COLUMBIA BASIN TRUST

a legacy for the people of the Basin

2003/2004 ANNUAL REPORT

BOARD OF DIRECTORS

Chair
Josh Smienk
Regional District of Central Kootenay

Vice Chair
Garry Merkel
Ktunaxa/Kinbasket Tribal Council

Directors
Jeannette Townsend
Fraser-Fort George Regional District

Ron Oszust
Columbia Shuswap Regional District[2]

Dieter Bogs
Kootenay Boundary Regional District

Greg Deck
Regional District of East Kootenay

Ben Arcuri
Nelson

David Brien
Castlegar

Evelyn Cutts
Fernie

Jackie Drysdale
Rossland

Ron Miles
Cranbrook

Mike Rouse
Kimberley

SENIOR MANAGEMENT TEAM

Chief Executive Officer
Don Johnston

Chief Financial Officer
Bob Krysac

Manager, Investment
Dave Strachan

Manager, Operations and Planning
Jane Hutchins

Monitoring and Evaluation
Agnes Koch

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CHAIR'S MESSAGE

Josh Smienk, Chair

The Honourable Richard Neufeld,
Minister of Energy and Mines,
Legislative Buildings,
Victoria, B.C.

Dear Minister Neufeld:

The Columbia Basin Trust has continued to work diligently in all aspects of its mandate over the past year.

Significant time was spent during the year working on completion of the core services review process. In January 2004 you directed Columbia Basin Trust and Columbia Power Corporation to work towards Columbia Power Corporation becoming a wholly-owned subsidiary of Columbia Basin Trust. Columbia Basin Trust's energy subsidiary, CBT Energy Inc., has adjusted its Board in anticipation of the formation of the new wholly-owned subsidiary.

CBT Energy Inc. participated in the inquiry into a Heritage Contract for BC Hydro's Existing Generation Resources, since the outcome of that inquiry would affect CBT Energy Inc.'s access to the energy market in the future and therefore its ability to earn income from power sales through the joint venture power projects. Some of CBT Energy Inc.'s suggestions in this regard were adopted by the Province.

A provision against a loan has resulted from St. Eugene Mission Golf Resort filing for protection from creditors under the *Companies' Creditors Arrangement Act*. The provision will be $7.4 million this fiscal year. While this is a significant financial loss to Columbia Basin Trust, nevertheless the golf course remains intact and the contractors who worked on it were paid in full. The golf course is a championship course, rated as one of the best new courses in Canada, and continues to contribute to the local economy and community, bringing in tourists and creating jobs. The St. Eugene Mission Golf Resort, in its first full summer of operation, faced a series of crises: SARS, BSE, and the 2003 summer fires, all of which kept tourists from this normally popular area. Our investment in the golf course leveraged an additional $30 million in private and institutional capital into the project. The provision against the loan has impacted our actual rates of return for this fiscal year and for historical purposes.

Columbia Basin Trust continues to deliver benefits to the region. In particular, I would like to highlight the Water Initiatives Program, which became a major sponsoring partner under the United Nations' International Year of Freshwater, Wonder of Water Initiative. Columbia Basin Trust has gained recognition as one of the primary sources of information on

Columbia Basin water. This recognition has come in the form of invitations to provide information on the Columbia Basin Trust, its history and the Water Initiatives Program from:

- International Water Forum in Banff, Alberta
- Department of Foreign Affairs and International Trade
- Environment Canada
- Columbia River Treaty Operating Committee
- Ministry of Water, Land and Air Protection
- BC Hydro
- UBC Faculty of Resource Law Lecture Series
- Gonzaga University
- Portland State University

Broadband internet access is regarded as a substantial economic driver in the rural areas of the Columbia Basin. Columbia Basin Trust has continued to support Columbia Mountain Open Network in its work to bring broadband internet access to the Columbia Basin's rural communities.

Our youth programs received substantial recognition in the areas of youth engagement and leadership development.

Many of Columbia Basin Trust's programs, both in the areas of Investment and Delivery of Benefits, leverage other funding to the region. While the amount of this funding is not currently being recorded in the Delivery of Benefits area, it has been calculated within the Basin Fund to a total of almost $107 million.

In the corporate area, we are constantly upgrading our interactive web site. The organization continues to be lean and has not yet rehired two positions, pending the outcome of anticipated shared services with the new wholly-owned subsidiary.

A major risk, at the time of writing, is the possible loss of power income from the current temporary shutdown of Arrow Lakes Generating Station. This loss of income, together with the provision from St. Eugene Mission Golf Resort and the need to replenish Columbia Basin Trust's Reserves, will be factored into our Service Plans in the coming years.

Yours truly,

Josh Smienk, Chair
Columbia Basin Trust

ACCOUNTABILITY STATEMENT

The 2003-2004 Columbia Basin Trust 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 the reported results. All significant decisions, events and identified risks, as of June 14, 2004, have been considered in preparing this Report.

Josh Smienk, Chair
Columbia Basin Trust

Jean Terlesky, CBT Community Liaison (left) talks with Basin residents at the Fernie trade fair.

B.C. Summer Swimming Association (BCSSA) Kootenay region, accepts a $1,300 donation from CBT and its partner, the Regional District of Kootenay Boundary. Pictured above: Geoff Yule, BCSSA, Don Johnston, CBT, CEO and Mike Lorusso, BCSSA.

Minister Neufeld (right) met with the CBT Board of Directors and toured the Brilliant Expansion Project in March 2004. Picture above with Minister Neufeld is Mats Alexanderson, Project Manager for Brilliant Expansion Consortium.

Columbia Basin Trust Youth Advisory Committee meets in Rossland, January 2004.

Rachel Elkey, CBT Communications and Gail Brown, CBT Sector Advisory Committee member at the Cranbrook trade fair in April 2004.

Members of the Northwest Power and Conservation Council (NWPCC) and CBT Board and staff tour the power projects, during the NWPCC's official visit in July 2003.

ABOUT COLUMBIA BASIN TRUST

HISTORY

Canada and the United States faced two major challenges in the Columbia Basin (the Basin) after the Second World War - the "untamed" Columbia River was causing periodic and sometimes devastating flooding, and an upswing in the economy increased the need for energy sources.

In 1964, Canada and the United States ratified the Columbia River Treaty to coordinate flood control and optimize electrical energy production in the Columbia Basin in the United States and Canada. Under the Columbia River Treaty, Canada agreed to build three storage dams - Duncan (1968), Keenleyside (1969) and Mica (1973) - in the Canadian Columbia Basin. The Columbia River Treaty allowed for a fourth dam - Libby Dam (1974) - to be built in the United States with a large portion of its reservoir in southeastern B.C. These dams provide 15.5 million acre-feet of water storage which control flooding in B.C., Washington and Oregon and allow for the production of more and consistent electricity output at hydroelectric facilities.

In return for the storage of water, Canada is entitled to one half of the additional power generated at the American hydroelectric plants on the Columbia River. The Province of B.C., which owns this "Canadian Entitlement of Downstream Benefits", sold the first 30 years of these benefits to a group of U.S. utilities for $254 million U.S. The Province is now receiving the balance of the Canadian Entitlement under the Columbia River Treaty.

During the creation of the Columbia River Treaty, there was a lack of public consultation and involvement of the residents of the Canadian Columbia Basin. Areas that were critical to the cultural, economic and environmental well-being of the region were lost.

The region is still dealing with the ongoing impacts from the rise and fall of water levels.

- Recreation on reservoirs is limited because of the large seasonal fluctuations of the water levels, thereby restricting potential economic development through tourism.
- Loss of key wildlife habitat causes increased pressures on residual low elevation areas. Fish and wildlife populations are impacted.
- Dust storms around reservoirs impact human health at times of low water.
- Transportation infrastructure in the region is more complex and difficult to maintain.
- Agricultural activities are limited due to the loss of fertile, low-elevation land (e.g. the Arrow Lakes were a prime fruit growing area).

By the early 1990s, people of the Basin became aware that an opportunity for public involvement might present itself. The sale of the first 30 years of B.C.'s share of the downstream benefits through the Columbia River Treaty was about to expire. Residents of the region felt local people should be given more say in matters affecting environmental, economic and social health.

Leaders from First Nations and local communities worked with the Province of B.C. to recognize the continuing negative impacts of the Columbia River Treaty in this region. As a result, the Columbia Basin Trust (CBT) was formed in 1995 under the *Columbia Basin Trust Act*, with a unique mission to support the efforts of the people of the Basin to create a legacy of social, economic and environmental well-being in the region most affected by the Columbia River Treaty.

The *Columbia Basin Trust Act* directed the appointment process of the Board of Directors and also directed the newly appointed Board to prepare a long-term Columbia Basin Management Plan (CBMP) through solicitation of input from the residents of the region. The CBMP sets out the vision, mandate and mission of CBT; incorporated within it are CBT's values.

Through the 1995 Financial Agreement with the Province of B.C., CBT was endowed with $295 million, a small percentage of the downstream benefits owned by the Province of B.C. Of the $295 million, $250 million was to be invested in joint venture power projects with the Province of B.C., and $45 million was identified as endowment capital for CBT (now called the Basin Fund).

The power projects are performed in joint venture with Columbia Power Corporation (CPC). Columbia Basin Trust developed CBT Energy Inc. (CBTE) in order to effectively manage CBT's 50 per cent interest in the joint venture power projects. The CBTE Annual Report is attached in this Annual Report as Appendix 1.

When CBT received the original $45 million from the Province, the funds were placed with Philips Hager and North, a Vancouver firm, in a variety of short-term investments. Through consultation with the people of the Basin, it was decided to preserve the capital for future generations, rather than distribute it in the short-term to Basin residents. The capital was to be invested in the Basin in a manner that would bring continuing economic benefit to the region.

By 1998, CBT had developed its internal capacity sufficiently for the capital to be moved to the Columbia Basin region. The capital was initially placed with local financial institutions in Guaranteed Investment Certificates.

CBT continues to invest some of the Basin Fund liquidity in this manner. While this approach to investment may not provide the greatest opportunity to maximize gains, the move of the capital to the Basin contributes to the economic viability of and opportunities for the region through loans that are made possible by these deposits.

Using income from its investments, CBT commenced delivering benefits to the region in 1998. In order to achieve a balance under the terms of the CBMP, the Board decided to divide the $3.75 million available into sector allotments. Of the total, $1.3 million was allotted to a Community Initiatives fund, for a ten-year period. This money is distributed throughout the Basin according to population of each regional district, with a larger per capita amount going to areas directly affected by the flooding. Projects under this fund must be decided by public input from each area.

Funds were also allocated to sectors and managed by Sector Steering Committees. Sector Steering Committees are comprised of up to twelve Basin residents with skills, experience and geographical representation set through a matrix of needs for a particular sector. The yearly funding to each sector is:

- Environment Sector $550,000
- Economic Sector $500,000
- Social Sector $500,000
- Education $200,000
- Arts, Culture & Heritage $200,000

The balance of $500,000 was assigned to a Basin Initiatives Fund to cover projects that could not be accommodated by the designated program areas designed by the Sector Steering Committees.

Family Literacy FY 2004

VISION

The Columbia Basin is a place where:

Social, environmental and economic well-being is fostered.
Collaborative relationships and partnerships are established across the Basin, with communities working together in a spirit of mutual support and respect for each other's differences. Residents identify with a Basin culture and feel a sense of belonging to a Basin community.

A healthy environment forms the basis for social and economic activities.
Residents are committed to a long-term and enduring stewardship of the Basin's natural resources.

The economy is diverse, resilient and energized.
Communities are responsive to both the needs of the present and the future. Community enhancement initiatives are widely supported and residents share responsibility for their implementation. Practical and innovative investments in the Basin serve to increase the range of options for present and future generations.

The Columbia Basin Trust will have:

- A successful portfolio of investments in the Basin that help to stimulate the regional economy and provide a reliable stream of income for use in the CBT's spending activities.

- A proven track record in delivering social, economic and environmental benefits to the Basin and its residents.

- Well-established and productive working relationships with others in the Basin whose activities relate to the CBT's mandate.

- Consistent and widespread public support for the CBT's activities based on meaningful public input and CBT's responsiveness to the needs of the Basin and its people.

MISSION

The Columbia Basin Trust supports efforts by the people of the Basin to create a legacy of social, economic and environmental well-being and to achieve greater self-sufficiency for present and future generations.

MANDATE

To manage the CBT's assets for the ongoing economic, environmental and social benefit of the region.

VALUES

During a review process of the CBMP with Basin residents, the values of the CBT were amalgamated and redefined in the FY 2004-2006 Service Plan to include:

- Inclusiveness
Include the people of the Basin in planning and decision-making.

- Collaboration
Work with the public and other agencies and organizations.

- Respect for Diversity
Respect the history and diversity of the people and communities within the Basin.

- Responsibility
Taking into account the Basin residents' social, environmental, economic and sustainability values, the CBT will openly and explicitly balance maximizing benefits and minimizing negative impacts.

The Columbia Basin Trust incorporates these values in its daily work with Basin residents in the Delivery of Benefits programs.

Over the past five years, CBT has worked with Sector Steering Committees, regional governments and the Ktunaxa/Kinbasket Tribal Council to develop and deliver programs and support projects using the income from its investments. The Sector Steering Committees provide expertise in the areas of economic development, social well-being, environmental preservation and stability, education, and arts, culture and heritage. These committee members are Basin residents chosen through a matrix of specialized skills and expertise, as well as a geographical representation from the various areas of the Basin. A Youth Committee works with young people of the Basin to help address the challenges they face.

Over the past seven years, the Delivery of Benefits programs have funded hundreds of diverse projects. Examples are affordable housing, rural economic development, ecosystem restoration, family literacy, and broadband internet access.

Columbia Basin Trust works with delivery agents and local organizations to deliver programs, thereby minimizing duplications and effectively collaborating with outside organizations and the public.

Columbia Basin Trust's program model both reflects the diversity and history of the Basin and allows many decisions to be made directly by Basin residents.

Columbia Basin Trust's programs in all areas are designed and evaluated with a view to being accountable for the funds held in its trust. The Columbia Basin Trust is committed to an integrated and ongoing approach to evaluation.

The Columbia Basin Trust makes decisions which balance the social, economic and environmental aspirations of the region.

Community Environmental Projects FY 2004

Arts, Culture and Heritage Project FY 2004

Environmental Conditions Project FY 2004

BENEFITS TO BASIN RESIDENTS

Since 1996, CBT has provided $25.5 million in grants and services for community-supported projects and activities.

