waneta dam on the Pend d'Oreille River south of Trail, B.C. Though separated physically from the Waneta dam and its existing powerhouse, the expansion project will share the dam's hydraulic head and largely generate power from flow that would otherwise be spilled. The rights to use this hydraulic head, and the land necessary to build the expansion project, were acquired by Columbia Power Corporation from Teck Cominco Metals Ltd. in 1994. These rights are now held by Waneta Expansion Power Corporation, the company formed jointly by Columbia Power Corporation and Columbia Basin Trust to develop, construct and operate the project.

The base concept for the Waneta Expansion has been developed to avoid potential environmental impacts on white sturgeon habitat in the Columbia-Pend d'Oreille confluence area. Under this concept, water will be conveyed through two large diameter tunnels from the Waneta forebay into a two-unit powerhouse to be built "in the dry" on the right bank of the Pend d'Oreille River between the Waneta dam and Highway 22A. Output from the units will be stepped up to 230 kilovolts and connected through powerhouse switching equipment to a new 10 kilometre transmission line that will join the project to Selkirk Substation.



Plan view of Waneta Expansion design base concept

The addition of 435 megawatts of capacity at Waneta will achieve balance with upstream generation at Seven Mile dam (BC Hydro) and Boundary dam (Seattle City Light). This hydraulic balance will allow flows released from Boundary dam to travel the Canadian section of the Pend d'Oreille River without the need for reservoir re-regulation to avoid spill. Minimizing re-regulation will increase the productivity of reservoir aquatic habitat. In addition, diverting otherwise unavoidable spill through the Waneta Expansion will reduce harmful dissolved gas supersaturation in waters below Waneta and down the Columbia River into the United States.

Development of the Waneta Expansion is being managed with the three-track design-evaluate-build strategy used to realize Arrow Lakes Generating Station and the Brilliant Expansion. Track I accomplishments during 2005/06 involved submitting the project's extensive Environmental Assessment Certificate Application, as required under the *B.C. Environmental Assessment Act* and the *Canadian Environmental Assessment Act* under the May 2004 Terms of Reference. That application will be available for public, First Nations and agency review in the spring and summer of 2006. Track II work during 2005/06 involved geotechnical investigations, concept optimization and technical and commercial information that will be needed for the Waneta Expansion design-build proposal competition starting in late 2006. Track III work during 2005/06 included economic and market analysis, financial planning, and coordination activities in accordance with terms of the Waneta Cooperation Agreement with Teck Cominco Metals Ltd.

Subject to Waneta Expansion viability and feasibility being confirmed in the final evaluation stage in 2007, project construction will begin in early 2008. Power from the project can be expected online in 2011.

Report on Performance

Columbia Power Corporation's mandate, which was established by agreements between the Province and Columbia Basin Trust, drives the Corporation's line of business (see the sequential business model in Figure 3). Projects move through the planning, construction and operations phases. Columbia Power Corporation provides overall management of these phases. The organization's values are applied in setting goals and objectives and conducting business activities. Performance measures are the scorecards for measuring the achievement of Columbia Power Corporation's vision. How Columbia Power Corporation's mandate, vision and values are linked to, its business model and performance, is illustrated in Figure 4. Columbia Power Corporation's performance measurement framework, current year results and future targets are more fully described in Appendix A. www.columbiapower.org/appendix_a.pdf

Performance Plan Summary

Columbia Power Corporation achieved mixed results relative to its 2005/06 performance measures. On the positive side, the following objectives were realized:

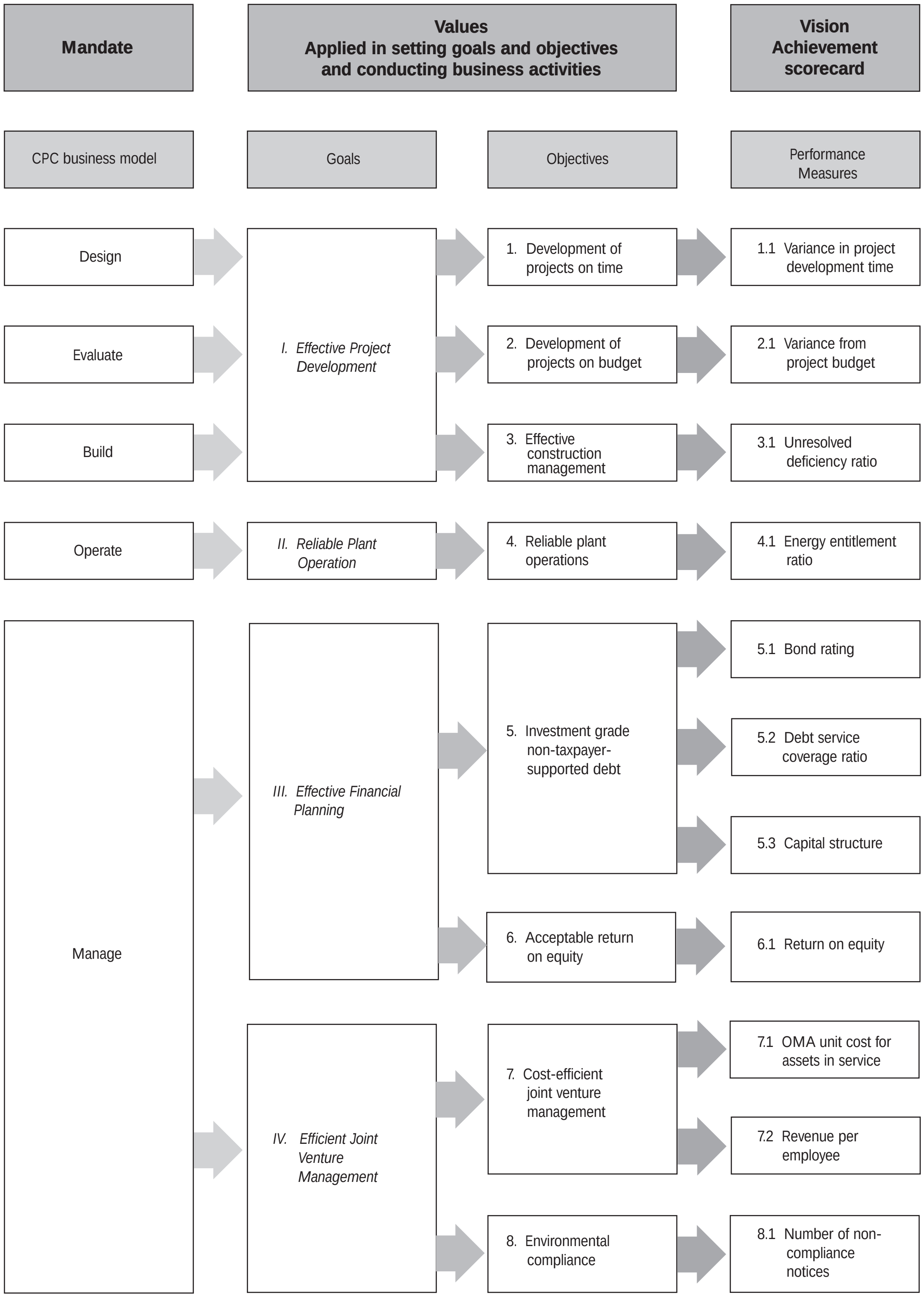
- Developed projects on budget.
- Achieved effective construction management by managing project deficiencies.
- Achieved reliable plant operations for the Brilliant powerplant through the energy entitlement ratio. The plant operations and the future direction for operations performance measures are further discussed in Appendix B. www.columbiapower.org/appendix_b.pdf
- Maintained investment grade bond ratings and a capital structure that will allow further bond issues as required for project investment.
- Achieved cost-effective joint venture management through the Operating Maintenance and Administration (OMA) unit cost.
- Maintained environmental compliance as indicated. No non-compliance notices were issued.

Columbia Power Corporation was negatively affected by channel permanent repair costs and related production outages at the Arrow Lakes Generating Station, and the construction delays at the Brilliant Expansion.

The production outage necessary to conduct channel permanent repairs caused the Arrow Lakes Generating Station to miss its target energy entitlement ratio. The costs of the permanent repairs, the majority of which are expected to be recovered in future periods, caused the Arrow Lakes Generating Station to miss its target debt service coverage ratio and caused Columbia Power Corporation to miss its targets for return on equity and revenue per employee measures. In the absence of the repair costs, the targets would have been achieved.

The objective of developing projects on time will not be achieved for the Brilliant Expansion, as the construction contractor's current schedule forecasts commercial operation nine months after the target. The late completion reduces revenue forecasts for 2006/07 and 2007/08.

Figure 3: Performance Plan Summary



Performance Measures at a Glance

	Benchmark	2005/06 Actual	2005/06 Target	Achievement	Significance
1.1 Variance in project development time	ALGS: 7 months early BTS: On time	BRX: Delayed	BRX on schedule for fall 2006 operations	✗	Negative impact on timing of future BRX power sales
2.1 Variance from project budgets	ALGS: On budget BTS: On budget	BRX: On budget	BRX: On budget	✓	Scarce capital is maintained
3.1 Unresolved deficiency ratio	Baseline to be developed	ALGS and BRX: Deficiencies actively monitored	ALGS: Less than or equal to 1	✓	Receive fit for purpose projects
4.1 Energy entitlement ratio	CEA: Hydraulic Weighted Capacity Factor 2003 = 91%	ALGS: 79% BRD 99%	ALGS: >95% BRD: >95%	ALGS: ✗ BRD: ✓	ALGS missed target due to outage for channel repair
5.1 Bond rating	Investment Grade bond ratings for CPC/CBT project debt	Maintained ratings for all bonds	Maintain or improve current Investment Grade bond ratings for CPC/CBT project debt	✓	Maintain lowest possible cost of debt
5.2 Debt service coverage ratio	Greater than or equal to 1.3	ALGS: 0.9 BRD: 1.7	ALGS: 2.0 BRD: 1.6	ALGS: ✗ BRD: ✓	Maintain lowest possible cost of debt
5.3 Capital structure	CEA composite measure for 2004 = 74:26	28:72	28:72	✓	Future borrowing potential maintained
6.1 Return on equity	Over the life of the project comparable to regulated utilities	1.0%	2.5%	✗	Return on equity below target due to ALGS channel repair cost
7.1 OMA unit cost for assets in service	1st Quartile: See Benchmarking Appendix B	ALGS: $3.73 BRD: $2.03	ALGS: $4.40 BRD: $2.30	ALGS: ✓ BRD: ✓	Operations, maintenance and admin costs lower than target
7.2 Revenue per employee	CEA composite average for 2004: $546,000	$788,000	$810,000	✗	Revenue per employee below target due to ALGS channel repair cost
8.1 Environmental compliance	Baseline information to be developed	Zero material non-compliance notices	Zero material non-compliance notices	✓	Manage in accordance with environmental values

[1] ALGS - Arrow Lakes Generating Station; BRD - Brilliant Dam; BRX - Brilliant Expansion; BTS - Brilliant Terminal Station; CEA - Canadian Electricity Association; OMA - operations, maintenance and administration

Performance Measures Framework

Columbia Power Corporation's performance measures framework follows the *Budget Transparency and Accountability Act* requirements for performance measures, benchmarks and targets linked to specific goals, objectives and strategies. The framework also reflects Columbia Power Corporation's dual functions as a development company and an operating company. The framework provides broad goals and underlying objectives, aligns specific corporate strategies to each objective, incorporates ongoing research regarding suitable benchmarks and targets, and comments on the significance of results.

