COLUMBIA POWER CORPORATION

ANNUAL REPORT 2007/08

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clean, green Columbia Power

COLUMBIA POWER
CORPORATION

Cover photo: The new Brilliant Expansion Powerhouse
on the Kootenay River, Castlegar, BC

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ANNUAL REPORT • 2007/08

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Message from the Chair

Fiscal 2007/08 has been a year of significant change, transition and accomplishment for Columbia Power Corporation. Notwithstanding the major events the company has gone through, we are finishing the year ahead of our expected net income of $12.8 million (as set out in our 2007/08 service plan) by $2.9 million, for a total net income for the year of $15.7 million.

Some of the significant accomplishments for Columbia Power during this past year have been: the hiring of new President and CEO, Barry Chuddy, effective June 1, 2007; the commercial operation of our Brilliant Expansion Plant on September 7; the resolution of two major items of litigation facing the company; the closure of the Victoria office; restructuring of the company, and the hiring of new staff for our Castlegar office. Needless to say, both management and the Board have been extremely busy keeping pace with these many changes.

We are pleased to have made significant progress towards the development of the company's Waneta Expansion Project, a run-of-the-river hydroelectric project with a maximum capacity of up to 435 megawatts. The Board of Directors has authorized the release of the request for proposals to the pre-qualified proponents, with the expectation being that proposals will be received in adequate time to bid the output into BC Hydro's upcoming "Clean Power Call." The BC Environmental Assessment Certificate for the project was received in late 2007, and in May 2008 the Canadian Environmental Assessment Agency issued their decision that the project "is not likely to cause significant adverse environmental effects." The development of an entitlement agreement with BC Hydro is in progress, as well as a clear direction on the sale of the electricity output of the project. Columbia Power is currently investigating various possibilities for financially restructuring the company in order to establish the appropriate sources of capital to pay for the construction of the Waneta Expansion.

We initiated a new Board committee to oversee the development of the Waneta Expansion and the resolution of our major projects' litigation, and to keep a watchful eye on matters concerning the environment, health and safety. Under the stewardship of Josh Smienk, the newly appointed Chair of the Major Capital Projects Committee, the workload of the full Board has been reduced. Mr. Smienk's new committee allows for the kind of detailed review these large undertakings deserve.

Columbia Power is moving forward to embrace the Province's direction to reduce greenhouse gas emissions, both in its core business of developing clean, green, power projects and in the many initiatives referred to in our President's comments.

Over the past year the company has met a number of significant challenges, including the achievement of commercial operation of the Brilliant Expansion. The culture of Columbia Power is changing from a small organization with few staff dispersed across this large province to that of a major power producer. We have gone from two operating plants with a combined capacity of approximately 330 megawatts of generation to three plants with a combined capacity of approximately 450 megawatts, with the recent addition of the Brilliant Expansion. We will come close to doubling the size of the company again with the Waneta Expansion Project, which is expected to be committed in fiscal 2008/09. I am pleased that staff and management are meeting the challenges head-on and helping Columbia Power evolve into a major source of clean, green, power for the Province.

In all, it has been a very productive year with a great deal of positive change. One change that the Board regrets is the resignation of Board member Art Willms, who has left the company to pursue other endeavors. His contribution to the Board and company will be greatly missed and we wish him all the best.

The Honourable Richard Neufeld, Minister of Energy, Mines and Petroleum Resources and I have recently re-signed a Shareholder's Letter of Expectations, a copy of which is available on the Columbia Power website at www.columbiapower.org/content/Shareholder_Letter2008.pdf. The letter sets out the Shareholder's expectations of Columbia Power Corporation and the primary responsibilities of the Corporation.

The 2007/08 Columbia Power Corporation Annual Report was prepared under my direction and in accordance with the *Budget Transparency and Accountability Act*. I am accountable for what has been included in this report and how it is reported. The information presented reflects the actual performance of Columbia Power Corporation for the 12 months ended March 31, 2008, in relation to the February 2007 Service Plan. The measures presented are consistent with Columbia Power Corporation's mandate, goals and objectives and focus on aspects critical to the organization's performance. I am responsible for ensuring that internal controls are in place so that performance information can be measured accurately and in a timely fashion. All significant decisions, events and identified risks as of May 16, 2008, have been considered in preparing this report. All estimates and interpretive information contained here represent the best judgment of management. Any changes in mandate direction, goals, objectives, strategies, measures or targets since the February 2008 Service Plan was released and any significant limitations in the reliability of data are identified in this report.