Columbia Basin Trust is helping to build social and economic capacity in the Basin. Columbia Basin Trust has programs that support existing businesses and promote access to education and training to help residents adapt to economic changes, as well as programs in water education, environmental education and arts, culture and heritage.

ENABLING LEGISLATION

The *Columbia Basin Trust Act, 1995* as amended by the *Columbia Basin Trust Amendment Act, 2003*.

DESCRIPTION OF PRODUCTS AND SERVICES

1. Management of CBT's assets, including monies allocated by the Province for joint venture power projects and the Basin Fund.
2. Using the income earned from CBT's investments, deliver benefits to the region in the areas of economic development, social well-being, and preservation, protection and enhancement of the environment, without relieving governments of their obligations.

LOCATION OF OPERATIONS

Columbia Basin Trust serves the southeast corner of B.C., which is the region most affected by the dams built under the Columbia River Treaty. Its boundaries are generally defined by those watersheds of the Columbia River which flow into the Columbia River within Canada, as outlined in Figure 1. The topography is characterized by four north-south mountain ranges, making transportation and communication infrastructure challenging.

The CBT has 25 employees in its four office locations: Nakusp, Golden, Cranbrook and the corporate head office in Castlegar.

PRINCIPAL MARKETS AND CLIENTS SERVED

Columbia Basin Trust serves residents of the Columbia Basin as defined in Figure 1.

The sole shareholder is the Province of B.C.

PUBLIC PURPOSE SERVED

The Province of B.C. is working to create self-sustaining, economically stable communities. CBT seeks to achieve the same in the Columbia Basin region.

Columbia Basin Trust's provision of start-up funds to and ongoing support of Columbia Mountain Open Network (CMON) is being used as a model in the Province's work to meet digital divide challenges and bring broadband internet access to all areas of B.C.

The creation of CBT has brought interest from nations also dealing with the effects of major dams. Invitations for speaking engagements have come from countries as diverse as Holland, South Africa, Nepal, China and, latterly, Turkey, as well as interest from Quebec and Newfoundland and Labrador. Columbia Basin Trust is being used as a case study in a research paper at the Ninth Annual World Congress of Rural Sociology to be held in Norway in July, 2004.

The question CBT is asked most by groups from other countries is, ‘How do we manage water systems to prevent deaths due to flooding and gain benefits to the economy through the production of power, while considering the downside of environmental impacts, loss of productive valley-bottom land, and displaced populations?’

There are no perfect answers to the problems raised in the question, but the CBT solution is proving to be an innovative, workable approach.

COLUMBIA BASIN TRUST REGION

Figure 1

YEAR IN REVIEW

The *Columbia Basin Trust Amendment Act 2003* refined the *Columbia Basin Trust Act 1995* and changed the governance structure of CBT. The CBT Board was reduced from 18 members to 12. In January 2004, the five Regional Districts of the Basin and the Ktunaxa/Kinbasket Tribal Council were asked to nominate up to four people for consideration for one directorship each on the CBT Board. Previously, each regional government directly appointed two members to the Board. The Province of B.C. nominates the remaining six directors. All directors must be Basin residents and are appointed by the Lieutenant Governor through Order-in-Council.

In January 2004, the Minister of Energy and Mines announced changes to the existing joint venture power project delivery structure to result in savings for both CBT and the Province through the simplification of the existing structure. The changes include:

- Consolidation of joint ventures between CBT and CPC into a single, 100 per cent CBT-owned subsidiary responsible for the development and management of the power projects.

- Creation of an expert board of directors charged with governance of the new CBT subsidiary, while retaining the CPC name.

- Columbia Basin Trust appointment of the majority of the expert board of directors of the new CPC.

Columbia Basin Trust and the Province will continue to equally share the income from the power projects associated with the 1995 Financial Agreement. The new subsidiary's mandate will be to maximize the value of and income from the power projects.

In 2003-2004, the implementation of these changes was in the early stages. Subsequent Annual Reports will reflect the consolidation of power activities between CBT and CPC, and will contain full disclosure of performance related to power project development and operations currently found in CPC's Annual Report.

The changes to the existing joint venture power project structure will have a positive impact on CBT's performance in future years as half of the resulting savings will go to CBT for reinvestment in the Basin.

The region's economy, while still suffering setbacks from the softwood lumber dispute, SARS and BSE, was severely affected by the summer forest fires of 2003. Not only was property destroyed, but summer tourism was virtually non-existent. These factors have contributed to a CBT investment, St. Eugene Mission Golf Resort, seeking protection from creditors under the *Companies' Creditors Arrangement Act*, which resulted in a significant $7.4 million provision against the loan for CBT's Basin Fund.

HIGHLIGHTS

Construction started at the Brilliant Expansion Project in Castlegar.

Positive interest in real estate in the Basin.

On the other hand, the attraction of small town living, combined with low interest rates, has brought positive interest in real estate in many areas of the Basin.

Columbia Basin Trust's non-power Investment Program has continued to work with businesses and the local credit unions to provide funds for business to expand the economic base of the area, on a best of private practice investment policy.

The income from power and non-power investments funds the Delivery of Benefits Program.

In response to issues raised by Basin residents through an external evaluation, CBT is changing its Delivery of Benefits Program. Funds are now available to respond directly to initiatives deemed important by a particular community. Programs continue to be delivered to residents of the region through a variety of projects, and are reported in full to Basin residents through the annual Report to Residents in September.

Columbia Basin Trust supports the Columbia Mountain Open Network.

Columbia Basin Trust funded $3.86 million in grants and services.

The CBMP has been reviewed and revised. The new version will be receiving public input at a series of community meetings in the spring of 2004.

In the area of infrastructure, CBT has continued to support the Columbia Mountain Open Network in its work to bring broadband internet access to the rural communities of the Basin, thereby expanding the accessibility to outside markets by local businesses.


Kicking Horse Mountain Resort


Castle Wood Village


Residents of Castle Wood Village at Brilliant dam viewing area.


On site during Brilliant Expansion Project construction.

REPORT ON PERFORMANCE

Columbia Basin Trust's 2004-2006 Service Plan and 2005-2007 Service Plan outline its strategic direction in the overall goals of each of its three program areas and CBTE:

CBTE
To increase the amount of dividends distributed to CBT.

NON-POWER INVESTMENTS
To create an income flow for the delivery of benefits to the region and to maintain the capital of the Basin Fund.

DELIVERY OF BENEFITS
To effectively distribute the income earned from CBT's investments to create a region where economic, environmental and social well-being is fostered.

CORPORATE SERVICES
To ensure CBT and its programs are supported by efficient, fiscally responsible corporate services and are fully accountable to Basin residents and the Province of B.C.

Akisqnuk Rediscovery Camp Project

Youth Links Program FY 2004

PERFORMANCE MEASURES, TARGETS AND RESULTS

Columbia Basin Trust is committed to public transparency and reports on its accomplishments as required by the *Budget Transparency and Accountability Act (BTAA)* and the *Reporting Principles for British Columbia*, the latter endorsed by the Auditor General and the Province of B.C.

This report on performance will:

- use explanations, measures and targets from CBT's 2004-2006 Service Plan, adding explanations, measures and targets from the 2005-2007 Service Plan where such measures will increase the public's understanding of the progress CBT is making, and

- present results for each program area and CBTE in the context of risks and strategies despite the lack of explicit risk management strategies in the 2004-2006 Service Plan.

Challenges remain in meeting the standards set in the *Reporting Principles for British Columbia*. These will require more time and resources to address appropriately and they include:

- providing comparative information and consistent data from one reporting period to the next. As CBT has improved its measures, it has done so at the expense of having consistent measures which can be compared both internally over time as well as with external benchmarks. As CBT achieves consistency in its performance measures, it will be developing appropriate internal and external benchmarks.

- disclosing key reporting judgments is also compromised by the lack of well developed data collection which will come from having better and more consistent measures in place.

This Report provides the results for the CBT's fiscal performance measures against current targets. Where there is sufficient consistency in the goals, objectives, strategies and measures for meaningful comparisons to be made, this Report provides comparisons with:

- its targets as outlined in the 2004-2006 Service Plan and
- its historical targets as set out in previous service plans and annual service plan reports.

LINKING RESOURCES, STRATEGIES, AND RESULTS

A results-based performance measurement approach, linking resources, strategies and results, is relatively easy in CBT's investment programs.

That approach becomes more difficult in the Delivery of Benefits area, given the qualitative and often intangible nature of delivering social, economic and environmental benefits. These benefits are often not evident in the short-term.

However, CBT has committed to integrate monitoring and evaluation into all its programs and activities in order to demonstrate the value obtained from the resources expended.

STRATEGIC AREA 1
INVESTMENT PROGRAM

CBTE

The CBTE report on performance appears in Appendix 1, CBTE Annual Report.

NON-POWER INVESTMENTS

To create an income flow for the delivery of benefits to the region and to maintain the capital of the Basin Fund.

GOALS

- To maximize the expected return on the assets, subject to preserving the real value of the capital over the long-term with an acceptable degree of risk.
- Enhance economic self-sufficiency in the Basin (subject to maintaining the real value of the capital over the long-term).

RESOURCES ENGAGED IN INVESTMENT PROGRAM

Two full-time staff work in the non-power Investment Program.

BASIN FUND COMMITTED CAPITAL MARCH 31, 2004 (IN THOUSANDS OF DOLLARS)

Figure 2

OBJECTIVE 1

To generate revenue from Basin Fund investments.

STRATEGIES

Invest the Basin Fund, recognizing the associated risk that may come from one or more of the following anticipated characteristics of the investment opportunities within the Basin Fund:

- Higher operating risks.
- Higher financial risks.
- Investment structure complexity.

Private equity requires substantially more due diligence, knowledge, monitoring and hands-on management than investments where the manager is buying and selling stocks or bonds on public markets.

- Greater liquidity risk.
- Reduced ability to diversify unsystematic risks.

Columbia Basin Trust's ability to diversify its risks from the point of view of geography, asset class, etc., is limited by CBT's mandate to invest in the region.

RISK MANAGEMENT STRATEGIES

1. Performance will be calculated in accordance with the Association for Investment Management Research Performance Presentation Standards (AIMR-PPS), as amended from time to time.

2. Investments will be placed in accordance with Board-adopted investment policies and procedures to mitigate risk.

3. Watson Wyatt Worldwide will be contracted on an as-needed basis to work with CBT's Investment and Audit Committees to provide advice to the decision-making processes and to assist in ensuring consistency with CBT's investment policy.

4. The policy to maintain the original capital ensures that prudent investment practices are followed. Each potential investment must be based on this criteria, regardless of pressures from special interest parties.

Columbia Basin Trust anticipates, with the policy and risk management strategies established and an improved economic climate, it is on track to achieve its long-term financial targets.

EXPLANATION OF RESULTS

The negative actual rate of return in Figure 3 was largely a result of the $7.4 million provision taken against the loan to St. Eugene Mission Golf Resort. This is based on management's best estimate of the recoverable portion of this loan.

FINANCIAL PERFORMANCE AND REPORTING

Change in the management philosophy for the Basin Fund has resulted in a period of transition. Investment staff have consolidated the original investments, developed and implemented policies and procedures to reflect the new direction, and are pursuing new investment opportunities consistent with the newly adopted policies.

The Investment Committee, accounting and investment staff are in the final stages of developing the financial performance criteria for the Basin Fund. This will allow CBT to calculate returns in a consistent manner, with both historical results and projections as basis for comparison. It is anticipated that the bulk of this work will be completed by the fall of 2004.

The CBMP requires CBT to make the type of investments that require patient equity (e.g. real estate or venture capital). These investments meet private sector criteria. However, while they provide for long-term market rates of return, by their nature they often require long periods of time to mature. This results in lesser short-term cash flow to CBT in favour of higher long-term cash flow.

As it will take a number of years to determine whether or not CBT is achieving its targeted rate of return, CBT has taken a long-term approach in setting its performance goal of 6 per cent on an 8-year rolling average. In addition, the Basin Fund does not have the luxury of trading its holdings in public markets. This restricts the liquidity enjoyed by most investment funds and requires a more patient approach to achieving returns.

PERFORMANCE COMPARED TO TARGETS

Performance Measure	Actual FY 2003-2004	Target FY 2004	Target FY 2005 (revised in 2005-2007 Service Plan)	Target FY 2006 (revised in 2005-2007 Service Plan)	Target FY 2007 (revised in 2005-2007 Service Plan)
Rate of Return (ROR)	**(13.8%)**	5%	Compound return on non-power investments measured over rolling 5-year period of 3.5%	6% per annum measured over rolling 8-year periods	6% per annum measured over rolling 8-year periods

Figure 3

HISTORICAL RESULTS FOR NON-POWER INVESTMENTS

Performance Measure	FY 2001-2002	FY 2002-2003	Actual FY 2003-2004
Rate of Return	Investments had started to provide market rates of return.	5.3%	**1.3%**

Figure 4

EXPLANATION OF COMPARISONS

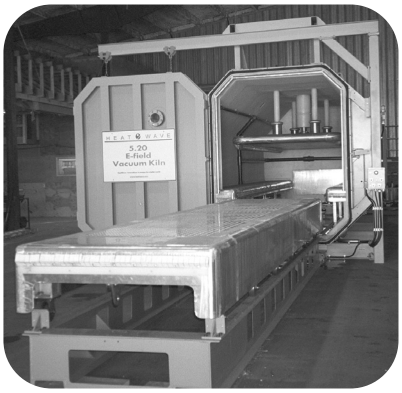
The historical comparisons demonstrate the developmental nature of the work in the Investment Program and as can be seen from Figure 4 above, in 2002 a ROR had not been determined, only that the CBT desired that target be at market values. The actual compounded ROR of 1.3 per cent is below average due to the provision against a loan incurred in the Investment Program this year.

CAPITAL LEVERAGED

The non-power investments to which CBT has committed capital have leveraged almost $107 million into the Basin.

Rocky Mountain Village, a seniors' housing project in Fernie under construction in February 2004.

Kicking Horse Mountain Resort Lodge.



Heatwave Technologies Inc. drying kiln.

STRATEGIC AREA 2
DELIVERY OF BENEFITS

GOAL

To effectively distribute the income earned from the CBT's investments to foster economic, environmental and social well-being within the region.