Given Columbia Power Corporation's role as joint venture manager and the extent to which it contracts out, finding suitable industry benchmarks remains a challenge, as the industry is still largely dominated by vertically integrated regulated utilities. These challenges are described more fully in Appendix A.

Columbia Power Corporation believes the performance measures used highlight the most crucial aspects of its performance, but are also subject to refinement and evolution as the organization matures. In the future, Columbia Power Corporation plans to provide additional, more precise, measures by disaggregating the current measure for "operations, maintenance and administration" (currently a corporate measure) into its key functional components of plant operations, plant maintenance, renovations/major improvements, and on-site and off-site support functions (see Appendix B).

Source of Data and Reliability

Columbia Power Corporation believes its performance measures are reliable and valid. Current and historical performance measures are not audited. However, they are largely based on audited information, information subject to third-party verification or information independently provided. Development and construction efficiency measures are based on information from project tracking systems and monthly status reports. The reliable plant operations measure is based on plant operations data that is reconciled with BC Hydro, FortisBC and third parties during the power entitlement confirmation and sales process. The financial measures are derived from Columbia Power Corporation's audited consolidated financial statements and other reliable sources. Bond ratings and environmental compliance measures are independently verifiable.

Alignment with Government's Strategic Plan

The government's 2006/07-2008/09 Strategic Plan has five Great Goals for the next decade, which were originally enumerated in the Throne Speech of February 2005:

- Goal 1: ▶ To make B.C. the best educated, most literate jurisdiction on the continent.
- Goal 2: ▶ To lead the way in North America in healthy living and physical fitness.
- Goal 3: ▶ To build the best system of support in Canada for persons with disabilities, special needs, children at risk and seniors.
- Goal 4: ▶ To lead the world in sustainable environmental management, with the best air and water quality, and the best fisheries management, bar none.
- Goal 5: ▶ To create more jobs per capita than anywhere else in Canada.

The joint venture power projects owned by Columbia Power Corporation and Columbia Basin Trust make significant contributions directly to Goals 4 and 5 and indirectly to Goals 1, 2 and 3.

Goals 1, 2 and 3 – Best educated, healthiest, most fit population with the best social support system

Through the payment of dividends to the Province and Columbia Basin Trust, taxes to the Province and local governments, and water rentals to the Province, the joint venture power projects help to fund: education, healthcare and other provincial social support programs and services; Columbia Basin Trust social programs in the Columbia Basin; and local government services in the City of Castlegar and Regional District of Central Kootenay. Over the period 2006/07–2008/09, the joint venture power projects are expected to generate $74 million of net income for their shareholders, the Province and Columbia Basin Trust. The projects will also contribute $37 million in taxes and water rentals.

In keeping with its commitment to Columbia Basin residents, Columbia Power Corporation also provides direct sponsorship funding for community services, regional events, and scholarships and bursaries in the Columbia Basin. Examples of sponsorship include hiking trail improvements, community festivals, hospital foundations, sporting and cultural events, and wildlife groups. Columbia Power Corporation provides scholarships to graduating classes of all 23 secondary schools in the Columbia Basin, and makes bursaries available to students enrolled at the three post-secondary institutions in the Columbia Basin: the College of the Rockies, the Kootenay School of the Arts, and Selkirk College.

Goal 4 – Sustainable environmental management and the best fisheries management

Columbia Power Corporation completed the development of its environmental management system in 2005/06 and is currently in the process of implementing this system.

Jointly, the Arrow Lakes Generating Station and the Brilliant Expansion will displace over 700,000 tonnes per year of carbon dioxide, compared with generating an equivalent amount of electricity in a gas-fired generating plant. These avoided emissions are equivalent to displacing 140,000 cars from Vancouver streets. The joint venture partners have maintained ownership of any greenhouse gas credits for their projects, which could potentially be sold in the future.

The Arrow Lakes Generating Station and the Brilliant Expansion together will also reduce (by 70%) the number of days when total gas pressure in the Columbia River at the United States border exceeds the United States standard. When total gas pressure reaches a level of 115% of normal, bubbles can form in the cardio-vascular systems of fish, which can lead to death and disruption of migration and spawning. The joint venture projects are of major benefit to the United States, which spends millions of dollars to reduce total gas pressure. For this reason, nine United States federal and state agencies, including the Environmental Protection Agency, the Fish and Wildlife Service, and the Colville Confederated Tribes have endorsed the joint venture projects.

Since 1999, Columbia Power Corporation and Columbia Basin Trust have provided $175,000 per year (adjusted for inflation) for the Arrow Lakes Fish Fertilization Program. The joint venture partners contributed $197,635 in 2005/06, for a 7 year total of just over $1.3 million. The fertilization program involves adding a mixture of liquid nitrogen and phosphorus to the water to increase phytoplankton (algae), which in turn feeds the zooplankton, kokanee and larger fish. An estimated 1 million kokanee spawned in the Arrow Lakes Reservoir in 2004, compared with 395,000 in 1999. This is the highest number of spawning kokanee since 1988. The average size of a spawning kokanee has also increased significantly. By increasing the number and size of spawning kokanee, fertilization is providing a better food source for wildlife predators and scavengers such as bears and eagles. The program is recognized as one of the largest lake restoration projects in the world.

Additional contributions by Columbia Power Corporation for environmental purposes included: the transfer of 125 acres of land to the Nature Trust; funding for the Slocan River Rainbow Trout Habitat Enhancement Program, a demonstration phase of which (implemented in the winter of 2005/06) consisted of constructing five in-stream habitat structures; and funding of a number of programs under the Columbia Basin Fish and Wildlife Compensation Program, which is administered by BC Hydro. The joint venture power projects also help to fund Columbia Basin Trust environmental and fisheries programs in the Columbia Basin.

Goal 5 – Job creation

Over the period 1999/00 through 2002/03, with the construction and commissioning of the $270 million Arrow Lakes Generating Station, Columbia Power Corporation had the third largest hydro project under construction in North America and the largest industrial project in British Columbia. The Arrow Lakes Generating Station was completed on budget and ahead of schedule. During the 3 year construction period, the project created 750 person-years of direct employment (with 85% local hires), $60 million in direct and indirect income and $20 million in regional procurement.

Construction of the $205 million Brilliant Expansion, which began in the first quarter of 2003/04 and is now expected to be completed in May 2007, will create over 450 person-years of direct employment (with 85% local hires), $30 million in direct and indirect income and $15 million in local procurement.

Subject to the requisite reviews and approvals, construction of the Waneta Expansion is scheduled to begin in 2008 and take three and one-half years to complete. The Waneta Expansion construction is estimated to create 680 person-years of direct employment (with 75% local hires), $65 million in direct and indirect income and $25 million in local procurement. Supply of competitively priced and reliable power to BC Hydro and FortisBC helps to maintain British Columbia's low energy costs, and support economic development and job creation. The joint venture power projects also help to fund Columbia Basin Trust economic programs and related job creation in the Columbia Basin.

Management Discussion and Analysis

Results of Operations

Net income earned by Columbia Power Corporation in 2005/06 was $3.1 million, compared with planned net income for the year of $7.7 million and actual net income of $5.7 million in the previous year. Net income of Columbia Power Corporation includes the consolidated 50% share of the net income of Arrow Lakes Power Corporation and Brilliant Power Corporation. Revenues were not significantly affected by foreign exchange volatility or fluctuations in electricity markets, as most power sales are under long-term contracts in Canadian dollars.

Arrow Lakes Power Corporation recorded a loss in 2005/06 as a result of the cost of permanent repairs to the Arrow Lakes Generating Station approach channel. Reduced operating expenses and lower interest revenues also had an impact on the operating results. During the year, the estimated useful life of assets was revised, resulting in lower amortization. The revised life spans are consistent with industry norms.

Brilliant Power Corporation earned increased profits primarily as a result of escalation of power sales revenues, sales of upgrade regulated entitlement to Powerex Corp., and reduced amortization expense during the year. The basis for asset amortization was changed in 2005/06 to amortize costs over the life of the assets rather than matching revenue cycles. The adopted life spans are consistent with industry norms.

The debt service coverage ratio at Brilliant Power Corporation was maintained at a satisfactory level, while Arrow Lakes Power Corporation experienced a temporary drop to 0.9 as a result of the Arrow Lakes Generating Station channel repairs. The investment grade bond ratings for the two corporations were retained.

During 2005/06, Columbia Power Corporation's return on equity was 1.0% compared with the planned return of 2.5% for the year and actual performance of 1.9% the previous year, reflecting the loss from Arrow Lakes Power Corporation and substantial equity provided for the Brilliant Expansion.

Brilliant Power Corporation renewed the existing Canal Plant Agreement with BC Hydro, Teck Cominco Metals Ltd. and FortisBC for a minimum 30 year term, and the agreement was extended to include Brilliant Expansion Power Corporation and Waneta Expansion Power Corporation.

The Canal Plant Agreement is a mutually beneficial coordination agreement among companies owning hydroelectric generation in the West Kootenay region of British Columbia. The renewed agreement came into effect in April 2006.

Financing Activities

Investing activities were funded by the final $50 million contribution from the Province and cash from operations. The use of internal sources of cash had a positive impact on financing costs. The contribution from the Province was made to Columbia Basin Trust, which used it to repay its obligation to Columbia Power Corporation. Columbia Power Corporation declared a dividend of $2 million for 2005/06, the same amount as in the previous year.

Investing Activities

Capital spending during the year was $17.3 million, compared with planned expenditures of $19.4 million for the year and expenditures of $41.9 million in the previous year. Almost all of this expenditure was invested in power projects undertaken jointly with Columbia Basin Trust, and represents Columbia Power Corporation's 50% portion of joint venture capital spending. The major area of expenditure was construction of the Brilliant Expansion, followed by additions to the Arrow Lakes Generating Station and the Brilliant power facility and terminal station.

Capital was also invested for Waneta Expansion development activities. Columbia Power Corporation used distributions from the power projects to pay for corporate asset additions.

Power Sales Activities

Marketing activities in 2005/06 were principally focused on the sale of power from the Brilliant Expansion (40% of which has been sold to BC Hydro for a period of 20 years), and the marketing of the future Waneta Expansion, currently under development.

Activities related to the Brilliant Expansion included the receipt of proposals for the marketing of Brilliant Expansion power in the short term. Additionally, Brilliant Expansion Power Corporation submitted a proposal in response to BC Hydro's 2006 call for tenders for new power. Contract awards will be announced by BC Hydro in late summer 2006.

Activities related to the Waneta Expansion development included work on product definition and the undertaking of preliminary discussions with a number of potential buyers.

Brilliant Power Corporation recalled for resale in the market a small amount of energy generated from the Brilliant upgrades previously being sold to FortisBC.

The sale of generation from the Arrow Lakes Generating Station is fully subscribed under a long-term sales agreement with BC Hydro.

Liquidity and Sources of Capital

Columbia Power Corporation has set aside cash and temporary investment reserves to complete the Brilliant Expansion, fund the Arrow Lakes Generating Station channel permanent repair, finish the Brilliant life extension program and partially fund the development of the Waneta Expansion.

Future operational cash is earmarked to fund sustaining capital for operating plants and, subject to the dividend requirements of the Province and Columbia Basin Trust, provide equity for the Waneta Expansion. This operational equity would lower future long-term borrowing requirements and allow increased power marketing flexibility.

Columbia Power Corporation has access to the Province's fiscal agency loan program, which can potentially be used to partially finance the Waneta Expansion during construction. Subject to the creditworthiness of future power sales contracts, considerable long-term and short-term borrowing capacity is also available from the existing power projects to finance the Waneta Expansion, other projects and a future optimal capital structure.

Critical Accounting Estimates

Disclosure of Columbia Power Corporation's critical accounting policies is contained in Note 2 to the consolidated financial statements. Preparing financial statements in accordance with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and expenses. Columbia Power Corporation's investments in power projects operate primarily under long-term contracts in Canadian dollars with high-credit-rated counterparties, and receive power entitlements in exchange for actual electrical power generation removing annual hydrology risk. As a result, Columbia Power Corporation believes it is not exposed to the same number of critical accounting estimates that may be required of management of other hydro-electric operations of comparable size. Columbia Power Corporation's amounts recorded for amortization are based on estimates of economic service life. By their nature, these estimates are subject to measurement uncertainty. Changes to these estimates may impact the consolidated financial statements of future periods.

Consolidated Results of Operations and Forecasts

($ in thousands)

	2005/06 Budget	2005/06 Actual	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
Revenues					
Sale of Power and Transmission	$ 32,017	$ 29,940	$ 32,826	$ 46,316	$ 49,837
Other	1,123	1,745	1,078	1,137	1,253
	33,140	31,685	33,904	47,453	51,090
Expenses					
Operating	16,633	15,311	15,933	20,121	22,057
Financing	8,797	8,839	8,559	10,613	13,466
	25,430	24,150	24,492	30,734	35,523
Net Income Before Channel Expenses and Recoveries	7,710	7,535	9,412	16,719	15,567
Channel Expenses	-	7,361	5,500	-	-
Channel Recoveries	-	2,964	702	-	-
Net Income	7,710	3,138	4,612	16,719	15,567
Capital Spending	$ 19,456	$ 17,343	$ 18,654	$ 75,650	$ 87,664
Full-time Equivalents	41	40	51	52	53

Capacity, Outlook and Risks

The key strategic issues facing Columbia Power Corporation include:

- Obtaining federal and provincial approvals, permits and licences to develop and operate power projects on international rivers within a difficult environmental regulatory system (which includes federal and provincial regulators, an international treaty and local, regional, United States and First Nations stakeholders).
- Developing regional support for the joint venture power projects through consultation with local and regional community stakeholders, negotiating land issues with owners and continuing to work to develop solutions to First Nations issues related to the power projects.
- Securing power sales contracts in a domestic market where the joint venture power projects represent a relatively low-cost source of new power supply, but also where: there is one dominant wholesale buyer; retail access to large ("transmission voltage") customers is being developed but is not yet a practical reality; and recent wholesale resource calls penalize bids from projects with low capacity utilization factors and high power deliveries during freshet months (April through July), even if these deliveries can be made on a "firm" basis into heavy load hours (higher value periods).
- Accessing a promising market in the United States for green power in the face of ongoing constraints on the availability of long-term firm transmission capacity on both the British Columbia and United States sides of the border.
- Adjusting to a higher Canadian dollar, which has lowered the value of power exports to the United States market; and to higher construction and machinery and equipment costs, which have increased in response to escalating labour rates and prices for commodities such as concrete, steel, copper and fuel.
- Managing under uncertainty regarding future interest rates and thus the cost of debt finance.
- Determining the appropriate capital structure for the joint ventures.
- Implementing a human resource strategy to ensure appropriate succession planning, recruitment and staff retention for Columbia Power Corporation.
- Determining the appropriate long-term strategic direction for Columbia Power Corporation beyond the development of the Arrow Lakes Generating Station, Brilliant Expansion and Waneta Expansion.
- Pursuing recoveries related to Arrow Lakes Generating Station channel repairs and managing the potential for contractor claims related to the Brilliant Expansion.

Columbia Power Corporation's mandate is to develop and operate power plants at existing dams on the Columbia, Kootenay and Pend d'Oreille Rivers using water that would otherwise be spilled. Accordingly, the three "core" new power projects, the Arrow Lakes Generating Station, Brilliant Expansion and Waneta Expansion, have relatively low capacity utilization factors (of about 50%), and rely primarily on spring run-off water and upstream flow regulation. While these new power projects create significant net environmental benefits in the form of increased greenhouse gas offsets and reduced dissolved gases harmful to fish, it can be difficult to translate these benefits (particularly benefits to fish) into higher power prices. The joint venture power projects operate in a domestic power market where there is a single dominant wholesale purchaser and constrained long-term firm transmission capacity to adjacent power markets in Alberta and the U.S. Pacific Northwest. Accordingly, Columbia Power Corporation, as joint venture manager, must be efficient and innovative to achieve its goals and objectives.

Columbia Power Corporation staff expertise and their relationships with private-sector engineering, environmental, financial and legal advisors are critical to the success of the corporation.

The Brilliant Power Facility, Brilliant Terminal Station and the Arrow Lakes Generating Station are operated and maintained by FortisBC or its related company under long-term service agreements. Negotiations are underway for FortisBC to provide operating and maintenance for the Brilliant Expansion once completed. FortisBC is an integrated electric utility with approximately 500 employees that generates, transmits and distributes electricity throughout South Central British Columbia and serves approximately 150,000 customers. FortisBC's operating and maintenance experience and capacity are key to future plant operations.

Columbia Power Corporation develops and operates the joint venture power projects using limited-recourse project debt without a provincial debt guarantee. Like independent power producers, the power project joint venture companies sell into the wholesale power market, primarily under long-term purchase agreements with regulated utilities. Most of the power from the Brilliant dam is sold to FortisBC under a 60 year purchase agreement that expires in 2056. This agreement provides for approved capital and operating costs, including reasonable increases in those costs over the term of the agreement, to be passed through to FortisBC with approved capital expenditures earning a pre-determined rate of return on equity. There is also a provision for market price adjustments beginning in the 30th year of the agreement. Power from the Arrow Lakes Generating Station is sold to BC Hydro under a 12 year purchase agreement that expires in 2015, and about 40% of the power from the Brilliant Expansion is sold to BC Hydro under a 20 year purchase agreement that expires in 2027. These agreements have provisions for the contract price to escalate but otherwise are fixed-priced.

Columbia Power Corporation's net income and return on equity will increase over time as projects now under development enter the operating phase and begin to generate power and revenue following years of intensive capital spending during construction. Factors that could affect the future rate of return include: power market developments, interest and exchange rate movements, payments to government and access to transmission systems. The Province's energy plan supports the development of Columbia Power Corporation's projects by providing greater access to the transmission system and improving the ability of independent power producers to sell to BC Hydro.

Future dividends will be determined based on annual cash earnings, Arrow Lakes Generating Station approach channel repair cash needs, working capital requirements, reserves for future capital replacement, and new power project investment opportunities.

The major source of recent operational uncertainty for Columbia Power Corporation has been the damage to the approach channel at the Arrow Lakes Generating Station. With resolution of the Arrow Lakes Generating Station channel problem, Columbia Power Corporation's outlook for the future is for stable earnings growth. At the Brilliant power facility and terminal station and the Arrow Lakes Generating Station, prices are fixed by long-term contracts and are not affected by changes in power markets. Entitlement agreements with BC Hydro provide firm amounts of power regardless of actual water flows, thereby removing annual hydrology risk. Interest costs for projects in operation are fixed through the issuance of long-term bonds. At Brilliant, earnings stability is further enhanced by the cost-of-service nature of the power sales agreement with FortisBC. Although the power sales agreement with BC Hydro for the Arrow Lakes Generating Station does not have this feature, the plant is relatively new and operating costs are low relative to revenues, as is typical in a hydroelectric generating plant.

The construction of the Brilliant Expansion is scheduled to be completed in May 2007. The fixed-price nature of the design-build contract, along with the built-in performance guarantees, has the effect of transferring most of the construction risk to the contractor. However, Brilliant Expansion Power Corporation may be subject to contractor cost claims arising in the course of project construction. With the extension of the Canal Plant Agreement to include Brilliant Expansion Power Corporation, an entitlement agreement is now in place for the Brilliant Expansion, which will remove annual hydrology risk.