Columbia Basin Trust is working towards the development of more appropriate objectives and better measures which are consistent with the *Reporting Principles for British Columbia*. As a result, CBT's 2005-2007 Service Plan has objectives, strategies and measures associated with the Delivery of Benefits Program which replaced or modified those used in the 2004-2006 Service Plan. In this section of the Report on Performance, CBT will use a blend of 2004-2006 and 2005-2007 objectives and measures with appropriate explanations in an effort to give both a complete and accurate performance picture.

RESOURCES ENGAGED IN DELIVERY OF BENEFITS PROGRAM

Nine and a half full-time staff are employed in the Delivery of Benefits area. Staff recruitment and locations were designed to accommodate the increased Delivery of Benefits funding levels.

Staff supervise program design and delivery, and facilitate, co-ordinate, and work with communities to make the best possible use of funding available. This results in substantial leverage of other funds into the region, as well as the continual building of capacity in the Basin.

DELIVERY OF BENEFITS PROGRAM FY 2004 $3,865,798

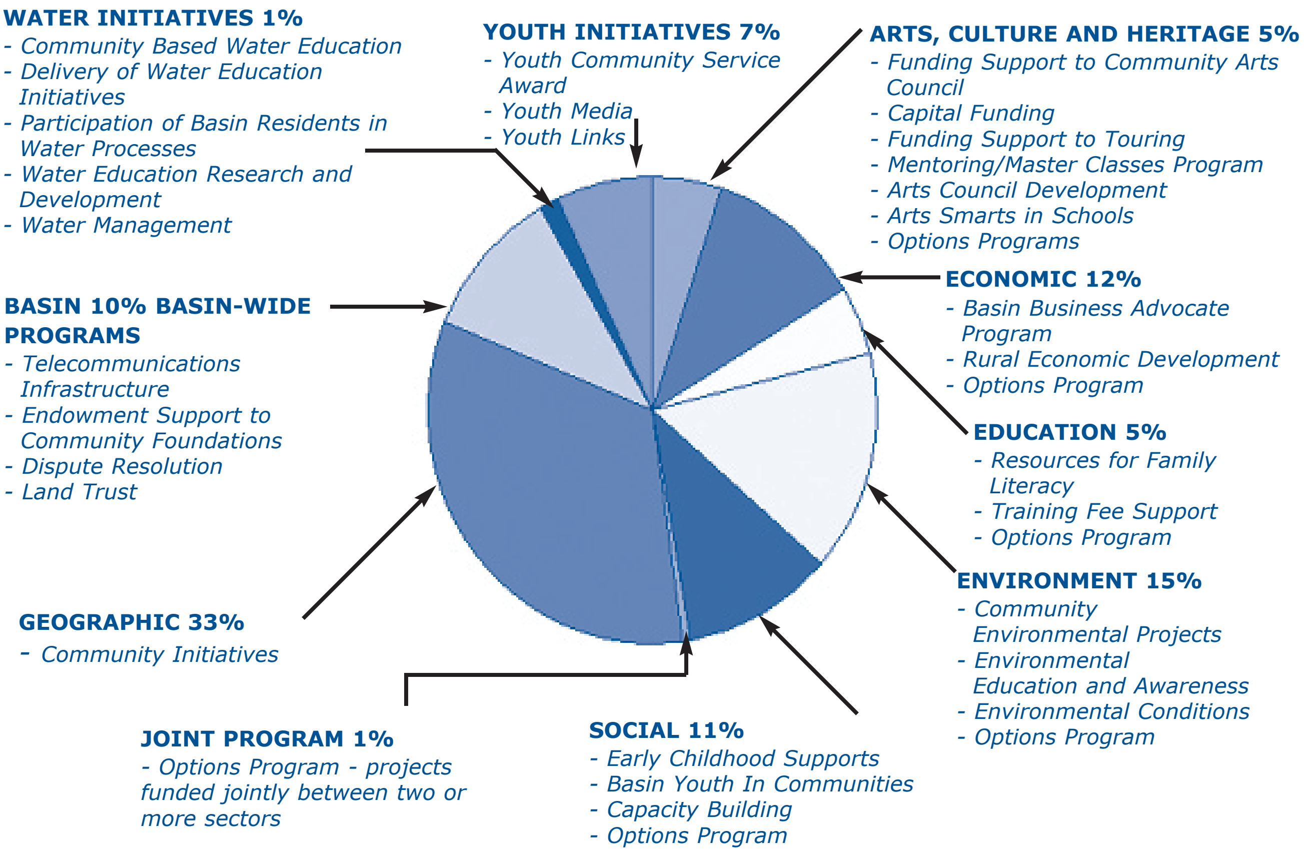


Figure 5

OBJECTIVE 1

To effectively gain and apply knowledge of resident, community, regional and cross-sectoral priorities and issues.

STRATEGIES

- Arrange and attend meetings with groups, agencies and industry representatives in Basin communities as needed or requested.
- Ensure availability of staff in regional offices to hear from and provide information to residents.

RISK MANAGEMENT STRATEGIES (2005-2007 SERVICE PLAN)

- Provide staff training to increase effectiveness in balancing residents' expectations with constraints of funding levels and addressing the issue of fairness within a capacity building model.

Performance Measure	Actual	Target FY 2004	Target FY 2005 (in 2005-2007 Service Plan)	Target FY 2006 (in 2005-2007 Service Plan)	Target FY 2007 (in 2005-2007 Service Plan)
% of Community Liaison staff time devoted to working with communities.	**34%**	This is an internal output measure, changed to an external outcome measure in 2005-2007 by collecting data on Basin residents' perceptions.	Target established for new measure: 1. Strategies undertaken. 2. Data collection methods established.	Target established for new measure: 1. Baseline rate of consistency established. 2. Changes made to future priorities and/or funding decisions based on information coming out of performance measures.	Target established for new measure: 1. Rate increased by 2% from baseline. 2. Changes made to future priorities and/or funding decisions based on information coming from performance measures.

Figure 6

EXPLANATION OF RESULTS

Columbia Basin Trust exceeded its target of 15 per cent of Community Liaison staff time being devoted to working with communities, as committed to in the 2004-2006 Service Plan.

This measure was changed in the 2005-2007 Service Plan because it focused on internal outputs rather than the results of those outputs.

In Figure 6, the targets for FY 2005, FY 2006 and FY 2007 are those established for the new measure. Processes to meet these targets are in place. Through a series of community meetings and focus groups in June 2004, the CBT intends to get feedback on residents' priorities to establish a foundation for future measures of consistency between priorities and funding decisions.

Columbia Basin Trust Community Liaison staff are available to Basin residents and have engaged and participated in meetings with a broad cross-section of community groups, agencies and industries.

By establishing four offices around the Basin, and in the current work of restructuring its delivery model, CBT continues to build strong relationships with Basin residents in order to meet their priorities and address their issues.

Staff resources required to put this foundation in place have been more time consuming than anticipated. Staff training to increase effectiveness in balancing resident expectations with the realities of CBT funds was postponed to FY 2005.

HISTORICAL RESULTS

Objective 1 and its measures were developed for the 2004-2006 Service Plan and have no equivalents in any previous Service Plans.

OBJECTIVE 2

To support cultural, economic, environmental, education, and social initiatives that address the priorities in the Basin and Basin communities.

STRATEGIES

- Design and develop programs to administer funds in the sector initiatives funding envelopes.
- Provide an oversight function and administrative support to local government and other program delivery partners.
- Provide and improve administrative and financial support for the programs which support Basin wide, cross-sectoral, capacity building and/or larger initiatives.
- Develop and implement communication strategies that provide Basin residents and organizations with knowledge of funding and programs.
- Develop and implement program evaluation plans to ensure CBT programs are evaluated on a regular basis.

RISK MANAGEMENT STRATEGIES

- Inform and educate Basin residents to increase their knowledge and awareness of CBT's capacity building model of delivery.

EXPLANATION OF RESULTS

The measure in Figure 7 was modified in the 2005-2007 Service Plan to reflect a clearer connection between the objective and the data to be collected. A new strategy of establishing data collection processes for measuring Basin residents' perceptions is being developed.

HISTORICAL RESULTS

Objective 2 and its measure are nearly equivalent to objectives and measures in the 2005-2007 Service Plan but neither have equivalents in any previous Service Plans.

Performance Measure	Actual	Target FY 2004	Target FY 2005 (in 2005-2007 Service Plan)	Target FY 2006 (in 2005-2007 Service Plan)	Target FY 2007 (in 2005-2007 Service Plan)
Percentage of Basin residents satisfied that CBT programs and funding are addressing Basin and community priorities.	**Baseline will be established for the new measure of Basin residents' perceptions of consistency between funding priorities and funding decisions.**	Baseline to be established.	Target established for new measure: 1. Strategies undertaken. 2. Data collection methods established.	Target established for new measure: 1. Baseline rate of consistency established. 2. Changes made to future priorities and/or funding decisions based on information coming out of performance measures.	Target established for new measure: 1. Rate increased by 2% from baseline. 2. Changes made to future priorities and/or funding decisions based on information coming out of performance measures.

Figure 7

OBJECTIVE 3

To provide leadership, recognition and mentoring opportunities for the Basin youth.

STRATEGIES

- Provide opportunities for youth to engage in funding projects.
- Develop and disseminate information by and for Basin youth.
- Provide an oversight function for delivery partners and/or programs that encourage youth involvement in community service.
- Advertise Youth Community Service Awards and adjudicate applications.

Columbia Basin Trust has changed its measurement approach substantially since Objective 3 and its related strategies and measures were developed. There are no equivalent measures in previous service plans nor the subsequent one, so it adds no value to report on its performance here.

Youth Links FY 2004

Water Initiatives FY 2004

Youth Media FY 2004

OBJECTIVE 4

To convene, coordinate, facilitate and/or engage in public education for Basin residents, organizations and agencies.

STRATEGIES

- Ensure that staff is available to work with key stakeholders and to attend/facilitate meetings as requested, or when the need becomes apparent. Establish protocols for accessing and engaging staff.

EXPLANATION OF RESULTS

Columbia Basin Trust exceeded its target in Objective 4 set in the 2004-2006 Service Plan. However, in the 2005-2007 Service Plan, the decision was made to move from an output measure, based on one of the delivery mechanisms used by CBT to an outcome measure based on all the delivery mechanisms. The new measure is "an effectiveness rating of CBT's delivery processes by those whom CBT works with through the Delivery of Benefits Program." Therefore, the targets for FY 2005, FY 2006 and FY 2007 reflect the new, more meaningful measure.

The organizational restructuring to capacity building and community development and the work coming out of the new delivery model have assisted in implementing the strategies for Objective 4 and the broader one in the 2005-2007 Service Plan. The change to capacity building will make staff more available to key stakeholders as the new delivery model is implemented.

HISTORICAL COMPARISONS

As Objective 4 and associated measures were not identified in previous Service Plans, there are no equivalent data comparisons.

Performance Measure	Actual	Target FY 2004	Target FY 2005 (in 2005-2007 Service Plan)	Target FY 2006 (in 2005-2007 Service Plan)	Target FY 2007 (in 2005-2007 Service Plan)
% of staff time devoted to convening, coordinating, facilitating and/or engaging in public education (New measure = delivery processes effectiveness rating)	**30%**	15%	Develop survey instruments to measure effective delivery of CBT's Delivery of Benefits Program.	Baseline established with results of first survey.	5% increase in effectiveness rating over baseline.

Figure 8

STRATEGIC AREA 3
CORPORATE SERVICES

GOAL

To ensure CBT and its programs are supported by efficient, fiscally responsible corporate services and are fully accountable to Basin residents and the Province of B.C.

In keeping with the *Reporting Principles for British Columbia*, CBT's 2005-2007 Service Plan moved from measuring progress on a number of service areas in the corporate service strategic area to one outcome measure "ensuring effective provision of services". Since only one objective in this area from the 2004-2006 Service Plan fits into the revised measurement approach being taken in the 2005-2007 Service Plan, reporting progress on the other objectives in the 2004-2006 Service Plan adds no value to this report. These objectives from the 2004-2006 Service Plan are identified here for information only. The performance report will focus on the more relevant 2005-2007 Service Plan measure.

RESOURCES ENGAGED IN CORPORATE SERVICES

Eleven and a half full-time staff and two part-time staff currently work in the corporate services area. This includes providing information technology services to CBT, CBTE, and CPC.

OBJECTIVE 1 - (From 2005-2007 Service Plan)

To ensure effective provision of support services.

STRATEGIES

- Develop service area reviews and implement annually.
- Make changes to the provision of services based on information obtained from the reviews.
- Work with CPC and Crown Agencies Secretariat to ensure successful implementation of the direction of the Honourable Richard Neufeld, Minister of Energy and Mines, to consolidate the power activities of CBT and CPC into a new power company which will be a wholly-owned subsidiary of CBT.

RISK MANAGEMENT STRATEGIES

- Develop effective change management strategies by:
  - Continuing planning sessions to ensure strong and consistent strategic direction.
  - Ensuring strong internal communications processes.
  - Developing effective information gathering and dissemination processes.
  - Maintaining strong relationships with Basin residents, organizations and agencies.
- Adhere to investment policy to ensure sound management of investments.
- Provide effective staff training, particularly around capacity building and contract management.

EXPLANATION OF RESULTS

Since the measure for Objective 1 was developed for the 2005-2007 Service Plan, only the initial steps in the process have been undertaken. The caution CBT would record with respect to achieving the targets lies in the strategy associated with the amalgamation of CPC and CBTE into a wholly-owned subsidiary of CBT. Some of the risk management strategies, like the implementation of sound investment policies and the provision of staff training in contract management, are well under way. Others, like the implementation of change management strategies, are delayed because the resources of the organization have been directed to the negotiation of the consolidation process.

HISTORICAL RESULTS

Objective 1 and its measure were developed for the 2005-2007 Service Plan and have no equivalents in any previous Service Plans.

Performance Measure	Actual	Target FY 2004	Target FY 2005 (in 2005-2007 Service Plan)	Target FY 2006 (in 2005-2007 Service Plan)	Target FY 2007 (in 2005-2007 Service Plan)
Proportion of staff rating each service area provision as effective.	**Data collection processes are being developed.**	This was not used as a measure in the 2004-2006 Service Plan. Meaningful comparisons cannot be made.	Data collection methods associated with each service area review established.	1. Overall baseline established. 2. Baselines for each service area established.	1. Increase of 2% on overall and each service area baseline. 2. Changes made based on information coming from each service area view.

Figure 9

OBJECTIVE 2 - To maintain or improve the level of accountability to the Basin residents, government and other stakeholders.

In the 2005-2007 Service Plan there is an objective with a similar intent to this one: "to ensure effectiveness in the delivery approaches used in the Delivery of Benefits Program."[1]

OBJECTIVE 3 - To enhance management and program decision-making.

Objective 3 and its measures are partly covered in Objective 2 around accountability through the implementation of monitoring and evaluation processes. Since data will not be collected in the future on Objective 3, related discussion is unnecessary in this Annual Report.

OBJECTIVE 4 - To provide for an efficient, skilled, productive and healthy staff.

Objective 4 is considered to be a foundation for the new objective of ensuring the provision of effective support services and as such is considered to be reported on through Objective 1 above.

OBJECTIVE 5 - To create and maintain a motivating and positive working environment.

Objective 5 is also considered to be a foundation for Objective 1. However, CBT anticipates that the 2006-2008 Service Plan will include an Objective 1 strategy relating explicitly to Objective 5: percentage of employees satisfied with their working environment. An additional measure similar to the one used for Objective 5 in the 2004-2006 Service Plan will likely be added at that time.

FINANCIAL REPORT

MANAGEMENT DISCUSSION AND ANALYSIS

The past year has been one of many challenges and opportunities, with successes offset by setbacks in CBT's investment activities. Another full year of operating the Arrow Lakes Generating Station (ALGS) and the start of Brilliant Expansion construction was tempered by the financial exposure CBT had to St. Eugene Mission Golf Resort and the negative impact this has had on CBT's investment returns.

The beginning of the year saw the initial stages of the construction of the Brilliant Expansion Project and by the end of the year, significant portions of the core components of this project were already completed. In the latter half of the fiscal year, the St. Eugene Mission Golf Resort began to experience financial difficulties and by the end of the fiscal year CBT was forced to take a provision against a significant portion of its loan to this resort.

Continuing operations of the ALGS and the Brilliant dam generated power project income that was in excess of $7.6 million, net of the CBT's monitoring costs. Income from the operation of the ALGS was approximately $5.2 million while the electricity generated by the Brilliant dam contributed approximately $3.2 million in net income. This was the first full year of operations at ALGS after the one-time gain from the sale of bonus power in fiscal 2003 and is reflective of normal income levels for this powerplant. Additional income from the upgrades to the Brilliant dam and regular inflationary price escalations accounted for the increase in net income.

The start of the construction of the Brilliant Expansion began in April 2003 and by year end a great deal of progress had already been made. The foundation for the facility has been virtually completed, major aspects of the construction of the tunnel are underway and the formwork for the concrete pour is nearing completion. This project is on schedule to be operational by the summer of 2006.

Additional investments in the real estate sector were made in the year with CBT's participation in another congregate care facility in Fernie, B.C. and the investigation of other potential projects in the hospitality and recreational resort sector.

Income and cash flow from a full year of operations of the Castle Wood Village congregate care facility was received. Kicking Horse Mountain Resort (KHMR) enjoyed another successful season of operations with the sale of real estate in the Vagabond Lodge occurring at a level that was well beyond expectations. Plans for further development of real estate at the base of the hill are being initiated and will provide significantly more onsite accommodations at the KHMR. This will increase the number of skier visits over the long run and improve the level of income accruing to CBT.

In December 2003, the St. Eugene Mission Golf Resort sought protection from creditors under the *Companies' Creditors Arrangement Act* in order to allow it to restructure its finances and operations. The Resort stopped servicing CBT's loan, which required CBT to classify this loan as non-performing. The lead creditors and the Court monitor have agreed to the appointment of a restructuring officer who will prepare a restructuring plan and submit it to the Courts and the lead creditors. The restructuring officer will oversee all business operations and market the resort for sale in whole or in part. In the event of a sale, CBT, along with all other secured creditors of the Resort, will be entitled to obtain repayment from the sale proceeds on the basis of a priority ranking of each secured claim.

Columbia Basin Trust's venture capital investments experienced some successes and at the same time, some challenges. Heatwave Technologies Inc. continues to move its technology forward in the forest products and food processing industries.

Sales and testing of the use of the kilns by companies in both of these sectors continues with the anticipation of more recurring sales of the product to these companies in the future.

Typical of companies at Heatwave's stage of development, the company's future operations may depend on the continued support of its shareholders, its ability to raise further financing, if required, from current or new investors, and its ability to achieve positive cash flow from operations.

Columbia Basin Trust advanced further funds to KPS Materials Technologies. KPS Materials is a company that is involved in the research and development of advanced materials and ceramic powders that are used to coat machine tools and drill bits in order to extend their lives and reduce the cost of replacing this equipment. Over the next year, the advanced materials technology being advanced by this company will be proven out and the success or failure of this investment will be dependent on the results of these tests.

DELIVERY OF BENEFITS PROGRAM OVERVIEW

Disbursements under the Delivery of Benefits Program moved closer to the annual budgeted amount of $3.75 million with actual disbursements of $3.86 million being made in the year. Disbursement of budgeted amounts carried over from the previous year accounted for the excess over $3.75 million. The diversity of these disbursements was widespread through various funding streams, which are clearly defined in Figure 5.

New and ongoing projects were provided with funding through the education, economic, environment and social sectors. A new and innovative approach for the Delivery of Benefits Program was established during the year, enabling staff to offer a more flexible funding approach to community-developed projects. The new approach is expected to contribute to communities being more sustainable and having greater capacity.

A total of $696,000 was loaned to the Columbia Mountain Open Network during the year in order to allow this start-up organization to facilitate the establishment of high-speed internet access to communities in the Basin. A major agreement with the Province of B.C. has been signed to provide this entity with the capacity to assist communities in bringing the necessary bandwidth to their areas to allow them to compete with communities in larger urban centers. A pilot project that is presently underway will provide local schools and hospitals with high-speed access that is typically available only in major cities in B.C.

LIQUIDITY AND CAPITAL RESOURCES

The provision taken against a major portion of CBT's loan to the St. Eugene Mission Golf Resort has prevented CBT from building up reserves over the past year. The provision against this loan, while substantial, was largely absorbed by income from power project investments and from reserves built up in previous years. Columbia Basin Trust intends to continue to increase the level of funds available for absorbing future one-time expenses and write-downs in order to provide the organization with the ability to consistently make an even level of disbursements each year.

Columbia Basin Trust received the third of five $50 million dollar payments from the Province under the 1995 Financial Agreement. This allowed CBT to continue financing construction of power projects such as the Brilliant Expansion and to continue investigating future power project opportunities, like the Waneta Expansion. The $50 million payment was applied against the receivable from the Province and the payable to CPC. The effect of this transaction was offset by the additional dollars spent on building the Brilliant Expansion, resulting in no change to total assets and liabilities.

Forecasts of future income from power and non-power investment sources will improve CBT's financial position and give it even greater capacity to achieve its goals.

COLUMBIA BASIN TRUST
CONSOLIDATED FINANCIAL STATEMENTS
AS AT MARCH 31, 2004

CONTENTS

RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation of the accompanying consolidated financial statements and all of the information contained in the Annual Report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include amounts that are based on estimates and judgements. Management believes that the financial statements fairly present CBT's consolidated financial position and results of operations. The integrity of the information presented in the financial statements, including estimates and judgements relating to matters not concluded by fiscal year end, is the responsibility of management. The financial statements have been approved on behalf of CBT's Board of Directors by the Board's Executive Committee.

Management has established and maintained appropriate systems of internal control including policies and procedures which are designed to provide reasonable assurance that CBT's assets are safeguarded and that reliable financial records are maintained to form a proper basis for preparation of financial statements.

The independent external auditors, Yule & Associates, Chartered Accountants, have been appointed by CBT's Board of Directors to express an opinion as to whether the consolidated financial statements present fairly, in all material respects, CBT's financial position, results of operations, changes in net assets and cash flows in conformity with Canadian generally accepted accounting principles. The report of Yule & Associates, Chartered Accountants is included below and outlines the scope of their examination and their opinion on the consolidated financial statements.

Don Johnston Chief Executive Officer	Robert Krysac, C.G.A. Chief Financial Officer

AUDITOR'S REPORT

To the Directors of Columbia Basin Trust:

To the Minister of Energy and Mines:

We have audited the consolidated statement of financial position of Columbia Basin Trust as at March 31, 2004 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of 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 Basin Trust as at March 31, 2004 and the results of its operations, changes in its net assets and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Castlegar, B.C.
May 21, 2004

Yule & Associates

CHARTERED ACCOUNTANTS

COLUMBIA BASIN TRUST
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2004
(in thousands of dollars)

	2004	2003
ASSETS		
CURRENT		
Cash and temporary investments (Note 4)	$ 28,523	$ 18,509
Accrued investment income	981	1,596
Unbilled power project revenue	4,444	3,651
	33,948	23,756
INVESTMENTS		
Power projects (Note 9)	318,676	248,876
Income securities (Note 3)	10,896	14,656
Business loans (Note 5)	17,050	23,728
Real estate (Note 6)	7,597	5,862
Venture capital (Note 7)	1,909	1,844
	356,128	294,966
OTHER		
Commitment receivable from Province of B.C. (Note 13)	56,362	104,364
Deferred amounts (Note 10)	19,623	43,162
	75,985	147,526
	$ 466,061	$ 466,248
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 7,335	$ 9,253
Accrued interest expense	2,768	1,657
Current portion of long-term debt (Note 11)	4,212	856
	14,315	11,766
LONG-TERM DEBT		
Long-term debt (Note 11)	107,283	60,914
Advance from Columbia Power Corporation (Note 13)	51,323	99,326
	158,606	160,240
NET ASSETS (Restricted To)		
Power project investments (Note 16(a))	234,240	233,226
Non-power investments (Note 16(b))	52,521	52,181
Delivery of benefits (Note 16(c))	6,379	8,835
	293,140	294,242
	$ 466,061	$ 466,248

Approved on behalf of the Board of Directors

Chair

Vice Chair

The accompanying notes are an integral part of this consolidated statement.

COLUMBIA BASIN TRUST
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDING MARCH 31, 2004
(in thousands of dollars)

	2004	2003
REVENUES		
Net investment income		
Power projects (Note 9)	$ 7,633	$ 13,636
Business loans (Note 5)	1,124	1,582
Income securities	665	794
Real estate (Note 6)	(47)	(97)
Venture capital (Note 7)	(47)	(111)
	9,328	15,804
Contribution		
Province of B.C. (Note 1(b))	2,000	2,000
	11,328	17,804
OPERATING EXPENSES		
Board and committee expenses	146	183
Staff remuneration and development	1,661	1,789
Public relations	59	73
Professional and consultants fees	141	149
Corporate travel and meetings	169	220
Information technology/systems	110	200
Office and general	280	282
Amortization	229	337
	2,795	3,233
OPERATING INCOME	8,533	14,571
Investment program write-downs and write-offs (Note 20)	7,767	576
Delivery of benefits (Note 18)	3,866	4,036
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	$ (3,100)	$ 9,959

The accompanying notes are an integral part of this consolidated statement.

COLUMBIA BASIN TRUST
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDING MARCH 31, 2004
(in thousands of dollars)

	Restricted To Power Projects Investments	Non-Power Investments	Delivery of Benefits	2004	2003
NET ASSETS, beginning of year	$ 233,226	$ 52,181	$ 8,835	$ 294,242	$ 266,150
Power project financing earned from the Province of B.C.	1,998	-	-	1,998	13,095
Excess (deficiency) of revenues over expenses	-	-	(3,100)	(3,100)	9,959
Additional power project cash distributions available for the spending program	(984)	-	984	-	-
Interest earned on restricted power project funds	-	-	-	-	5,038
Minimum reinvestment required to maintain endowment capital	-	340	(340)	-	-
NET ASSETS, end of year	$ 234,240	$ 52,521	$ 6,379	$ 293,140	$ 294,242

The accompanying notes are an integral part of this consolidated statement.

COLUMBIA BASIN TRUST
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING MARCH 31, 2004
(in thousands of dollars)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from investment deposits and securities income	$ 684	$ 1,735
Cash received from business loan income	1,011	955
Cash received from rental income	144	47
Cash paid for venture capital investigation expenses	(47)	(111)
Cash generated by power project joint ventures and distributed	6,410	3,125
Cash generated by power project joint ventures and not distributed	7,251	13,949
Cash received from the Province of B.C.	2,000	2,000
Cash paid for operating expenses	(2,460)	(3,173)
Cash paid for spending program disbursements	(3,866)	(4,036)
	11,127	14,491
CASH FLOWS APPLIED TO INVESTING ACTIVITIES		
Investment in power projects	(50,487)	(14,434)
Investment in deferred power project costs	(1,040)	(7,209)
Disposal of investment deposits and securities	3,760	6,258
Investment in business loans	(427)	(1,429)
Investment in real estate projects	(2,115)	(1,130)
Investment in venture capital	(410)	(640)
Purchase of Trust office assets	(39)	(112)
Proceeds from disposal of real estate	161	-
	(50,597)	(18,696)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions from the Province of B.C.	50,000	50,000
Repayment of long term advance from Columbia Power Corporation	(48,003)	(36,902)
Proceeds from placement of long-term debt	48,923	945
Repayment of long-term debt	(1,436)	(805)
	49,484	13,238
INCREASE IN CASH	10,014	9,033
CASH, beginning of period	18,509	9,476
CASH, end of period	$ 28,523	$ 18,509

The accompanying notes are an integral part of this consolidated statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

1. NATURE OF COLUMBIA BASIN TRUST

(a) Columbia Basin Trust Act, 1995, Columbia Basin Trust Amendment Act, 2003

Columbia Basin Trust (CBT) is a not-for-profit corporation established on July 6, 1995 when Royal Assent was given to the Columbia Basin Trust Act, an Act of the Province of British Columbia. On January 15, 2004, the Columbia Basin Trust Amendment Act, 2003 came into force. The original Columbia Basin Trust Act states that CBT is not an agent of the Province, which remained the same under the Amendment Act. The Amendment Act states that CBT has the power and capacity of a natural person and has been continued as a regionally based Crown corporation with a legislated mandate to invest in the economic, social and environmental well being of the region under the guidance of the Columbia Basin Management Plan. The Board of Directors of CBT has been reformed so that there is equal representation from the Province and the region. The sole share of CBT is to be held by the Minister of Finance and Corporate Relations on behalf of the Province.