Removing the berm at Brilliant Expansion

With approximately 40% of the Brilliant Expansion plant output sold under a long-term contract with BC Hydro, Brilliant Expansion Power Corporation solicited proposals for a buyer and market services provider for the remaining output for the short-term. Brilliant Expansion Power Corporation further submitted a proposal in response to BC Hydro's 2006 call for tenders for new power. Columbia Power Corporation is undertaking preliminary discussions with a number of potential purchasers for sale of power from the Waneta Expansion.

The nature of the sales arrangements put in place for the Brilliant Expansion and Waneta Expansion may affect Columbia Power Corporation's ability to finance the construction of the Waneta Expansion.

The following table presents an analysis of the primary risks that Columbia Power Corporation faced and the strategies implemented during 2005/06 to address these risks.

Risk Management by Columbia Power Corporation

Risk	Issue/Impact	Results During 2005/06
Arrow Lakes Generating Station Channel Repair Costs	The cost of permanent channel repairs is significant in 2005/06 and 2006/07.	CPC has $19 million on hand as of March 31, 2006 to fund remaining permanent repairs and will retain further cash through 2006/07. CPC will seek to recover these costs and lost revenue from insurers and/or the design-build contractor.
Waneta Expansion Construction Decision	Construction of Waneta Expansion is subject to: permitting, design-build bids, entitlement negotiations, power marketing and long-term borrowing costs. Each could affect project timing, cost, scale and viability.	A major milestone during 2005/06 was completion and submission of the extensive environmental impact assessment for this project, which confirms that the project will offer net environmental benefits. CPC is pursuing the design-evaluate-build development strategy used to develop Arrow Lakes Generating Station and the Brilliant Expansion. CPC has achieved a transfer of the Waneta Water Reserve to CPC/CBT, and has also signed a Waneta Cooperation Agreement and a Transmission Rights Agreement with Teck Cominco Metals Ltd.
Canal Plant Agreement Renegotiations	The original Canal Plant Agreement included Brilliant entitlements. Key parts of the agreement were to expire in September 2005. BC Hydro, CPC, FortisBC and Teck Cominco Metals Ltd. have negotiated a renewed and extended Canal Plant Agreement that includes the Brilliant Expansion and Waneta Expansion and runs until at least December 31, 2035.	The renewed and extended Canal Plant Agreement came into effect in April 2006.

1. CPC - Columbia Power Corporation; CBT - Columbia Basin Trust

Risk Management by Columbia Power Corporation (continued)

Risk	Issue/Impact	Results During 2005/06
Brilliant Expansion Commercial Operation Date	The scheduled commercial operation date has been delayed until May 2007. Missing that date would have a direct negative impact on project revenues. Estimated foregone net income from September 2006 to May 2007 is $12.8 million.	CPC actively monitors the progress of construction. The design-build contract specifies a project completion date, with penalties for late completion exceeding one month.
Plant Reliability	If the Arrow Lakes Generating Station plant outage factor were to increase by 2.5 percentage points, revenues and net income would decline by $770,000 in 2006/07.	Plant outage risk for the Brilliant dam is transferred to FortisBC as the power purchaser/plant operator. Design-build contracts are secured by: performance, labour and materials bonds; either cash holdbacks or letters of credit; and parent company guarantees. Machinery and equipment have manufacturer warranties. All power projects also carry business interruption, property and liability insurance.
Availability of Funds	Debt funding is required for completion of current and future projects.	The final $50 million power project equity contribution from the Province was received by CBT on April 1, 2005. Key Arrow Lakes Generating Station, Brilliant Expansion and Waneta Expansion agreements are structured to achieve financeable projects with a high credit rating. CPC/CBT may retain cash from operations to lessen the borrowing burden for Waneta Expansion, which may allow more flexible Waneta Expansion power marketing. CPC is also reviewing other borrowing alternatives.

1. CPC - Columbia Power Corporation; CBT - Columbia Basin Trust

Risk Management by Columbia Power Corporation (continued)

Risk	Issue/Impact	Results During 2005/06
Brilliant Expansion Power Marketing	40% of the Brilliant Expansion output has been marketed to BC Hydro under a 20 year Green Power contract, the revenue from which is sufficient to recover project capital costs.	CPC submitted a proposal in response to BC Hydro's 2006 call for long-term tenders for new power and contracts are being negotiated for short-term sales. CPC is also pursuing other sales contracts with utilities and marketers in domestic and U.S. markets for the remaining 60% of the power.
Transmission and Market Access	CPC/CBT power projects are located in a region with limited long-term firm transmission capacity to access adjacent markets in Alberta and the U.S.	CPC has signed a long-term Transmission Rights Agreement with Teck Cominco Metals Ltd. CPC intervenes in BC Transmission Corporation tariff and capital plan hearings; and it also pursues sales contracts with delivery at CPC/CBT points of interconnection.
Regulatory Risk	CPC/CBT power projects come under the *Utilities Commission Act* definition of public utilities.	CPC has obtained a Ministerial Order exempting CPC/CBT power projects from regulation. Where appropriate, CPC also intervenes in the regulatory proceedings of BC Hydro and FortisBC. The renewed and extended Canal Plant Agreement has been exempted from the provisions of the *Utilities Commission Act*.
Property Taxation	Taxing Arrow Lakes Generating Station and the Brilliant Expansion at current mill rates would reduce annual project net income by about $6 million and $3 million, respectively. The Waneta Expansion could be similarly impacted. This would affect the economic viability of the power projects and the ability to raise debt to fund the Waneta Expansion.	CPC has previously obtained Orders in Council exempting Arrow Lakes Generating Station and the Brilliant Expansion from property tax. CPC will seek a similar tax exemption for the Waneta Expansion. It is expected that Arrow Lakes Generating Station, the Brilliant Expansion and the Waneta Expansion will pay grants in lieu on a similar basis to BC Hydro Columbia River Treaty facilities and generation plants on the Peace, Columbia and Pend d'Oreille Rivers.

[1] CPC - Columbia Power Corporation; CBT - Columbia Basin Trust

Risk Management by Columbia Power Corporation (continued)

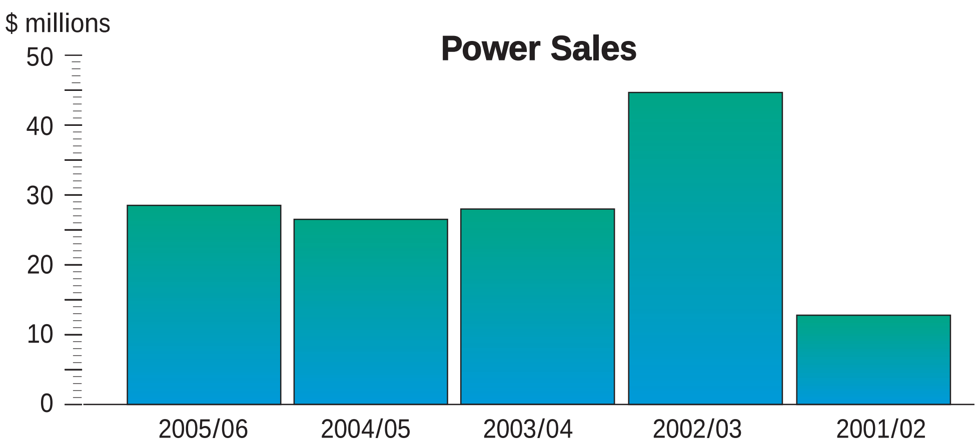
Risk	Issue/Impact	Results During 2005/06
Water Use Planning and Columbia River Treaty Operations Risk	Constraints imposed as a result of BC Hydro water use planning and changes in upstream flow regulation associated with the Columbia River Treaty could adversely affect powerplant operations and project revenues, unless CPC/CBT are saved harmless.	CPC has obtained an indemnity from BC Hydro saving harmless CPC/CBT power projects from the effects of Water Use Planning. CPC is also monitoring changes to U.S. regulation of the Libby dam and has registered CPC/CBT interests with the U.S. Army Corp of Engineers and BC Hydro (respectively, the designated U.S. and Canadian Entities under the Columbia River Treaty).
Foreign Exchange Risk	A 1¢ change in the Canadian dollar relative to the U.S. dollar represents about $200,000 per year for the 60% of Brilliant Expansion power entitlement not currently under contract.	Sales to BC Hydro and FortisBC are in Canadian dollars. Approximately $3 million of Brilliant upgrades power is exposed to foreign exchange risk. Hedging instruments are being considered for this sales contract and potential future export sales into the U.S.
Counter-party Credit Risks	Bond ratings and interest costs for CPC/CBT project debt are affected by the creditworthiness of the buyer. Power purchasers may also require CPC to post security.	CPC's marketing efforts are directed at selling power to purchasers with high credit ratings and entering backstop arrangements as appropriate. CPC will negotiate with purchasers to minimize or, if possible, eliminate this requirement.
Interest Rate Risk	Higher interest rates could negatively impact the cost of new project debt, project net income and the economics of and ability to finance the Waneta Expansion. Depending on the size of the Waneta Expansion, a 1 percentage point interest rate rise could reduce annual net income by up to $4 million.	CPC continues to pursue debt management strategies and use interest rate hedges to manage risk to acceptable levels, as appropriate.

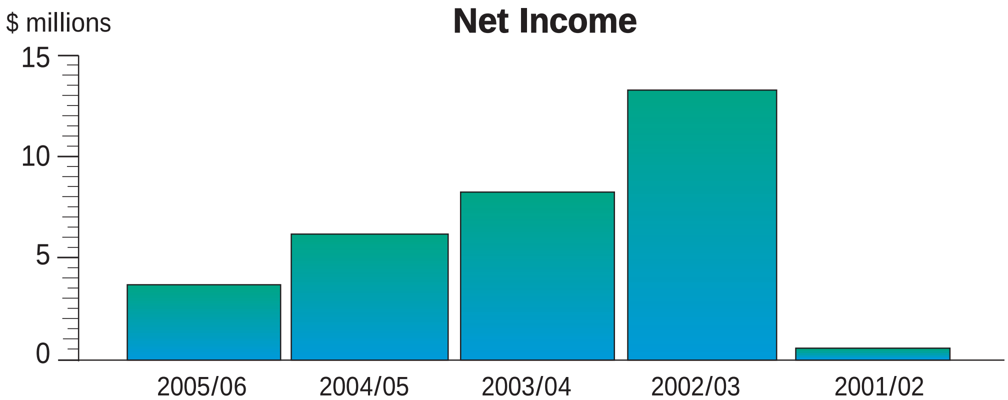
1. CPC - Columbia Power Corporation; CBT - Columbia Basin Trust

Five-Year Comparative Data

($ in thousands unless otherwise stated)

	2005/06	2004/05	2003/04	2002/03	2001/02
Power Sales	$ 28,438	$ 26,480	$ 28,081	$ 44,650	$ 12,781
Interest and Other Earnings	3,247	2,721	1,892	700	711
Net Income	3,138	5,744	8,262	13,438	550
Dividend Payments	2,000	2,000	2,000	2,000	2,000
Capital Assets and Deferred Costs	376,322	365,234	330,852	287,296	266,148
Short-Term Debt	-	-	-	47,254	63,491
Long-Term Debt	123,374	128,407	107,664	59,049	59,839
Equity	304,557	303,417	299,673	293,411	287,011
Capital and Deferred Spending	$ 17,343	$ 41,865	$ 50,460	$ 26,601	$ 58,999
Debt-to-Equity Ratio	29:71	30:70	26:74	27:73	30:70





COLUMBIA POWER CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2006

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COLUMBIA POWER CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2006

Statement of Management Responsibility

The consolidated financial statements of Columbia Power Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles and fairly present Columbia Power Corporation's consolidated financial position and results of operations. The integrity of the information presented in the consolidated financial statements, including estimates and judgements relating to matters not concluded by fiscal year end, is the responsibility of management.

Management is responsible for establishing and maintaining appropriate systems of internal control (which include policies and procedures) to provide reasonable assurance that Columbia Power Corporation's assets are safeguarded and that reliable financial records are maintained.

The Office of the Auditor General of British Columbia has been appointed by management to audit the consolidated financial statements. Their audit report is attached, outlining the scope of the examination and providing an opinion on the consolidated financial statements.

Ed Pietraszek
Acting President

David de Git, CMA
Acting Corporate Controller

May 19, 2006

Report of the
Office of the Auditor General
of British Columbia

To the Board of Directors of
Columbia Power Corporation and

To the Minister of Energy and Mines and Petroleum Resources,
Province of British Columbia:

We have audited the consolidated balance sheet of *Columbia Power Corporation* as at March 31, 2006 and the consolidated statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of *Columbia Power Corporation* as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Victoria, British Columbia
May 19, 2006

Errol S. Price, CA
Deputy Auditor General

COLUMBIA POWER CORPORATION

CONSOLIDATED BALANCE SHEET

AS AT MARCH 31

($ in thousands)

	2006	2005
ASSETS		
Current assets		
Cash and temporary investments (Note 3)	$ 56,588	$ 43,032
Accounts receivable and unbilled revenue	6,534	6,130
Inventories (Note 4)	989	1,020
Prepaid expenses and deposits	1,761	1,415
Recoverable channel repair costs and losses (Note 5)	1,379	2,389
	67,251	53,986
Capital assets (Note 6)	239,518	240,689
Other assets		
Due from joint venture partner (Note 7)	-	25,000
Hydroelectric power expansion rights (Note 8)	25,925	25,925
Deferred costs (Note 9)	102,016	88,985
Power sales right (Note 10)	8,863	9,635
Deferred debt issue costs (Note 11)	3,648	3,936
	140,452	153,481
	$ 447,221	$ 448,156

The accompanying notes are an integral part of the financial statements

APPROVED ON BEHALF OF THE BOARD:

Director

Director

COLUMBIA POWER CORPORATION

CONSOLIDATED BALANCE SHEET

AS AT MARCH 31

($ in thousands)

	2006	2005
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 12,881	$ 9,681
Dividend payable	2,000	2,000
Interest payable on long term bonds	3,014	3,132
Current portion of long term bonds (Note 13)	5,342	5,034
Due to related parties (Note 19)	606	858
	23,843	20,705
Deferred revenue	791	661
Long-term bonds (Note 13)	118,031	123,373
Commitments (Note 18)		
Contingencies (Note 21)		
Equity		
Contributed surplus (Note 16)	276,065	276,065
Retained earnings	28,491	27,352
	304,556	303,417
	$ 447,221	$ 448,156

The accompanying notes are an integral part of the financial statements

COLUMBIA POWER CORPORATION

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED MARCH 31
($ in thousands)

	2006	2005
REVENUES		
Sale of power	$ 28,438	$ 26,480
Transmission facility revenue	1,502	1,411
Interest	1,074	727
Management fee	671	583
	31,685	29,201
EXPENSES		
Water rentals	4,005	4,090
Amortization of capital assets in service	5,482	6,174
Amortization of power sales right	772	720
Property tax	1,061	1,027
Operations and maintenance	1,140	1,423
Administration and management	1,989	1,791
Insurance	553	497
Community sponsorship	84	75
Restructuring costs (Note 1(g))	225	762
	15,311	16,559
INCOME FROM OPERATIONS	16,374	12,642
FINANCE CHARGES		
Interest expense	8,551	8,106
Amortization of deferred debt issue costs	288	254
	8,839	8,360
NET INCOME BEFORE CHANNEL REPAIR COSTS	7,535	4,282
CHANNEL REPAIR COSTS	(7,361)	(3,927)
RECOVERY OF REPAIR COSTS AND LOSSES (Note 5)	2,964	5,389
NET INCOME FOR THE YEAR	$ 3,138	$ 5,744

The accompanying notes are an integral part of the financial statements

COLUMBIA POWER CORPORATION

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED MARCH 31
($ in thousands)

		2006	2005
RETAINED EARNINGS - beginning of year		$ 27,352	$ 23,608
Add:	Net income	3,138	5,744
Deduct:	Dividend declared	(2,000)	(2,000)
RETAINED EARNINGS - end of year		$ 28,490	$ 27,352

The accompanying notes are an integral part of the financial statements

COLUMBIA POWER CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31
($ in thousands)

	2006	2005
OPERATING ACTIVITIES:		
Net income for the year	$ 3,138	$ 5,744
Adjustments to reconcile cash flow from operations:		
Amortization of capital assets in service	5,482	6,174
Amortization of deferred debt issue costs	288	254
Amortization of power sales right	772	720
Recoverable channel repair costs and losses (Note 5)	1,010	(2,389)
Restructuring costs	-	591
Net change in non-cash working capital balances	2,242	1,243
	12,932	12,337
FINANCING ACTIVITIES:		
Issue of Project Bonds	-	25,000
Dividends paid	(2,000)	(2,000)
Deferred debt issue costs	-	(1,488)
Principal repayment of Project Bonds	(5,033)	(4,256)
	(7,033)	17,256
INVESTING ACTIVITIES:		
Repayment from joint venture partner	25,000	25,000
Deferred costs	(13,031)	(38,445)
Additions to Brilliant power facility and terminal station	(926)	(2,006)
Additions to ALGS power facility	(3,241)	(1,223)
Purchase of furniture, equipment, vehicles and land	(145)	(193)
	7,657	(16,867)
INCREASE IN CASH AND EQUIVALENTS	13,556	12,726
CASH AND EQUIVALENTS - beginning of year	43,032	30,306
CASH AND EQUIVALENTS - end of year	$ 56,588	$ 43,032
CASH AND EQUIVALENTS CONSISTS OF:		
Restricted cash and temporary investments	10,814	13,229
Cash and temporary investments available for operations	45,774	29,803
	$ 56,588	$ 43,032
Supplemental disclosure of cash flow information		
Interest paid	$ 8,668	$ 7,741

The accompanying notes are an integral part of the financial statements

1. Columbia Power Corporation

(a) Structure and Financing

Columbia Power Corporation (CPC) is wholly owned by the Province of British Columbia. As an agent for the Province, CPC is committed to entering into joint ventures to develop hydroelectric power projects as set out in the Agreement signed in 1995 (the Agreement) between the Province and the Columbia Basin Trust (the Trust), also wholly owned by the Province.

The Agreement anticipates that several power projects will be undertaken through joint ventures between CPC and subsidiaries of the Trust (the Venturers). The cost of all projects under consideration is expected to exceed $1 billion. Under the Agreement between the Province and the Trust, the Province committed to make $500 million in capital contributions for the purpose of funding capital costs of power projects, with the remaining capital costs to be financed through joint venture borrowings by CPC and the Trust's subsidiaries.

The Venturers each hold a 50% interest in the joint ventures and direct their activities through Management Committees with an equal number of members appointed by each Venturer. All decisions of the Management Committees require the unanimous approval of their members.

CPC is appointed the Manager of the joint ventures with the authority to manage the day-to-day activities of the joint ventures, subject to the direction of their Management Committees and annual capital and operating budgets approved by the committees. CPC's material transactions and agreements require the approval of the Province's Treasury Board.

(b) Power Project Planning

In 1996, CPC and CBT Power Corp. (CBT Power), a subsidiary of CBT Energy Inc. (CBT Energy), a subsidiary of the Trust, entered into the Power Project Planning Joint Venture (PPPJV) Agreement. Under this Agreement, the parties formed an unincorporated joint venture, primarily for the purpose of assessing and determining the feasibility of power projects pursuant to the Agreement between the Province and the Trust.

The Agreement provides for the Venturers to conduct work on specific power projects up to the date that an existing project is acquired, construction has commenced on a new project, or a project is no longer feasible or is abandoned. Prior to a project's acquisition or commencement of construction, approval must be received from the Directors of both CPC and the Trust. The project must also meet financial viability tests consistent with those of a commercial lender. When a project is acquired, or project construction is commenced, the project is to be transferred to a separate joint venture.

(c) Brilliant Power Facility and Brilliant Terminal Station

Brilliant Power Corporation (BPC) is jointly owned, on a 50/50 basis, by CPC and CBT Power. The Shareholders direct BPC's activities through a Management Committee, with an equal number of members appointed by each Shareholder. All decisions of the Management Committee require the unanimous approval of the members. The purpose of the corporation is to operate the Brilliant Power Facility and Brilliant Terminal Station.

(d) Arrow Lakes Generating Station

Arrow Lakes Power Corporation (ALPC) is jointly owned, on a 50/50 basis, by CPC and CBT Arrow Lakes Power Development Corp., (CBT Arrow Lakes), a subsidiary of CBT Energy. The purpose of the corporation is to construct and operate the 185 megawatt (MW) Arrow Lakes Generating Station (ALGS) adjacent to the Hugh Keenleyside dam at Castlegar, British Columbia and a 48 kilometre transmission line from the powerplant to BC Hydro's Selkirk substation.