(b) Funding of Columbia Basin Trust and Power Project Investments

Under the Agreement of July 27, 1995 between the Province and CBT, the Province will pay CBT, for purposes of paying operating expenses, $2,000 annually through the year 2010 (a total commitment of $32,000). On April 1, 1996, the Province made a regional benefit program payment to CBT of $45,000. The Province will pay CBT, for the purposes of investing in power projects, the sum of $250,000 by payments of $50,000 on April 1st of each of the years 2001 through 2005 and an additional payment on April 1, 2000 equal to half the book value of the Expansion Rights Amount (expansion rights pertaining to the existing Brilliant and Waneta dams' power generation capability). The book value of the Expansion Rights Amount as at March 31, 1997 was $51,850.

Columbia Power Corporation (CPC) was incorporated under the Company Act in 1994 to hold power development assets purchased from Cominco Ltd. CPC is an agent of the Crown and manages commercial joint ventures with CBT to develop and operate power projects in the region. The Province covenants to invest $250,000 in CPC, for the purpose of paying capital costs of the power projects, by payments of $50,000 on April 1st of each of the years 1996 through 2000 and a reduction in the April 1, 2000 payment equal to half the book value of the Expansion Rights Amount. On January 16, 2004, the Minister of Energy and Mines announced that power management under the initiative would be restructured and CPC will become a subsidiary of CBT, with a separate Board of Directors and a mandate to maximize the value of, and income from, the power assets developed under the initiative. As of March 31, 2004, this restructuring process was still in progress.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The accounts of CBT and its subsidiaries are consolidated in these financial statements. Intercompany balances and transactions have been eliminated. The interest of CBT's subsidiaries in joint ventures is consolidated by CBT on a proportionate basis. Under the proportionate consolidation method, CBT records, on a line-by-line basis within its consolidated financial statements and notes, its proportionate share of the joint ventures' assets, liabilities, revenues, expenses and cash flows.

(b) Revenue Recognition

CBT follows the deferral method of accounting for contributions. Endowment contributions are recognized as direct increases in net assets. Future power project financing payments are recognized as a long-term commitment receivable from the Province to the extent that they have been earned, and based on the criteria that the amount earned can be reasonably estimated and ultimate receipt from the Province is reasonably assured.

(c) Income Securities

Deposits and short-term debt securities held for investment purposes are recorded at cost, which approximates market value. If the value of a particular deposit or security held for investment suffers an other than temporary decline in value the carrying value is written down accordingly. All gains and losses on sales of securities, write-downs to record other than temporary declines in the values of deposits or securities held for investment, and the amortization of discounts or premiums are included in the net investment income from income securities figure in the consolidated statement of operations.

(d) Business Loans

Loans are stated net of an allowance established to recognize anticipated losses. This allowance is determined by reference to specific loans in arrears and by judgment of management based on loan collection experience. A general allowance is also maintained to absorb credit losses attributable to any deterioration in the loan portfolio for which specific allowances cannot yet be determined.

(e) Capitalization and Amortization

Capital assets are recorded at cost and are amortized annually at rates calculated to write-off the cost of assets over their estimated useful lives. Amortization begins when assets are placed into service.

(i) Power project

Arrow Lakes power project	-straight line over 11 to 100 years
Brilliant power project	-straight line over 30 to 60 years

(ii) Real estate

Buildings and improvements	- straight line over 30 years

(iii) CBT office

Computer equipment and software	- straight line over 3 years
Office furniture & equipment	- straight line over 5 years
Leasehold improvements	- straight line over 7 to 10 years
Building	- straight line over 30 years

(f) Deferred Amounts

Costs incurred in determining the feasibility of acquiring investments are deferred. When a project's acquisition or development is complete, the deferred costs form part of the capital cost of the project. If a project is abandoned, the related deferred costs are charged to operations in the period of abandonment. The appropriateness of deferring a project's costs is considered annually. When a project's costs exceed those likely to be recovered, the excess costs are charged to operations.

(g) Deferred Debt Issue Costs

Expenditures incurred in issuing long-term debt are deferred and amortized on a straight line basis over the term of the related debt.

(h) Taxes

CBT is exempt from income taxes under paragraph 149(1) (d) of the Income Tax Act. CBT is also exempt from Federal large corporations tax under subsection 181.1(3) of the Income Tax Act.

(i) Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. INCOME SECURITIES

(a) Income Securities Portfolio

	March 31, 2004	March 31, 2003
Issued by Credit Unions:		
Revelstoke Credit Union	$ 4,877	$ 4,667
Columbia Valley Credit Union	2,080	2,000
Kootenay Savings Credit Union	-	4,000
Arrow Credit Union	40	35
Castlegar Savings Credit Union	-	22
Nelson District Credit Union	-	8
	6,997	10,732
Issued by Chartered Banks:		
TD Bank	2,913	-
Bank of Nova Scotia	986	-
HSBC	-	2,913
CIBC	-	1,011
	3,899	3,924
	$ 10,896	$ 14,656

(b) Restrictions on Income Securities

CBT's deposit holdings are not marketable. CBT, on 90 days written notice, may redeem up to 10% of deposit placements initially made for a period of one year or longer, without cost or penalty, provided that such redemptions occur only once during a particular deposit's term.

$3,899 of the $10,896 income securities figure is not available to CBT. This amount includes CBT's $2,913 share of a Debt Service Reserve Fund and $986 share of a segregated Operating Reserve Account required under the terms of joint venture debt financing. Columbia Basin Power Company (CBPC) 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 and Series B Brilliant Project Bonds. The CBPC is also required to maintain an operating reserve account in an amount equal to one-quarter of annual operating expenses.

4. RESTRICTED CASH

Cash and temporary investments includes the amount of $5,337 (fiscal 2003 - $5,867) which is restricted to payment of construction trust liabilities.

5. BUSINESS LOANS

CBT has included in its consolidated financial statements and notes the following business loans:

	March 31, 2004	March 31, 2003
Loan Syndication Program	$ 7,589	$ 7,018
Regional Lending Program	2,356	3,196
St. Eugene Golf Course	7,890	7,890
Kicking Horse Mountain Resort	5,619	5,619
Columbia Mountain Open Network	696	-
	24,150	23,723
Deferred Loan Costs	310	314
	24,460	24,037
Less: Loan Loss Allowance	(7,410)	(309)
Business Loans	$ 17,050	$ 23,728

	March 31, 2004	March 31, 2003
Loan Loss Allowance:		
Impaired Loans	$ 8,457	$ 419
Less: Amounts where loss is not expected	(1,134)	(195)
Specific allowances	7,323	224
General loan loss reserve	87	85
Loan Loss Allowance	$ 7,410	$ 309

(a) Loan Syndication Program

CBT Small Business Investment Corp. (CBT SBI) established a loan syndication program to provide liquidity to the capital markets in the basin by matching funds through a pooling arrangement with the financial institutions in the basin. The terms of these loans range in length from three to fifteen years and are generally secured by real estate.

(b) Regional Lending Program

CBT has provided lending capital to the Community Futures Development Corporations of the Columbia Basin Region for lending to small businesses. The terms of these loans range from one to five years and are generally secured by real estate.

(c) St. Eugene Golf Course

As at March 31, 2004, the amounts included a loan of $7,890 to the St. Eugene Mission Hotel and Golf Course Funding Corporation (Fundco) by CBT St. Eugene Hotel/Golf Corp. (CBT St Eugene). The loan has a ten year term, an interest rate of 10% and is secured by second charges on the golf course, hotel and casino subleases and first charges on a portion of the golf course, the parking lot and the teepee park.

On December 23, 2003, Fundco filed for protection from creditors under the Companies' Creditors Arrangement Act (CCAA). In order to avoid enforcement proceedings by its secured creditors, the resort required the protection of stay available under the CCAA to provide it with an opportunity to restructure its finances and operations. Fundco stopped servicing this loan and CBT has classified this loan as non-performing. The lead creditors and the court monitor have appointed a restructuring officer who will oversee all business operations and market the resort for sale in whole or in part.

In the event of a sale, CBT, along with all other secured creditors of the resort, would be entitled to obtain repayment from the sale proceeds on the basis of the priority ranking of each secured claim. CBT has made an allowance for a significant portion of this loan as at March 31, 2004. This is based on management's estimate of the recoverable amounts upon the sale of the resort.

(d) Kicking Horse Mountain Resort

The Kicking Horse Mountain Resort is a four-season alpine resort development situated in Golden, B.C. CBT Golden Peaks Development Corp. has provided a 10 year term loan to the Kicking Horse Mountain Resort Limited Partnership at a minimum rate of 8% per annum and a variable interest component that is subject to the operating results of the borrower. The loan is repayable on December 7, 2009 and is secured by a second charge on all assets of the resort.

(e) Columbia Mountain Open Network

During the year, CBT entered into a loan agreement with the Columbia Mountain Open Network (CMON) to provide CMON with interim financing to assist CMON in providing telecommunications services for the School District 20 pilot project. The loan is a non-interest bearing demand loan that is secured by a fixed and floating charge over all the assets of CMON.

Net business loan income consists of:

(For the years ended)	March 31, 2004	March 31, 2003
Business loan interest income:		
Loan syndication program	$ 595	$ 511
Regional lending program	234	267
St. Eugene Golf Course	-	685
Kicking Horse Mountain Resort	447	444
	1,276	1,907
Less:		
CBT overhead allocation	(57)	(97)
Investment monitoring costs	(20)	(64)
Loan syndication administration fees	(2)	(3)
CFDC loan administration fees	(82)	(94)
Loan loss provision-general	(3)	(2)
Loan loss provision-specific	(17)	(109)
	1,095	1,538
Fee income	29	44
Net business loan income	$ 1,124	$ 1,582

6. REAL ESTATE

CBT's interest in real estate projects is as follows:

	Cost	Accumulated Amortization	March 31, 2004	March 31, 2003
Castle Wood Village				
Land	$ 236	$ -	$ 236	$ 236
Building and improvements	3,620	(199)	3,421	3,546
Castlegar Building				
Land	52	-	52	52
Building and improvements	1,959	(196)	1,763	1,828
Brilliant School				
Land	-	-	-	81
Building and improvements	-	-	-	109
Projects under development	2,125	-	2,125	10
	$ 7,992	$ (395)	$ 7,597	$ 5,862

The real estate projects are held for the purpose of earning rental income. The portion of the Castlegar building occupied by CBT offices is excluded from real estate projects.

Net real estate income (loss) consists of:

(For the years ended)	March 31, 2004	March 31, 2003
Rental income:		
Castle Wood Village	$ 290	$ 157
Castlegar Building	125	125
	415	282
Rental expenses:		
Amortization of building and improvements	(190)	(144)
Finance charges	(167)	(104)
Operation of real estate assets	(62)	(66)
CBT overhead allocation	(43)	(65)
	(462)	(379)
Net real estate income	$ (47)	$ (97)

7. VENTURE CAPITAL

CBT's interest in venture capital investments is as follows:

	March 31, 2004	March 31, 2003
Heatwave Technologies Inc.	$ 1,204	$ 1,204
KPS Materials Technology Inc.	705	285
Tread Safe Inc.	-	355
	$ 1,909	$ 1,844

(a) Heatwave Technologies Inc.

CBT's investment consists of 2,698,755 Class A preferred shares that are convertible into common shares on a one for one basis and 2,150,000 common shares. If the preferred shares were fully converted, they along with the common shares, would represent a 15% ownership interest in the company.

(b) KPS Materials Technology Inc.

CBT's investment represents advances against a total potential commitment of $1,000 to assist the company develop its proprietary ceramics technology. CBT's agreement with the developer of the technology includes an option for the developer to acquire shares in the company for a nominal value and guarantees the developer representation on the Board of Directors equal to CBT's representation. CBT, notwithstanding its share ownership, does not control the company; accordingly, the investment is being accounted for as venture capital.

(c) Tread Safe Inc.

CBT acquired 10% of the common equity of the Company and a royalty interest in future sales of the Company's principal product. The Company's financial condition has deteriorated to the extent that collection of future royalty payments is no longer reasonably assured. Realization of future royalty payments are highly dependent on the Company obtaining further financing in order to continue normal operations, an event that the Company cannot provide any level of assurance will occur. CBT has fully reserved for its investment in Tread Safe Inc.

Net venture capital income (loss) consists of:
(For the years ended)

	March 31, 2004	March 31, 2003
Investment revenue	$ -	$ -
Less:		
CBT overhead allocation	(43)	(41)
Professional fees	(4)	(70)
	$ (47)	$ (111)

8. JOINT VENTURES

CBT participates in joint ventures with other parties and accounts for its interests using the proportionate consolidation method. The following amounts represent CBT's proportionate share of the assets, liabilities, revenues, expenses and cash flows of these joint ventures:

	March 31, 2004	March 31, 2003
Assets		
Current assets	$ 20,417	$ 11,505
Investments	324,416	256,564
Other assets	18,573	41,885
	$ 363,406	$ 309,954

Liabilities		
Current liabilities	$ 13,380	$ 10,940
Long-term debt	108,456	85,489
Net Assets		
Power and non-power project investments	241,570	213,525
	$ 363,406	$ 309,954
Net Income		
Revenues	$ 30,268	$ 44,957
Operating expenses	(14,060)	(25,827)
Finance charges	(7,712)	(5,553)
	$ 8,496	$ 13,577
Cash Flows		
Operating activities	$ 13,779	$ 17,083
Investing activities	(53,624)	(22,689)
Financing activities	22,967	(11,762)
	$ (16,878)	$ (17,368)

9. POWER PROJECTS

	March 31, 2004	March 31, 2003
Brilliant Powerplant Project	$ 105,400	$ 94,628
Arrow Lakes Powerplant Project	151,322	154,248
Brilliant Expansion Powerplant Project	61,954	-
	$ 318,676	$ 248,876

CBT's operating power project assets are as follows:

	Cost	Accumulated Amortization	March 31, 2004	March 31, 2003
Brilliant Powerplant Project				
Capital assets in service	$ 114,648	$ (11,607)	$ 103,041	$ 92,268
Land	2,359	-	2,359	2,360
	117,007	(11,607)	105,400	94,628
Arrow Lakes Powerplant Project				
Capital assets in service	143,487	(6,110)	137,377	139,469
Power sales contract	11,376	(1,023)	10,353	11,267
Land	3,592	-	3,592	3,512
	158,455	(7,133)	151,322	154,248
	$ 275,462	$ (18,740)	$ 256,722	$ 248,876

CBT's power project asset under construction is as follows:

Brilliant Expansion Powerplant Project

	March 31, 2004	March 31, 2003
Construction in progress	$ 41,547	$ -
Expansion rights	13,225	-
Deferred development costs	7,097	-
Prepaid expenses	85	-
	$ 61,954	$ -

(a) Brilliant Powerplant Project

On May 3, 1996, the Columbia Basin Power Company (CBPC) joint venture was formed for the purpose of acquiring the Brilliant Dam, a 145 MW powerplant located on the Kootenay River near Castlegar, B.C. This generating plant will deliver approximately 970 gigawatt hours of electricity annually.

(b) Arrow Lakes Powerplant Project

The Arrow Lakes Powerplant Project is a powerplant that consists of two generating units with a capacity of approximately 185 MWs constructed 400 meters downstream of the B.C. Hydro Hugh Keenleyside dam near Castlegar, B.C. Water enters the powerplant via a 1,400 meter approach channel bypassing the existing Hugh Keenleyside dam. The project also consists of a 49 km 230 kv transmission line that extends from the powerplant to the BC Hydro substation at Selkirk.

(c) Power Sales Right

CBT paid $11,376 for the right and obligation to provide up to 86 average MWs to B.C. Hydro from January 1, 2003 to December 31, 2014. CBT and CPC intend to fulfill their power delivery obligation by way of the Arrow Lakes Powerplant Project power entitlement from the B.C. Hydro system.

(d) Brilliant Expansion Powerplant Project

The Brilliant Expansion Powerplant Project is a proposal to install an additional estimated 120 MWs power generation facility near the existing Brilliant dam. The Venturers own the Brilliant dam and the existing power facility. CBT's co-venturer CPC paid $26,500 in 1994 to Teck Cominco Limited (Teck Cominco) to purchase the rights to undertake an expansion. Expressions of interest were solicited and received from two international engineering, construction and turbine manufacturing teams for a design-build contract in July 2002.

The evaluation process resulted in the Brilliant Expansion Consortium (BEC) formed by Skanska/Chant/SNC Lavalin being chosen as the preferred bidder. Treasury Board approval for the project was received in January 2003. The Design-Build contract for $167,000 with BEC was signed February 25, 2003. Construction of the project began in April 2003. The assets and equity of the Brilliant Expansion Powerplant Project were transferred from the Power Project Planning joint venture (PPPJV) to the Brilliant Expansion Power Corporation in April 2003.

Net power project income consists of:
(For the years ended)

	March 31, 2004	March 31, 2003
Sales of power:		
Arrow Lakes and Brilliant powerplant revenue	$ 29,122	$ 44,800
Expenses:		
Operation of powerplants	(7,333)	(20,410)
Finance charges	(6,689)	(5,447)
Amortization of powerplant assets	(6,607)	(4,767)
Investment monitoring and CBT overhead	(860)	(540)
	$ 7,633	$ 13,636

10. DEFERRED AMOUNTS

The deferred amounts figure includes the following asset categories:

	March 31, 2004	March 31, 2003
Expansion rights	$ 12,700	$ 25,925
Deferred development - Power projects	3,170	15,358
Deferred debt issue costs	2,702	605
CBT office assets	1,051	1,274
	$ 19,623	$ 43,162

(a) Expansion Rights

CPC purchased the hydroelectric power expansion rights pertaining to the existing Brilliant and Waneta dams' power generation capability from Cominco Ltd. in 1994. These rights 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.

(b) Deferred Development - Power Projects

The deferment of power project costs is based on management's judgement of anticipated future events. A number of significant estimates and qualitative factors have been considered by management in determining the viability of each project. Changes in significant assumptions underlying future cash flow estimates for a project can have a material effect on the economic viability of a project.

Project	Identification	March 31, 2003	Fiscal 2004 Expenditures	Transfers and write-offs	March 31, 2004
BEP	Brilliant Expansion	$ 12,147	$ -	$ (12,147)	$ -
WEP	Waneta Expansion	2,129	1,041	-	3,170
WUP	Waneta Upgrades	-	19	(19)	-
BSSN	Brilliant Substation	1,082	73	(1,155)	-
		$ 15,358	$ 1,133	$ (13,321)	$ 3,170

	Project Design	Environmental Analysis	Socioeconomic Analysis	Finance/Legal Analysis	CPC / CBT Management	March 31, 2004
WEP	$ 692	$ 840	$ 23	$ 202	$ 1,413	$ 3,170

Waneta Expansion Project

The Waneta expansion project is a proposal to install an additional estimated 380 MWs power generation facility at the existing Waneta dam. The Waneta dam is owned by Teck Cominco to whom CBT's co-venturer, CPC, paid $25,400 in 1994 to purchase the rights to undertake an expansion.

The project's construction cost is estimated to be approximately $300,000 over a four year period. It is projected that construction of the project will follow completion of the Brilliant Expansion Project. The project would be financed with a combination of long-term debt and equity consistent with industry practice. The Venturers' equity requirements will be funded by power project financing payments from the Province of B.C.

(c) Deferred Debt Issue Costs

	March 31, 2004	March 31, 2003
Deferred debt issue costs	$ 2,978	$ 740
Accumulated amortization	(276)	(135)
	$ 2,702	$ 605

(d) **CBT Office Assets**

	Cost	Accumulated Amortization	March 31, 2004	March 31, 2003
Computer equipment	$ 665	$ (572)	$ 93	$ 132
Computer software	264	(238)	26	111
Office furniture and equipment	270	(213)	57	82
Leasehold improvements	325	(215)	110	143
Building	885	(120)	765	806
	$ 2,409	$ (1,358)	$ 1,051	$ 1,274

11. LONG-TERM DEBT

	March 31, 2004	March 31, 2003
Power project joint venture debt:		
Brilliant project bond Series "A", bearing interest at 8.93%, maturing May 2026	$ 44,613	$ 45,221
Brilliant project bond Series "B", bearing interest at 6.86%, maturing May 2026	13,578	13,827
Arrow Lakes project bond Series "A", bearing interest at 5.39%, maturing March 2015	49,471	-
Real estate joint venture debt:		
Castle Wood mortgage loan, bearing interest at 6.55%, maturing August 2006	2,672	2,722
Mountain Fern construction loan	1,161	-
	111,495	61,770
Current portion of long-term debt	(4,212)	(856)
	$ 107,283	$ 60,914

All joint venture debt is issued on a non-recourse basis. The security provided by a joint venture is limited to the rights and assets of the individual joint venture and does not extend to the rights and assets of CBT, except to the extent of CBT's investment in that joint venture.

The Brilliant Bonds are redeemable by CBPC 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 or 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 Arrow Lakes Bonds are redeemable 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, or a price calculated to provide a yield to maturity based on the current yield of a matching duration Government of Canada bond. The Bonds are secured on a limited recourse basis by charges against the Brilliant Dam and Arrow Lakes Dam assets and revenues.

The purpose of the commercial mortgage (the mortgage) was to provide financing for the acquisition of land and the construction of a 77-suite congregate care facility in Castlegar, B.C. called Castle Wood Village. Total mortgage proceeds of approximately $5,474 (CBT's portion is $2,737) was provided upon completion of the facility in June 2002. The mortgage is repayable in equal monthly payments of principal and interest amortized over 24 years and 9 months at an interest rate of 6.55%. The mortgage is secured on a limited recourse basis by a first, fixed and floating charge over all the assets of the facility.

Construction financing was provided for the construction of a congregrate care facility in Fernie, B.C. called Mountain Fern. Total mortgage proceeds of approximately $5,700 will be provided upon the expected completion of the facility in June 2004. The mortgage will be repayable in equal monthly payments of principal and interest amortized over 25 years at an interest rate based on either prime plus 1.50% or bankers acceptance rates plus 1.50% that may be fixed prior to the start of the mortgage term by way of swaps. The mortgage is secured on a limited recourse basis by a first, fixed and floating charge over all the assets of the facility.

Principal repayments are estimated as follows:

2005	$ 4,212
2006	4,468
2007	4,741
2008	5,030
2009	5,339
Thereafter	87,705
	$ 111,495

12. NON-RECOURSE CREDIT FACILITY OF JOINT VENTURE

Consistent with its agreements with its Bondholders, CBPC has established a $10,000 credit facility. The facility shares the same security as the Bondholders and can be accessed by way of loans, bankers acceptances, letters of credit and for purposes of interest rate swaps. Proceeds from the facility can be used for capital or operating expenditures.

13. ADVANCE FROM COLUMBIA POWER CORPORATION & COMMITMENT RECEIVABLE FROM PROVINCE OF B.C.

Under the terms of its joint venture agreements with CBT, CPC is required to make interest free advances to the joint ventures on behalf of CBT for the purpose of funding CBT's share of power project joint venture activities. Such advances are repayable by CBT upon receipt of payments under CBT's power project capital financing agreement with the Province of B.C. (Note 1(b)). The commitment receivable from the Province of B.C. reflects power project financing earned by CBT through its power project investment activities.

14. COMMITMENTS

(a) Columbia Basin Power Company

Under its agreements with its Bondholders, CBPC has committed to keep the Brilliant dam in good operating condition and to affect all necessary repairs and replacements to the Brilliant dam to maintain the Brilliant dam entitlement in a manner that is consistent with good industry practice.

(b) CBT Office

CBT has entered into operating lease agreements for its office space for terms expiring at various dates in the future.

15. CONTINGENCIES

CBT's power project operations and investments activities are affected by federal, provincial and local government laws and regulations. Under current regulations, CBT is required to meet performance standards to minimize or mitigate negative impacts of proposed projects. Furthermore, CBT's agreements with its Bondholders require compliance in all material respects with such laws and regulations. The impact, if any, of future legislative or regulatory requirements on specific projects and their related deferred costs and financing covenants cannot currently be estimated.

16. RESTRICTIONS ON NET ASSETS

(a) Restricted To Power Project Investments

Power project investment capital is restricted to reflect the Province's condition that its power project financing contributions are to be used to finance the equity requirements of power projects.

(b) Restricted To Non-Power Investments

Non-power investment capital is restricted to reflect the Province's condition that its regional benefit program contribution be used to finance investment activities and the Columbia Basin Management Plan's requirement that this capital be restricted to non-power investments.

(c) Restricted To Delivery of Benefits

Net investment income and certain other distributions from the Investment Program are restricted to future Delivery of Benefit activities. In addition, operating surpluses have been set aside for the Delivery of Benefit by CBT's Board of Directors.

17. RELATED PARTY TRANSACTIONS

(a) CBT Directors' and Advisory Committee Members' Remuneration

Section 11 of the Amendment Act provides for CBT's Directors to be compensated in accordance with directives of the Treasury Board. Where Directors are members of the Province's Legislative Assembly or are public servants or receive remuneration from any other source for acting as a Director of CBT, they receive no compensation from CBT.

(b) Power Project Joint Ventures

Under the terms of their joint venture agreements, CPC and CBT charge the joint ventures for management services. The amounts charged include staff compensation and general overhead costs attributable to joint venture activities (CBT's share is 50%).

		March 31, 2004	March 31, 2003
(i)	Payments to Columbia Power Corporation	$ 4,861	$ 4,470
(ii)	Payments to CBT	$ 589	$ 883

The joint venturers also paid $878 (fiscal 2003 - $381) to B.C. Hydro and Power Authority for project consulting services, which were provided at market rates.

18. DELIVERY OF BENEFITS

(a) Spending program disbursements

Tier	March 31, 2004	March 31, 2003
Basin	$ 1,297	$ 516
Geographic	722	1,299
Sector	1,847	2,221
	$ 3,866	$ 4,036

(b) Spending program commitments

The following commitments were made to several of CBT's delivery partners at the end of the year:

Tier	March 31, 2004	March 31, 2003
Basin	$ 331	$ 302
Geographic	1	1
Sector	260	108
	$ 592	$ 411

19. FINANCIAL INSTRUMENTS

(a) Fair value

CBT's financial instruments consist of cash and cash equivalents, securities, receivables, accounts payable, accrued liabilities and long-term debt. The carrying values reported in the balance sheet for cash and short-term investments, receivables, accounts payable and accrued liabilities approximate fair value, due to the short-term nature of those instruments. The fair values of the securities and the long-term debt are not significantly different from their carrying values.

(b) Interest rate risk

CBT is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and current liabilities.

(c) Credit risk

CBT's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, securities and business loans. Cash and cash equivalents and securities are invested in securities issued by well-capitalized financial institutions with investment grade credit ratings. An assessment of the credit worthiness of a borrower is carried out prior to the placement of a business loan.

20. INVESTMENT PROGRAM WRITE-DOWNS AND WRITE-OFFS

	March 31, 2004	March 31, 2003
Investment in the St. Eugene Golf Course	$ 7,374	$ -
Investment in Tread Safe Inc.	345	-
Loss on sale of Brilliant School	29	-
Investigation of Waneta Upgrades project	19	576
	$ 7,767	$ 576

A provision against CBT's loan to Fundco has been recorded in the year to reflect the lack of reasonable assurance of the timely collection of the full amount of the loan principal. During the year, Fundco filed for protection from creditors under the Companies' Creditors Arrangement Act in order to avoid enforcement proceedings by its secured creditors and to provide management with the opportunity to restructure its finances and operations. Fundco has stopped servicing this loan and CBT has classified this loan as non-performing. A Court Restructuring Officer has been appointed and has been directed to oversee all business operations and market the resort for sale in whole or in part. CBT has made an allowance for a significant portion of this loan and reduced the carrying value to an amount that reflects management's estimate of the net realizable value of the loan upon the sale of the resort.

A provision for the full amount of CBT's investment in Tread Safe Inc. has been recorded to reflect the deterioration in the financial condition of the company and the lack of reasonable assurance that future royalty payments will be made. Realization of future royalty payments are highly dependent on the Company obtaining further financing in order to continue normal operations, an event that the Company cannot provide any level of assurance will occur.

21. SUBSEQUENT EVENTS

On April 1, 2004, the Province paid the fourth of five $50,000 payments to CBT that form part of the Regional Allocation that will be used to pay for the capital costs of power projects. Effective April 1, 2004, CBT Small Business Investment Corp., CBT Golden Peaks Development Corp. and CBT St. Eugene Hotel/Golf Corp. were amalgamated into CBT Commercial Finance Corp. Effective April 1, 2004 all of the assets of CBPC, including the rights and enjoyment of the Brilliant Power Facility and Brilliant Terminal Station were transferred to Brilliant Power Corporation.