(e) Brilliant Expansion

Brilliant Expansion Power Corporation (BEPC) is jointly owned, on a 50/50 basis, by CPC and CBT Brilliant Expansion Power Corp,, a subsidiary of CBT Energy. The purpose of the corporation is to construct and operate the Brilliant Expansion Project, a 120 MW, $205 million power generation development adjacent to the Brilliant dam at Castlegar, British Columbia.

(f) Significant Agreements

(i) Entitlement Agreements

Under Entitlement Agreements, British Columbia Hydro and Power Authority (BC Hydro), a Crown Corporation of the Province, coordinates the operations of the Brilliant Power Facility and ALGS, and receives all of the resulting electrical power. In return, BC Hydro provides BPC and ALPC with a fixed amount of capacity and energy from the BC Hydro system.

(ii) Brilliant Power Purchase Agreement

Under the Brilliant Power Purchase Agreement, FortisBC Inc. (FortisBC), a regulated utility operating in British Columbia, will purchase the power under the Brilliant Entitlement, excluding the portion attributable to the regulated flows through the upgraded turbines. The term of the Agreement is 60 years.

In the first 30 years, the power will be sold on a "take or pay" basis with the price payable by FortisBC composed of an operation and maintenance cost charge and a return on capital charge. In the second 30 years of the contract with FortisBC, there will be an annual market-related price adjustment.

Prior to November 2005, FortisBC purchased the Brilliant Power Facility upgrades regulated entitlement at a price equal to the greater of $26 per megawatt-hour and Fortis's cost of purchasing power from BC Hydro.

(ii) Brilliant Power Purchase Agreement (continued)

An agreement was signed with Powerex Corp. (Powerex), a subsidiary of BC Hydro, effective November 1, 2005 to purchase this output under a short-term contract. The price used to determine this revenue is based on market prices.

(iii) Facilities Interconnection and Investment Agreement (FIIA)

FortisBC operates and manages the Brilliant Terminal Station on behalf of BPC. A Management Committee with an equal number of members from BPC and FortisBC must unanimously approve all expenditures. Brilliant Terminal Station operating and capital costs are recovered from FortisBC through operations and maintenance and return on capital charges as described in Note 1(f)(ii). The term of the Agreement is coincident with the term of the Brilliant Power Purchase Agreement.

(iv) Powerex Backstop Agreement

This agreement provides for Powerex to purchase the Brilliant entitlement, excluding the portion attributable to the regulated flows through the upgraded turbines, if BPC terminates the Brilliant Power Purchase Agreement by reason of default by FortisBC.

(v) Management Agreements

BPC

FortisBC operates and manages the Brilliant Power Facility on behalf of BPC. The management fee and other amounts payable under the Agreement form part of the operation and maintenance cost component described under Note 1(f)(ii).

The Brilliant Management Agreement provides for a Management Committee with an equal number of members from BPC and FortisBC who must unanimously approve all expenditures. The term of the Agreement is coincident with the term of the Brilliant Power Purchase Agreement.

ALPC

Under a Management Agreement, Fortis Pacific Holdings Inc. (Fortis Pacific - the unregulated parent company of FortisBC) operates and manages ALGS on behalf of ALPC.

(vi) Design-Build Contract - ALGS

In 1998, ALPC entered into a turn-key, design-build contract for approximately $210 million with Peter Kiewit Sons Co. Ltd. (PKS) for the construction of ALGS. Final Acceptance of the powerplant, scheduled under the contract to occur in December 2005, awaits the resolution of a number of outstanding contractual issues. Terms of the contract include performance guarantees and significant liquidated damages for failure to achieve performance guarantees.

(vii) Design-Build Contract - Brilliant Expansion

In 2003, BEPC entered into a turn-key, design-build contract for approximately $167 million with Brilliant Expansion Consortium for the construction of the Brilliant Expansion. Under the contract, commercial operations are scheduled to begin in August 2006. As a result of construction delays, commercial operation is now expected to begin in May 2007. Terms of the contract include performance guarantees and significant liquidated damages for failure to achieve performance guarantees; a contractor bonus for early completion; a milestone schedule and a schedule of payments to the contractor.

(viii) Power Sales Right

In 1997, the Venturers acquired the right and obligation to provide up to 86 average megawatts to BC Hydro during the period January 2003 to December 2014. ALPC uses the Arrow Lakes entitlement to meet its obligations under the contract.

(ix) Green Power Generation Electricity Purchase Agreement (GPG EPA)

In 2003, BEPC entered into the GPG EPA with BC Hydro obtaining the right and obligation to provide 23.12 average annual megawatts from the Brilliant Expansion to BC Hydro for a 20 year period starting August 2006.

(g) Columbia Basin Initiative Restructuring

The Columbia Basin Initiative resulted from the signing of the Columbia Basin Accord in 1995. Pursuant to this accord, the Province contributed $500 million over 10 years to be used as equity funding in power project investments that would be made on a joint venture basis between CPC and CBT, both 100% provincially owned Crown corporations.

In 2001, the Province signed an option agreement granting CBT Energy the right to acquire 100% of the outstanding shares of CPC at a price equal to the greater of CPC's equity book value and market value. CBT Energy chose to not exercise its option to acquire CPC and the option expired in November 2005.

On January 26, 2005 the Minister of Energy and Mines instructed CPC and CBT that the existing structure, which retains a separate CPC and CBT, would be continued. This direction allows both organizations to focus on their respective mandates, which remain unchanged. CPC will continue as Manager responsible for the development, construction and operation of power projects. CBT will continue to invest and deliver economic, social and environmental benefits to Columbia Basin residents. During the year CPC recorded a $225,000 expense (2005 - $762,000) related to its 50% share of Columbia Basin Initiative restructuring costs.

2. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

(a) Consolidated Financial Statements

These consolidated financial statements and notes include CPC's operations and interests in PPPJV, BPC, BEPC and ALPC. The joint ventures are consolidated using the proportionate consolidation method, whereby CPC's accounts are combined on a line by line basis with its proportionate share (in this case 50%) of the joint ventures' assets, liabilities, revenues, expenses and cash flows. Intercompany balances and transactions between CPC and the joint ventures have been eliminated.

(b) Temporary Investments

Temporary investments are recorded at the lower of cost and market value.

(c) Capitalization and Amortization

Capital assets are recorded at cost and are amortized annually at rates calculated to expense the cost of assets over their estimated useful lives. Amortization begins when assets are placed into service. The corporation includes, as part of the costs of its fixed assets, interest charges incurred during construction.

(i) Brilliant Power Facility and Brilliant Terminal Station

Capital assets are recorded at cost. For 2005 and preceding years, the Brilliant Power Facility, excluding sustaining capital and upgrade expenditures, was amortized on a straight-line basis over 60 years as the term of the Brilliant Power Purchase Agreement was used as the best estimate of useful life. Similarly, sustaining capital additions and capital expenditures for upgrades were historically amortized over terms consistent with the associated revenue agreement, as these agreements provided the best estimates of useful life.

During the year, new information on the estimated useful lives of the Brilliant Power Facility assets became available. The amortization rates were changed to amortize costs over the revised lifespan estimates. The objective of the change in estimate was to provide a rational and systematic basis for allocating the amortizable amount of an item of property, plant and equipment over its estimated useful life, as prescribed by Canadian generally accepted accounting principles. The amortization expense, based on the revised estimates of useful lives, is $2.4 million for 2005/06. The amortization expense would have been $2.7 million using the previous estimates. The revised estimates for asset life spans are consistent with industry norms.

The expected useful lives of capital assets, in years, are:

Power facility	40 - 80
Terminal Station	30 - 60

(ii) Arrow Lakes Generating Station

Capital assets are recorded at cost and depreciated on a straight line basis over their expected useful lives. The expected useful lives, in years, are:

Field and office equipment	5
Power facility	40 - 80
Transmission	30 - 50

During the year, new information on the estimated useful lives of the Arrow Lakes Generating Station assets became available. The amortization rates were changed to amortize costs over the revised lifespan estimates. The amortization expense, based on the revised estimates of useful lives, is $3.0 million for 2005/06. The amortization expense would have been $3.3 million using the previous estimates. The revised estimates for asset life spans are consistent with industry norms.

(iii) CPC Offices and Equipment

Computer systems	-	straight line over 3 years
Office furniture and equipment	-	straight line over 5 years
Leasehold improvements	-	straight line over 5 years
Vehicles	-	straight line over 8 years

(d) Deferral of Power Project Costs

Costs incurred in determining the feasibility of acquiring power projects or undertaking preliminary development work on power projects and construction expenditures are deferred. Deferred power project costs include all costs attributable to a project as well as capitalized interest and taxes.

When a project is acquired or construction commences, the related deferred costs of that project form part of its capital cost. When a project is abandoned, the costs deferred for that project are expensed. When a project's costs exceed those likely to be recovered, the excess is expensed.

(e) Deferred Debt Issue Costs

Expenditures incurred in issuing the Series A, B and C Brilliant Project Bonds and Series A Arrow Lakes Project Bonds are deferred and amortized on a straight line basis over the term of the bonds.

(f) Revenue Recognition

FortisBC is the purchaser of all power received under the Brilliant Entitlement, except for the regulated upgrades after October 2005, and has the right to the shared use of the Brilliant Terminal Station. Revenues are recognized when operating and maintenance costs are incurred and as the return on capital is earned in accordance with the Brilliant Power Purchase Agreement (Note 1(f)(ii)) and FIIA (Note 1(f)(iii)). Regulated upgrade revenues and ALGS revenues are recognized when entitlements are delivered.

(g) Asset Retirement Obligations

Canadian generally accepted accounting principles require CPC to determine the fair value of the future expenditures required to settle legal obligations to remove capital assets on retirement. If a reasonable estimate can be determined, a liability is recognized equal to the present value of the estimated future removal costs, and an equivalent amount is capitalized as an inherent cost of the associated capital asset.

Some of CPC's assets may have asset retirement obligations. As CPC expects to use the majority of its assets for an indefinite period, no removal date can be determined and, consequently, an estimate of the fair value of any asset retirement obligation has not been made at this time.

(h) Consolidation of Variable Interest Entities

Canadian generally accepted accounting principles require CPC to consolidate a variable interest entity if it is determined that the enterprise is the primary beneficiary of such entity. A variable interest entity is an entity in which either: the equity is insufficient to absorb the entity's expected losses, the equity owners as a group are not able to make decisions about the entity's activities or the equity holders do not absorb the entity's losses or receive the entity's residual returns. The application of this standard does not have any impact on CPC's financial position or on its operating results.

(i) Taxes

CPC is exempt from corporate income taxes and federal large corporations tax.

(j) Foreign Currency Translation

Foreign currency denominated revenues and expenses are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Foreign currency denominated monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date.

(k) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

3. Cash and Temporary Investments

BPC and ALPC must apply the payments they receive from the sales of power as set out under agreements with the Project Bondholders.

Under its agreements with Bondholders, BPC has established a debt service reserve fund in which it maintains cash or cash equivalents equal to one semi-annual payment on the Series A, B and C Brilliant Project Bonds. BPC also maintains an operating reserve account in an amount equal to one-quarter of annual operating expenses.

A US $8.0 million money market fund is held by ALPC to offset a US dollar current liability. A Canadian dollar bank account is held for future payment of its commitment for fish entrainment compensation as per Note 18(b).

BEPC cash includes construction trust and letter of credit accounts. The construction trust account is a holding account for scheduled payments to the design build contractor. The letter of credit account secures a letter of credit issued to BC Hydro for development security under the GPG EPA.

($ in thousands)	2006	2005
Restricted		
Debt service reserve fund		
Canadian dollar bank account	$ 3,955	$ 3,922
Operating reserve account		
Canadian dollar bank account	1,200	1,050
Project construction commitments		
US dollar money market fund	4,665	4,705
Canadian dollar bank accounts	994	3,552
	10,814	13,229
Available for operations		
Canadian dollar money market fund	29,657	26,618
Canadian dollar bank accounts	16,117	3,185
	45,774	29,803
	$56,588	$43,032

4. Inventories

Land inventory was purchased as a result of transmission Right of Way (ROW) acquisition. One property was sold from inventory in 2005/06. Spare parts were acquired as specific items under the design-build contract with PKS.

The value of land held for resale is based on the lower of cost and net realizable value. Any gains or losses upon sale of land inventory will reduce or increase the net cost of the ROW. Spare parts are recorded at cost.

($ in thousands)	2006	2005
Land	$ 197	$ 228
Spare parts	792	792
	$ 989	$1,020

5. Recoverable Channel Repair Costs and Losses

On May 3, 2004, ALPC discovered damage caused by unstable hydraulic conditions to the concrete lining of the approach channel. Power generation was suspended while investigations took place and repairs were made to the channel.
Repairs have been undertaken in three stages, namely:

(i) immediate temporary repair to stop the ingress of water into the channel underdrainage system;

(ii) intermediate repairs to enable the safe resumption of power generation until long-term repairs that may be required to ensure the integrity of the approach channel are undertaken, all subject to the approval of the Comptroller of Water Rights and BC Hydro; and

(iii) permanent repairs to ensure the integrity of the approach channel and prevent reoccurrence of the incident, which required a further suspension of generation.

The first two stages of repair, which involved placing a high-density polyethylene liner over the damaged area and then covering the liner with a layer of concrete, were completed, and production of power was resumed in August 2004. Permanent repairs commenced in November 2005 and commercial operation resumed on May 18, 2006.

ALPC is taking all necessary steps, including pursuing its remedies under the design-build contract and its insurance policies, to recover its losses, and is preserving its available sources of working capital to ensure that its obligations to creditors and regulators will be satisfied and that funds are in place as needed to carry out permanent repairs to the channel. Accordingly, payment of dividends was suspended during 2004/05 and 2005/06.

CPC's 50% share of the total cost of the channel damage during the year included $10.4 million in repairs (2005 - $3.9 million) and $3.1 million in lost revenue from power generation (2005 - $3.4 million). $3.0 million of this cost is recorded as a capital expenditure subject to future recovery. CPC's 50% share of advances to date from its property insurer toward the settlement of its insurance claim totals $7 million, and CPC has recorded in its financial statements an expected further recovery of $1.4 million from its insurer. The $8.4 million recovery of repair costs and losses does not include potential recovery from insurance and other sources and future reduced water rental expense. The final financial impact of the channel damage cannot be determined with certainty at this time.

6. Capital Assets

($ in thousands)	Cost	Accumulated Amortization	NBV 2006	NBV 2005
Brilliant power facility	$103,725	$15,501	$ 88,224	$ 89,687
Brilliant terminal station	13,138	1,057	12,081	12,021
Brilliant lands	2,386	-	2,386	2,385
ALPC power facility	134,558	11,241	123,317	122,637
ALPC transmission	10,745	1,155	9,590	9,961
ALPC lands	3,576	-	3,576	3,607
Computer systems	424	280	144	122
Furniture and equipment	294	237	57	89
Leasehold improvements	456	441	15	62
Vehicles	188	60	128	118
	$269,490	$29,972	$239,518	$240,689

7. Due from Joint Venture Partner

Under the terms of the Joint Venture Agreements (Note 1(a)), CPC made interest free advances to fund the Trust's share of joint venture cash contributions. All advances were repaid as of April 1, 2005 with the receipt of the final $50 million equity contribution from the Province.

8. Hydroelectric Power Expansion Rights

Hydroelectric power expansion rights are recorded at cost and include options to acquire lands near the Waneta and Brilliant dams at no additional cost and the right to develop and operate new hydroelectric facilities on these lands. The fair value of these rights may differ from cost. A fair value is not readily determinable due to the unique nature of the expansion rights.

9. Deferred Costs

Deferred costs are comprised of deferred development costs and construction-in-progress. Deferred costs are carried on the balance sheet based on management's judgment of anticipated future events. A number of significant estimates and qualitative factors are considered by management in determining the reported amounts of deferred project costs. Costs of the construction contract are recorded according to the schedule of payments under the contract as this schedule is intended to reflect the progress of various activities of the work and the general values assigned to those activities.

(a) Deferred Costs Comprise the Following:

($ in thousands)	Deferred Costs at March 31, 2005	2005/06 Additions	Deferred Costs at March 31, 2006
Development costs Waneta Expansion (WAX)	$ 4,389	$ 1,813	$ 6,202
Development costs Brilliant Expansion (BRX)	6,376	-	6,376
Construction-in-progress BRX	78,220	11,218	89,438
	$88,985	$13,031	$102,016

(b) Deferred Costs by Expenditure Category

($ in thousands)

	Project Design & Construction	Environmental Assessment	Socio-economic Assessment	Finance/ Legal Analysis	CPC/CBT Management	Total March 31, 2006
WAX	$ 1,159	$1,854	$158	$ 423	$2,608	$ 6,202
BRX	86,667	1,823	412	1,625	5,287	95,814
	$87,826	$3,677	$570	$2,048	$7,895	$102,016

10. Power Sales Right

The power sales right is recorded at cost. Amortization is recorded on the basis of power sold to BC Hydro over the year compared to the total power sales under the agreement. The fair value of the power sales right may differ from its cost. A fair value is not readily determinable due to the unique nature and the extended term of the power sales right.

11. Deferred Debt Issue Costs

Debt issue costs incurred by BPC and ALPC in issuing long term debt:

($ in thousands)	2006	2005
Deferred debt issue costs	$4,465	$4,465
Accumulated amortization	(817)	(529)
	$3,648	$3,936

12. Pension Plans

CPC and its employees contribute to the Public Service Pension Plan in accordance with the Public Sector Pension Plan Act. The plan is a multi-employer defined benefit pension plan and is reported separately by the Province.

Employees of CPC are eligible for the same post retirement healthcare benefits as other members of the Public Service Pension Plan. No provision, other than CPC's required employer pension contributions, has been made in the accounts of CPC for this liability.

CPC maintains an executive pension benefit plan (EPBP). Under the EPBP, CPC contributes each year to a trustee, in advance, an irrevocable and renewable letter of credit in an amount necessary to provide the EPBP benefits accruing and any unfunded liability. Employee contributions are not required under the EPBP.

Pension payments from the EPBP commenced in January 2006 upon retirement of CPC's former President. CPC valued the pension liability at March 31, 2006 as $223,000 on a discounted cash flow basis.

13. Long Term Bonds

The Series A, B and C Brilliant Project Bonds are secured on a limited recourse basis by charges against the Brilliant Power Facility including related material contracts, licences, permits, approvals, authorizations and insurance coverages.

The Bonds are redeemable by BPC in whole or in part at any time before May 31, 2026 at a price equal to the greater of the principal amount then outstanding, and a price calculated to provide a yield to maturity based on the current yield of a matching duration Government of Canada bond plus 0.30%.

The Series A Arrow Lakes Project Bonds issued on August 28, 2003 are secured on a limited recourse basis by charges against the ALGS Facility and Transmission assets including related material contracts, licences, permits, approvals, authorizations and insurance coverages.

The Bonds are redeemable by ALPC in whole or in part at any time before March 31, 2015 at a price equal to the greater of the principal amount then outstanding, and a price calculated to provide a yield to maturity based on the current yield of a matching duration Government of Canada bond plus 0.23%.

13. Long Term Bonds (continued)

($ in thousands)

			CPC's Portion of Principal Outstanding	
Series	**Interest rate**	**Maturity date**	**2006**	**2005**
BPC A	8.93%	May 31, 2026	$ 43,225	$ 43,950
BPC B	6.86%	May 31, 2026	13,028	13,312
BPC C	5.67%	May 31, 2026	24,291	24,906
ALPC A	5.39%	March 31, 2015	42,829	46,239
			123,373	128,407
	Current portion		(5,342)	(5,034)
			$118,031	$123,373

Principal repayments next five years:

2007	$ 5,342
2008	5,668
2009	6,017
2010	6,386
2011	6,782
Subsequent years	93,178
	$123,373

14. Credit Facility

In accordance with its agreements with Bondholders, BPC has secured a $10 million credit facility with the CIBC, which would rank equally with the Series A, B and C Bonds. The facility was deactivated on April 1, 2005. Subject to an annual credit review the facility continues to be available.

15. Share Capital

Authorized:

100,000,000 common shares, no par value

Issued:

6 common shares $6

16. Contributed Surplus

Contributed surplus represents the contributions made by the Province to permit CPC to purchase hydroelectric power expansion rights and to fund power project costs.

17. Financial Instruments

CPC's financial instruments consist of cash and temporary investments, accounts receivable and unbilled revenue, accounts payable and long term debt. Unless other wise noted, it is management's opinion that CPC is not exposed to significant interest, currency or credit risks arising from these financial instruments.