On May 3, 2004, damage occurred to a portion of the concrete lining at the bottom of the intake channel of the Arrow Lakes Powerplant, resulting in the temporary shut down of both generating units. The cause of the damage is currently under investigation and the appropriate steps have been take to prevent further damage to the channel and to carry out the necessary repairs as soon as possible. The financial impact of this matter cannot be determined at this time. Recourse under insurance policies and warranties under the Design-Build Contract are currently being investigated.

22. ECONOMIC DEPENDENCE

The Agreement of July 27, 1995 between the Province and CBT states that the Province's annual payments to CBT are subject to the appropriation of sufficient funds in that fiscal year's Provincial Budget. The future operating and investing activities of CBT are dependent upon the continued receipt of funding under that Agreement.

23. COMPARATIVE FIGURES

Certain 2003 comparative figures have been reclassified to conform to the current year's presentation.

CORPORATE GOVERNANCE

GUIDING PRINCIPLES

1. The Board represents and serves its communities and the Columbia Basin as a whole. The Board talks with and listens to individuals, groups and the communities it serves to assure local positions are put forward.

2. The Board provides leadership by establishing goals and annual priorities based on the mandate of the CBT as outlined in the legislation and the agreements with the Province of B.C. and the CBMP.

3. The Board governs the organization by establishing clear, concise and consistent policy direction to guide CBT and monitor its performance.

BOARD MEMBERSHIP AND MANDATE

The mandate of the CBT is to invest, spend and otherwise manage the regional allocation and the Corporation's other assets, including any assets that may be transferred to it, for the ongoing economic, environmental and social benefit of the region.

Under the *Columbia Basin Trust Amendment Act*, the membership of the CBT Board of Directors was reduced from 18 to 12. All Board members are now appointed by the Lieutenant Governor through Order-in-Council, one each from nominees provided by the six regional governments in the Basin and six Basin residents nominated by the Province.

The FY 2004 directors of the CBT Board nominated by regional governments were:

- Josh Smienk - Regional District of Central Kootenay
- Jeannette Townsend - Fraser-Fort George Regional District
- Ron Oszust - Columbia Shuswap Regional District[2]
- Dieter Bogs - Kootenay Boundary Regional District
- Greg Deck - Regional District of East Kootenay
- Garry Merkel - Ktunaxa/Kinbasket Tribal Council

The six directors appointed by the Lieutenant Governor in Council are currently:

- Ben Arcuri[3] - Nelson
- David Brien - Castlegar
- Evelyn Cutts - Fernie
- Jackie Drysdale - Rossland
- Ron Miles - Cranbrook
- Mike Rouse - Kimberley

MEMBERSHIP AND MANDATE OF BOARD COMMITTEES

The CBT's Board of Directors currently has five standing committees:
- Executive Committee
- Audit Committee
- Investment Committee
- Delivery of Benefits Committee
- Water Initiatives Committee

Committee members are chosen for their expertise and experience in a particular area. The standing committees report to the Board of Directors at each Board meeting.

EXECUTIVE COMMITTEE

Mandate: To oversee the organization, operation and development of CBT on behalf of the Board of Directors.

Membership
- Josh Smienk, Chair
- Garry Merkel, Vice Chair
- Greg Deck
- Mike Rouse
- Ron Oszust[4]
- Don Johnston, CEO, non-voting member

Between Board meetings, the Executive Committee meets regularly to conduct ongoing work, as assigned by the Board. They also work on specific matters when directed by the Board. This approach has proven effective and works particularly well in a region where full Board meetings are both difficult to arrange and costly.

AUDIT COMMITTEE

Mandate: To assist the Board of Directors in fulfilling its oversight responsibilities by ensuring the accuracy and integrity of CBT financial information. Audit Committee responsibilities also include the systems of internal control, established by management and the Board of Directors, as well as internal and external audit processes.

Membership
- David Brien, CA, Chair
- Ron Miles
- Jeannette Townsend
- Dieter Bogs
- Bob Krysac, CFO, non-voting member

The Audit Committee continues to enhance and refine its oversight functions.

COMMUNICATIONS COMMITTEE

Given the reduction in the membership of the Board of Directors, CBT is attempting to manage the workload for its Directors by reducing the number of standing committees and task forces of the Board. The Executive Committee recommended that every standing committee of the Board have a communications component built into its Terms of Reference and that the Communications Committee be dissolved. The Communications Committee was dissolved by Board resolution on January 16, 2004.

INVESTMENT COMMITTEE

Mandate: To oversee the implementation of CBT's Investment Program, including the management of CBT's investment portfolio, in accordance with established policies and procedures.

Membership
- Greg Deck, Chair
- Ben Arcuri
- Mike Rouse
- Evelyn Cutts
- Dave Strachan, Investment Manager, non-voting member

The Investment Committee lives up to its fiduciary responsibility of developing and reviewing policy and procedures and monitoring performance of the assets.

WATER INITIATIVES COMMITTEE

Mandate: To provide leadership in addressing water initiatives within the Basin. The Committee strives to balance and represent Basin residents' interests in a range of water initiatives.

Membership
- Garry Merkel, Chair
- Dieter Bogs
- Evelyn Cutts
- Jeannette Townsend
- Don Johnston, CEO, non-voting member
- Kindy Gosal, Manager, Water Initiatives, non-voting member

The Committee operates under Terms of Reference as approved by the CBT Board of Directors. The Committee has created a Strategic Document outlining the goals, objectives and principles that the Water Initiatives Program is to undertake. The Committee has also created an Education Strategy to address specific activities that are to be undertaken. The work of the Committee is proceeding smoothly and according to the strategic direction set by the Committee.

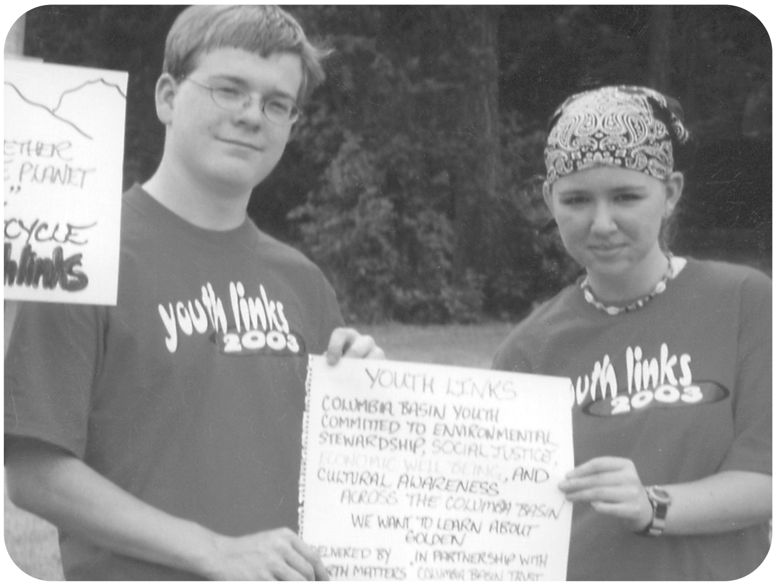
DELIVERY OF BENEFITS COMMITTEE

Mandate: The Committee is to develop and maintain a Delivery of Benefits Model that is flexible and accessible, and that builds capacity within Basin communities. The Committee will conduct its business in a manner that includes Basin residents through advisory committees, consultations and other mechanisms. All programming developed by the Committee will support the mission of CBT and be consistent with the CBMP.

The Committee pays special attention to ensuring all programs and projects have a monitoring component, which will allow for future evaluation.

Membership
- Jackie Drysdale, Chair
- Ron Miles
- Ron Oszust[5]
- Josh Smienk
- Don Johnston, CEO
- Jane Hutchins, Manager, Operations and Planning
- Doug Switzer, Community Liaison

The Board of Directors ratified the Committee's Terms of Reference in March 2004. The Committee will build on its mandate over FY 2005 as it reviews all Delivery of Benefits programs and granting processes of CBT.



Youth Links FY 2004

APPENDIX 1

CBTE ANNUAL REPORT

CBT Energy Inc. (CBTE) is a wholly-owned subsidiary of CBT, and was incorporated on September 7, 2000 under the *Canada Business Corporations Act*. On April 30, 2004, CBTE was continued as a B.C. company.

According to the 1995 Financial Agreement with the Province, both the CBT and CPC would each receive $250 million over ten years and the Brilliant and Waneta Expansion Rights ($26 million each), to invest in the Keenleyside Dam (now ALGS), Brilliant Expansion and Waneta Expansion power projects. The Columbia Basin Trust and CPC (a Crown corporation and agent of the Province of B.C.) became joint venture partners in 1996, with CPC contracted to act as the Manager.

Since then, the partners have purchased the Brilliant dam from Teck Cominco and have completed significant upgrades to the facility. The partners have also completed construction of ALGS, have constructed a new substation (the Brilliant Terminal Station) and have commenced construction on the Brilliant Expansion.

Section 4 of the *Columbia Basin Trust Act* states that CBT is "to invest, spend and otherwise manage the regional allocation and the Corporation's other assets, including any assets that may be transferred to it, for the ongoing economic, environmental and social benefit of the region." CBTE represents the mission and vision of CBT in the energy area. Through CBTE's oversight of the Manager, CPC, CBT is assured that income will be returned from its assets to fund the benefits described in its enabling legislation.

CBTE's Board of Directors is composed of energy industry experts and CBT representatives, who ensure that rapidly evolving market conditions are taken into account.

In addition, the CBTE Board of Directors guarantees that CBT uses diverse views to evaluate the opportunities and risks associated with power project development, investment and management.

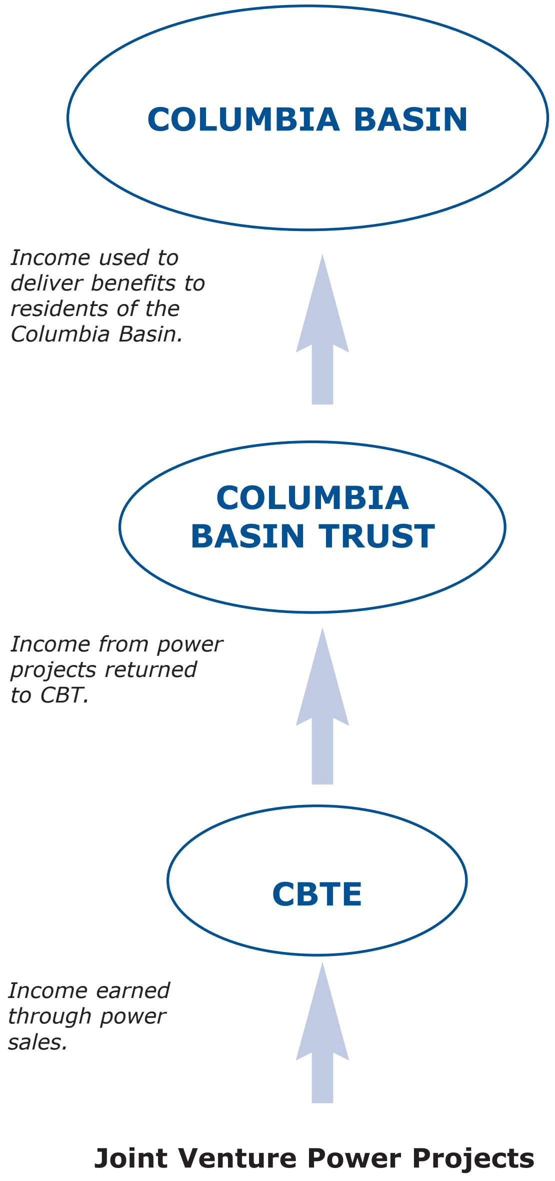


Figure 10

CBTE VISION

In the future, CBTE envisions a pursuit of development options in the energy industry complementary to its joint venture power projects. These include the provision of support services to large energy users, other utilities and other independent power producers.

Given the recent completion of ALGS and the start-up of construction on the Brilliant Expansion, CBTE's focus will shift from power project development to include operation, trading and management.

CBTE MISSION

In order to return long-term income to the CBT, CBTE invests in energy and power related projects with its joint venture partner, CPC, and oversees CPC's management of the development, construction and operation of these investments. CBT uses the income earned through CBTE's investments to create a legacy of social, economic and environmental well-being in the Basin.

CBTE VALUES

The following values guide CBTE's operations:

- Adherence to the best of private sector practices.
- Accountability for its actions and its results to the CBT.
- Adherence to the mission, vision, goals and objectives of the CBT in any actions undertaken.
- Dynamic and inclusive planning processes, taking market trends and developments into account.
- Open avenues of communication with partners and associates.

April 2003 - Bulldozer clearing access road at the Brilliant Expansion Project.

June 2003 - Rock scaler at the Brilliant Expansion Project.

September 2003 - On site workers preparing for a blast at the Brilliant Expansion Project.

CBTE YEAR IN REVIEW

The Brilliant Expansion Project construction began in April 2003. The Brilliant Expansion is scheduled to commence commercial operation in the summer of 2006. Roughly 40% of the anticipated Brilliant Expansion power was sold to BC Hydro through the Green Power Generation call for tenders. The sale does not affect the power income that CBTE earned for CBT in 2003-2004 but will increase the income to be earned in 2006-2007.

The Brilliant Terminal Station (a new sub-station adjacent to the Brilliant dam) was commissioned in July 2003. The Brilliant Terminal Station connects to the Brilliant dam, to Aquila Networks Canada's transmission system and to the ALGS transmission line. The Brilliant Expansion will also be connected to the Brilliant Terminal Station. Investment returns from the Brilliant Terminal Station commenced in 2003-2004.

Both ALGS and the Brilliant dam successfully continued operations in 2003-2004, and enabled CBTE to return income from power sales to CBT.

CBTE REPORT ON PERFORMANCE

GOAL
To increase the amount of dividends distributed to CBT.

This section reports on CBTE's performance in 2003-2004, as compared to the Service Plan.

The goals, objectives and strategies of the 2005-2007 Service Plan are used in the comparison as they focus on fewer and more critical aspects of performance than the 2004-2006 Service Plan, and more accurately reflect CBTE's role as a subsidiary of CBT. CBTE will report on the outcome of the performance measure, net income in power sales, which appeared in both the 2004-2006 Service Plan and the 2005-2007 Service Plan.