18. Commitments

(a) Plant Operations

Under its agreements with Bondholders, BPC and ALPC have committed to keep the Brilliant Power Facility, Brilliant Terminal Station and the ALGS in good operating condition and to effect all necessary repairs and replacements according to the requirements of good industry practice.

(b) ALPC Fish Entrainment Compensation

ALPC has made a commitment to contribute $175,000 annually, adjusted for inflation, to compensate for fish entrainment for as long as fish are entrained in ALGS. This funding will initially be used for fertilizing fish stocks in the Upper and Lower Arrow reservoirs.

(c) BEPC Contractor Bonus

The construction contract includes a bonus for early completion. The contractor will be entitled to receive a daily bonus amount to September 7, 2006 if marketable power is produced before that date.

(d) Facilities Long Term Lease Commitment

CPC has entered into operating leases for office premises that provide for minimum annual lease payments totaling up to $185,000 per year for the next five years.

19. Related Party Transactions

These consolidated financial statements include amounts receivable from, amounts payable to and transactions with BC Hydro and its affiliates; the Trust and its affiliates; and the Province. The $145,000 amount due from the Province represents the bonus portion of the compensation agreement with CPC's employees. Other than the Trust, which charges the joint ventures on a cost recovery basis, all related party transactions are at market rates.

(a) Due from and Sales to Related Parties

($ in thousands)	2006		2005	
	Due from Related Party	Sales to Related Party	Due from Related Party	Sales to Related Party
BC Hydro	$ -	$12,697	$109	$11,756
Powerex	147	1,533	-	-
Province	145	160	5	27
CBT and affiliates	-	8	3	7
	$292	$14,398	$117	$11,790

(b) Due to and purchases from related parties

($ in thousands)	2006 Due to Related Party	2006 Purchases from Related Party	2005 Due to Related Party	2005 Purchases from Related Party
Province	$ 23	$ 4,515	$126	$5,573
BC Hydro	2	800	363	844
Powerex	-	48	-	48
BC Transmission Corp.	-	254	-	88
CBT and affiliates	581	926	369	718
	$606	$ 6,543	$858	$7,271

20. Subsequent Event

On May 18, 2006 the Arrow Lakes Generating Station resumed commercial operations.

21. Contingencies

(a) Power Projects

CPC's operating and development power project activities are affected by federal, provincial and local government laws and regulations. Under its agreements with its Bondholders, BPC and ALPC have agreed to comply or cause compliance in all material respects with such laws and regulations as well as to maintain all material franchises. Under current regulations, the Venturers are required to meet performance standards to minimize or mitigate negative impacts of their proposed projects. The impact, if any, of future legislative or regulatory requirements on specific projects and their related deferred costs cannot currently be estimated.

(b) Arrow Lakes Power Corporation

Under the Design-Build Contract at Final Acceptance, all deficiencies of the ALGS must be completed by the construction contractor or liquidated damages will be owed by the contractor to ALPC.

(c) Insurance Proceeds

CPC is in the process of establishing the amount to be recovered from its insurer in respect to damage to the ALGS approach channel. Management used its best estimate to determine the proceeds. However if the proceeds are greater or less than the estimate, this difference will be recognized in future years.

(d) Brilliant Expansion Power Corporation

In the course of project construction, BEPC is subject to the potential for future claims from its contractor. The final impact, if any, of future claims cannot currently be estimated.

22. Comparative Figures

Certain 2005 figures have been reclassified to conform with the current year's presentation.

Board of Directors

Lee Doney
Chair

Jane Fleming

Ron Miles

Charles Reid

Josh Smienk

Art Willms

Officers

Ed Pietraszek
Acting President

Giulio Ambrosone
Vice President, Engineering & Construction

Bruce Duncan
Vice President, Strategic Planning & Regulatory Affairs

Bill Freeman
Vice President, Planning & Development

Victor Jmaeff
Vice President, Power Supply & Marketing

Wally Penner
Executive Director, Community & Regional Affairs

Randall Smith
Acting Corporate Secretary/Treasurer

David de Git
Acting Corporate Controller

Corporate Governance

Columbia Power Corporation is a Crown corporation existing under the *British Columbia Business Corporations Act*. It is owned and controlled by the Province and is an agent of the Province. Under the terms of its agency agreement, Columbia Power Corporation must obtain the approval of the Province's Treasury Board for all budgets and material decisions. Its directors are appointed annually by the Province. All employees are bound by the Columbia Power Corporation Standards of Conduct.

As a government corporation under the *British Columbia Financial Administration Act*, Columbia Power Corporation is required to maintain its accounts in a manner acceptable to the Minister of Finance. The Auditor General of British Columbia is the auditor for the corporation.

The power project investments of Columbia Power Corporation and Columbia Basin Trust are guided by the principle, as stated in the Financial Agreement between the Province and Columbia Basin Trust, that the joint venture management committee formed for a power project will only authorize the start of the power project if such a start is approved by the respective boards of directors of Columbia Power Corporation and Columbia Basin Trust, and if such a power project would meet conditions as would be set by a reasonable lender for the financing of a similar power project, including conditions related to debt servicing, return on equity, permits, construction agreements, contracts for the sale or distribution of electricity and similar matters.

All operating and capital budgets for a joint venture power project require the unanimous approval of the joint venture's management committee. Such committees consist of three members appointed by Columbia Power Corporation and three members appointed by Columbia Basin Trust.

Between February 2005 and April 2005, the Province appointed three new directors to the Board of Directors. The new directors, one of whom was appointed as Chair, bring considerable experience as directors and officers in the public and private sector. Three additional appointments were made to the Board of Directors in April 2006, including two members nominated by Columbia Basin Trust in accordance with an agreement between the Province, Columbia Basin Trust and Columbia Power Corporation. Work is in progress on board sub-committee structures and an overall board governance model consistent with best practice guidelines issued by the Province. The development of a Shareholder's Letter of Expectations is also underway to outline the government's future expectations of Columbia Power Corporation.

Glossary

Benchmarking
A measured, "best-in-class" achievement that is used as a reference or measurement standard for comparison and is recognized as the standard of excellence for a specific business process.

Bond rating
A rating assigned to bonds based on the probability of the issuing firm's default. Those bonds with the lowest default probability have the highest rating and generally carry the lowest interest rates.

Canal Plant Agreement
An agreement between BC Hydro, FortisBC, Teck Cominco Metals Ltd., Brilliant Power Corporation, Brilliant Expansion Power Corporation and Waneta Expansion Power Corporation that provides for the coordination of hydro facilities on the lower Kootenay and Pend d'Oreille Rivers.

Capacity
The maximum power that a generating station can supply, usually expressed in megawatts.

Columbia River Treaty
An agreement ratified by the United States and Canada in 1954, which led to the construction of three storage dams in the Columbia River Basin (Duncan, Keenleyside and Mica dams) and one in Montana (Libby dam).
The purpose of these dams was flood control and power production in both countries.

Comptroller of Water Rights
The statutory decision-maker under the *Water Act*, responsible for water licences and the safety of water-retaining structures.

Debt service coverage ratio
Earnings before interest, depreciation and taxes, divided by debt service payments during the year (debt principal and interest payments).

Debt-to-equity ratio
Ratio of money borrowed to money invested in the capital structure of a firm.

Design-build contract
A turn-key contract between the owner and a contractor/consortium for the design, construction and commissioning of a power project, in accordance with the owner's technical specifications.

Downstream benefits
The extra power generated at United States power plants on the Columbia River that results from the operation of Columbia River Treaty storage dams located in Canada. Under the Columbia River Treaty signed in 1954, the Province of British Columbia owns this "Canadian Entitlement of Downstream Benefits." The Province sold the first 30 years of these benefits to a group of United States utilities for US $254 million. The money helped pay for the construction of the three Treaty dams in Canada.

Energy entitlement ratio
The ratio of a project's actual energy entitlements to maximum entitlements.

Entitlement agreement
An agreement to include a hydro project in the larger hydro system for the purposes of optimizing system power generation, whereby the project owner receives a fixed amount of power.

Environmental approval
Approval under the *British Columbia Environmental Assessment Act (BCEAA)* and the *Canadian Environmental Assessment Act (CEAA)*, following environmental review and consultation with government agencies, First Nations and the general public. Once *BCEAA* and *CEAA* approval is obtained, further permits, licences and approvals must be acquired from federal, provincial and municipal authorities under applicable environmental legislation for the various aspects of the construction and/or operation of hydroelectric projects and associated transmission lines.

Environmental management system
The part of the overall management system that includes organizational structures, planning activities, responsibilities, practices, procedures, processes and resources for developing, implementing, achieving, reviewing and maintaining the environmental policy.

Final acceptance date
The date on which the owner's consultant certifies that everything required to be performed or done by the design-build contractor under the contract has been completed, subject only to warranties under the contract that continue past final acceptance.

First quartile
Measured performance within the top 25% of a study, group or class.

Green power
Power and associated green rights produced from generating facilities that meet specific low environmental impact and social responsibility criteria.

Investment grade credit rating
A credit (bond) rating sufficiently high to be considered worthy of low risk institutional investors such as pension funds.

ISO 14001 standard
The international standard for environmental management, introduced by the International Standards Organization (ISO) in 1996 and updated in 2004.

Limited-recourse project debt
Debt that limits the security available to debt holders in the event of default to only those assets of the debt issuer. The debt is not guaranteed by another party.

Megawatt (MW)
1 million watts; 1,000 kilowatts. A unit commonly used to measure both the capacity of generating stations and the rate at which energy can be delivered.

Megawatt-hour (MWH)
1,000 kilowatt-hours. An average household in British Columbia uses about 10,000 KWH (10MWH) of electricity per year.

Operation, maintenance and administration (OMA)
The cost of operating and maintaining powerplants and related administration costs. OMA does not include amortization, taxes, interest or insurance.

Public-private partnership
A cooperative venture for the provision of infrastructure or services, built on the expertise of each partner, and designed to best meet clearly defined public needs through the most appropriate allocation of resources, risks and rewards. In a public-private partnership, the public sector maintains an oversight and quality assessment role, while the private sector focuses on actual delivery of the service or project.

Return on investment
Income available to shareholders as a percentage of their investment.

Water rental
A royalty collected by the Province of British Columbia for use of water.

Montage of Columbia Power Corporation and Columbia Basin Trust Power Projects

BRITISH COLUMBIA
The Best Place on Earth

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