In 2003-2004, CBTE strived to meet its goal of increasing the amount of dividends distributed to the CBT by attaining objectives of earning increasing levels of income through power sales from the existing joint venture power projects and preserving the real value of the joint venture power projects. The following is a review of the strategies CBTE used and its overall performance given the risks it faced.

STRATEGIES

● *Ensure CPC fulfills its duties and responsibilities as Manager of the joint venture power projects.*

CBTE representatives actively participated as members of the 2003-2004 joint venture management committees, which oversee the joint venture power projects, and liaised with CPC when necessary. CBTE performed its own due diligence, which allowed CBTE to provide direction to the Manager and to assess the Manager's performance on an ongoing basis.

● *Aid the CBT in ensuring a smooth transition to management and development of the joint venture power projects under the new subsidiary.*

The composition of the CBTE Board of

Directors was adjusted in anticipation of the formation of a new power subsidiary board. In addition, CBTE, which was federally incorporated, was continued as a B.C. company on April 30, 2004, which will provide for amalgamation with its own subsidiaries and with its joint venture partner, CPC.

• *Liaise with the Board of Directors of CBT and staff members of CBT when necessary.*

CBTE liaised with the CBT Board and with CBT senior management when necessary, ensuring CBTE had shareholder endorsement of all major initiatives.

• *Monitor energy industry developments in B.C. and North America and participate in the development of the energy industry when deemed necessary by the CBTE Board.*

CBTE participated in the inquiry into a Heritage Contract for BC Hydro's Existing Generation Resources and regarding Stepped Rates and Transmission Access. Following the inquiry, the British Columbia Utilities Commission (BCUC) submitted its recommendations to the Lieutenant Governor in Council. The BCUC's recommendations included some of CBTE's suggestions, which were, in turn, adopted by the Province. The outcome of the inquiry will affect CBTE's access to the energy market in future years, and therefore CBTE's ability to earn income from the power it produces.

CBTE WILL:

• *Review and analyze market conditions on an ongoing basis.*
• *Recalibrate CBTE forward electricity price curve on a regular basis.*
• *Ensure CBTE Board is aware of all energy industry developments and assesses the significance of such developments in the context of the joint venture power projects.*
• *Intervene in regulatory proceedings as directed by the CBTE Board.*
• *Monitor the viability of alternate energy resources for possible development/investment if such resources are cost competitive.*

CBTE successfully acted upon each one of these strategies during 2003-2004.

REGULATORY PROCEEDINGS

In addition to participating in the Heritage Contract, Stepped Rates and Transmission Access inquiry, CBTE monitored the Water Use Planning processes for BC Hydro's Duncan and Columbia facilities. The outcome of these processes has the potential to impact the operations of the joint venture power projects.

CBTE also monitored the BCUC hearing into a Certificate of Public Convenience and Necessity for BC Hydro's Vancouver Island Generation Project, as the outcome had the potential to affect future electricity supply in B.C. The BCUC did not issue the Certificate to BC Hydro.

• *Retain sufficient energy expertise for the CBTE Board of Directors. (Expertise in areas of power project investment and management, electricity trade and natural gas markets.)*

The current members of the CBTE Board of Directors have energy expertise in the areas of power project investment and management, electricity trade and natural gas markets. The CBTE Board has five members at this time, and may have a maximum of eight members, which allows the CBT to appoint additional experts if needed.

PERFORMANCE

Figure 10 provides an overview of CBTE's performance in terms of net income earned from the joint venture power projects. The table also includes forecasts of earnings for the next three fiscal years. An explanation of any variations between what CBTE actually earned and its target earnings is also provided.

CBTE has not provided a comparison of its earnings to an industry standard. In 2004-2005, CBTE will be amalgamated with its joint venture partner, CPC. Benchmarking of power projects will therefore appear in future Service Plans and Annual Reports.

NET INCOME IN POWER SALES (JOINT VENTURE POWER PROJECTS)

Fiscal Year	Actual[6]	Target[7]
2001-2002	$2.26 million	N/A
2002-2003	$13.6 million	N/A
2003-2004	$8.4 million	$5.2 million
2004-2005	Future Fiscal year	$6.6 million
2005-2006	Future Fiscal year	$7.5 million
2006-2007	Future Fiscal year	$11.6 million

Figure 11

Explanation of Difference between Actual and Target for 2001-2002:
No Service Plan target was set for 2001-2002.

Explanation of Difference between Actual and Target for 2002-2003:
No Service Plan target was set for 2002-2003. Income from the joint venture power projects totalled $13.6 million in 2002-2003. The higher level of income (more than what was earned in 2001-2002 and 2003-2004) was the result of an early completion incentive for ALGS (a short-term sales agreement to Powerex that expired December 31, 2002). As of January 1, 2003, power from ALGS is sold to BC Hydro in a 12-year agreement.

Explanation of Difference between Actual and Target for 2003-2004:
The 2003-2004 target of $5.2 million was forecast in October 2002. In February 2004, the forecast suggested that net income would be $7.85 million. The difference was primarily due to an overall decline in expenses, mostly attributable to a decrease in Arrow Lakes Power Corporation expenses (the joint venture responsible for ALGS and the Arrow Lakes transmission line). The difference between the actual of $8.4 million and updated forecast of $7.85 million resulted from a further decline in expenses related to the Brilliant dam and ALGS.

RISKS AND CAPACITY

CBTE has one full-time employee and one part-time employee.

FINANCIAL

In 2002, ALGS commenced commercial operation, and earned income for the joint venture partners. Columbia Power Corporation and CBTE financed ALGS construction with equity from CPC and CBT Arrow Lakes Power Development Corp. (a subsidiary of CBTE) and with interest-bearing advances from CPC. In 2003-2004, the joint venture partners issued $100 million worth of 5.39% Series A project bonds on ALGS to refinance construction expenditures. The issuance of the bonds allowed the joint venture partners to begin payments for the construction of Brilliant Expansion and allowed CBTE to repay the advances from CPC on ALGS.

RESTRUCTURING

As the changes announced by the Minister of Energy and Mines to the current joint venture structure are implemented, a share of ongoing savings from administrative efficiencies will be available for reinvestment by the CBT, increasing CBT's capacity to deliver benefits to the residents of the Basin.

RESULTS

In 2003-2004, CBTE did not increase the amount of dividends distributed to the CBT, as the net income from the joint venture power projects decreased from 2002-2003. However, the decrease was primarily the result of an absence of higher income from ALGS, and was anticipated upon the expiry of the short-term sales agreement. Overall, net income earned in 2003-2004 was substantially higher than what was earned in 2001-2002.

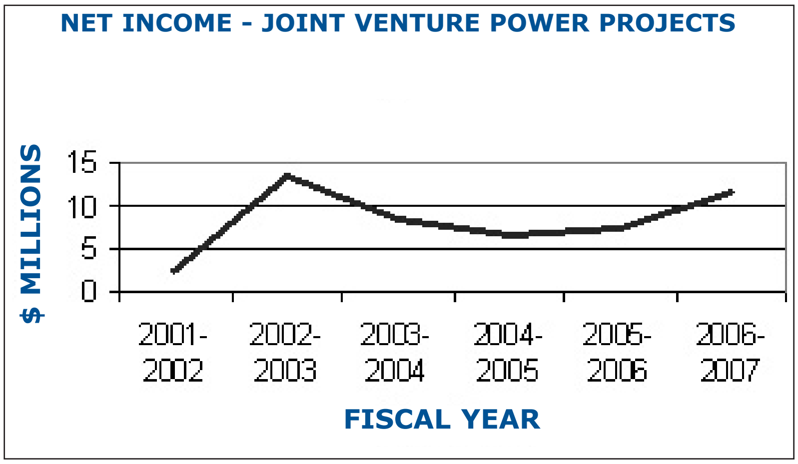


Figure 12

The income earned by CBTE through its 50 per cent interests in the joint venture power projects allowed CBT to pay for expenses related to its operations and for the delivery of benefits to the residents of the Basin.

ALIGNMENT WITH GOVERNMENT'S PRIORITIES

In 2003-2004, CBTE's accomplishments were reflective of the Province of B.C.'s overall priorities.

CBTE and its joint venture partner produced electricity from a renewable resource - water - at both ALGS and the Brilliant dam in 2003-2004, aiding the Province in attaining its goal of maintaining a sustainable environment.

The beginning of construction on the Brilliant Expansion in the past year is a reminder that 2006 will see the completion of a new power project that makes use of water flows that would otherwise have been spilled on the Kootenay River system.

The electricity produced at ALGS and Brilliant dam was sold to BC Hydro and Aquila Networks Canada, respectively, each of which provides affordable and reliable power to BC customers, contributing to the overall health of the provincial economy.

Construction of the Brilliant Expansion had a positive effect on the local economy, creating jobs in the Basin.

Finally, CBTE contributed to the Province's goal of a supportive social fabric by generating the income the CBT used to fund social, environmental and economic programs for the residents of the Columbia Basin in 2003-2004.

CBTE CORPORATE GOVERNANCE

CBTE Board Membership and Mandate
- Josh Smienk, Chair
- Ken Epp
- George Fraser
- Ron Miles
- Cam Osler

The CBT Board of Directors annually confirms the membership of the CBTE Board of Directors.

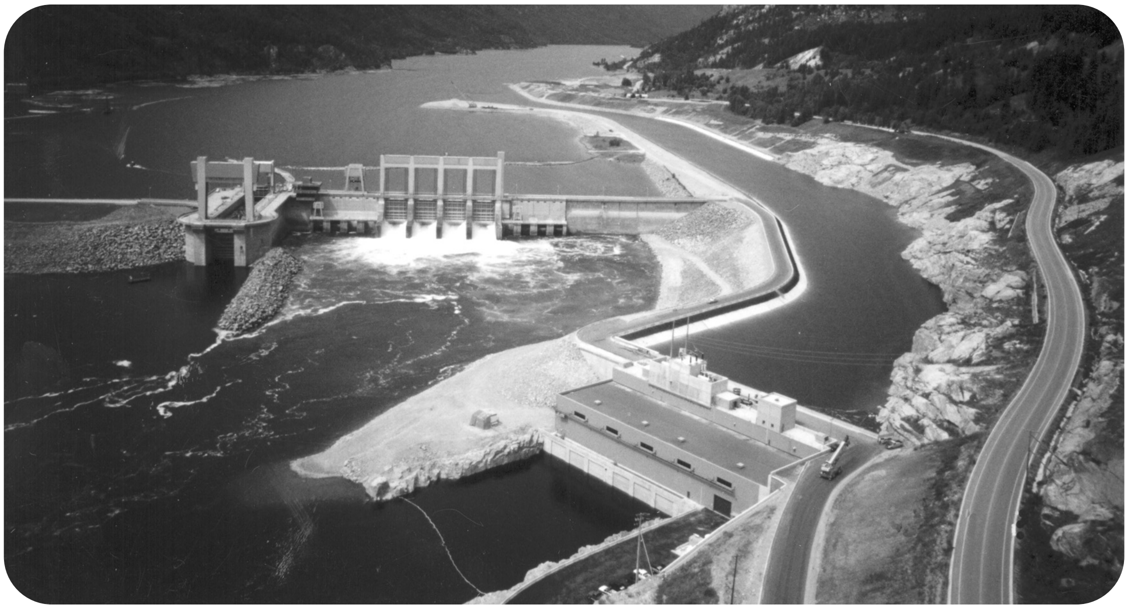
In 2003-2004, the CBT Board of Directors adjusted the membership of the CBTE Board to reflect the new make-up of the CBT Board of Directors. The CBTE Board now includes a director from the new provincial appointees to the CBT Board.

The CBTE Board of Directors must be capable of representing the interests of the Columbia Basin and possess suitable levels of industry experience and expertise in the areas of power project investment and management, electricity trade and natural gas markets.

The CBTE Board oversees the operation of CBTE and its wholly-owned subsidiaries. The Board holds regular meetings on a quarterly basis. It reviews the business plan produced by senior management and monitors the performance of CBTE throughout each fiscal year. In addition, the Board sets policy in areas critical to CBTE's operations. These areas include power project investment, development and management. CBTE's policies take into account a wide range of issues, including changes to the energy market, regulatory environment, Columbia River Treaty, environmental issues and alternate energy. All of the Board's planning processes include a thorough examination of strategic risks and appropriate risk management.

CBTE owns several subsidiaries that hold 50 per cent interests in the joint ventures with CPC. The joint ventures are investors in the joint venture power projects. Representatives of the CBTE Board sit on the joint venture committees that manage the existing and planned joint venture power projects with CPC. The CBTE Board appoints half of each committee's members; the remaining half of the committee is appointed by CPC.

CBTE Senior Management
- Ken Epp, CEO
- Bob Krysac, CFO



Arrow Lakes Generating Station

ENDNOTES

1. See page 14 of the 2005-2007 Service Plan.

2. Mark McKee, Columbia Shuswap Regional District, replaced Ron Oszust on CBT's Board of Directors April 1, 2004.

3. Ben Arcuri resigned from CBT's Board of Directors May 31, 2004.

4. Ron Oszust was replaced on the CBT Board of Directors as of April 1, 2004 and is no longer a member of the Executive Committee.

5. Mark McKee replaced Ron Oszust on this Committee as of April 1, 2004.

6. The actual 2003-2004 net income figure is determined by taking the income earned by ALGS and Brilliant dam through power sales and subtracting the expenses of operations, finance charges and amortization of power plant assets, as shown by a table in Note 9 of the Consolidated Financial Statements. The table in Note 9 states that net power project income amounted to $7.6 million, which is less than the $8.4 million CBTE provides as the actual net income figure for 2003-2004. Note 9 indicates that the $7.6 million includes the subtraction of an additional expense: investment monitoring and CBT overhead. This expense is not included in the CBT six-year forecasts, which are the source of CBTE's targets, and therefore is not included in CBTE's direct comparison of the actual figure to the target figure.

7. The target net income figures are derived from six-year CBT forecasts, and based on the revenues and expenses of the joint ventures.

Photo Credits

Page 2	CBT
Page 5	CBT, BCSSA, CPC
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Page 10	Columbia Lake Band
Page 13	Kicking Horse Mountain Resort, Castle Wood Village, CPC
Page 14	Columbia Lake Band, Earth Matters
Page 18	CBT, Kicking Horse Mountain Resort, Heatwave Technologies Inc.
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