On behalf of the Board of Directors of Columbia Power Corporation, I commend staff and management for enduring the many changes and challenges they have seen over 2007/08 and I encourage them to continue their excellent work.

Lee Doney
Board Chair

Message from the President and CEO

My first year as President and CEO of Columbia Power Corporation has been one of considerable change and has required a significant commitment by management, staff, our Board and myself to ensure the many important initiatives we have taken on were properly addressed. We chose "Power Through Change" as the theme for this year's Annual Report because it highlights the significant changes the company has experienced and benefitted from this past year.

When I accepted the position as the President and CEO of Columbia Power on June 1, 2007, the Board and I identified six key challenges to address over the coming year:

- Achieving our financial targets. The uncertainty of when the Brilliant Expansion Project would achieve commercial operation added to this challenge;
- Evaluating the effectiveness of having two offices—one in Victoria, one in Castlegar;
- Determining the economic development of the company's newest project, the Waneta Expansion;
- Continuing to enhance the effectiveness of the governance function and ensuring an optimal working relationship between management and our relatively new Board of Directors;
- Addressing the financial and human resources implications of two significant items of litigation facing the company;
- Operating on the basis of a government mandate without an updated strategic plan that has been approved by the Board of Directors.

I am very happy to report that due to the dedication, determination and professionalism of staff and management, and an outstanding relationship with our business-focused Board of Directors, we were able to address all of these challenges during my first year.

The achievement of the Brilliant Expansion Project's commercial in-service date had a significant bearing on our financial performance as we exceeded our budgeted expectations by $2.9 million. This was with the help and support of our contractors—the Brilliant Expansion Consortium, comprised of SNC Lavalin Inc., Skanska Construction and Chant Construction, and the major equipment manufacturer, Alstom Canada Inc. After a very busy time in July and August, a significant push was made to achieve commercial operation on September 7, 2007. During those last months, we mitigated the potential harm to the endangered white sturgeon by installing the first monitoring system of its kind at our tailrace, and implementing fish-sensitive start-up procedures. By realizing revenues from Brilliant Expansion and resolving the legal matters referred to later in my comments, we were able to overcome our financial issues and exceed expectations. I should also add that for the third consecutive year, the Brilliant Dam was named a leading performer by the industry association representing hydroelectric generation projects in North America.

In parallel with all of the activities noted above, we evaluated the viability of two offices and, on September 26, 2007, announced the decision to close our Victoria office by the end of the calendar year. I am happy to report that objective was met and, in that context, we accrued $1.8 million in closing and restructuring costs for fiscal 2007/2008.

We have evaluated candidates from across Canada and have hired a number of new people, and promoted many internally. I announced the appointment of Amy Stevenson to the newly created position of Vice President, Operations, Environmental Health and Safety Affairs; and Robert Krysac, the former Chief Financial Officer of Columbia Basin Trust, as Columbia Power's new Chief Financial Officer and Vice President of Finance and Stakeholder Relations. A major corporate restructuring designed to ensure accountability of staff in their specific areas of expertise, along with a commensurate allocation of new authority has been met with positive results.

The Waneta Expansion Project is now moving forward expeditiously. For a number of commercial reasons, we believe the optimal size is 335 megawatts, although the permitted size is up to 435 megawatts. We have received our BC Environmental Assessment Certificate, are moving forward on First Nations agreements, and are working well with BC Hydro on an entitlement agreement that will significantly reduce hydrology risk from this exciting, green project. We are optimistic that pursuant to receipt of all final permits and acceptable design-build bids, and approval from our Shareholder, we will be in a position to commit the Waneta Expansion to construction before the end of fiscal 2008/09. The Waneta Expansion is an important project to Columbia Power in that it will effectively double the size of the corporation in terms of capacity under management and capital assets.

When I joined Columbia Power, the way management worked with our relatively new Board of Directors was functional, but there were opportunities for improvement. With the help of our acting General Counsel and Corporate Secretary, Don Rose, we have steadily improved the effectiveness of this important relationship. We have also initiated new templates and regularly work to ensure that the reports to our Board focus on those items the Board needs to see to properly discharge their important governance role.

Over the past few months, and with much internal and external assistance, we have reached a settlement agreement on both the Brilliant Expansion and Arrow Lakes Channel legal claims. If not resolved, both claims held the prospect of millions of dollars of adverse financial impact and a significant drain on the human resources of our small company. The resolution of both claims is factored into our 2007/08 financial results and, equally as important, allows our staff to focus on new and exciting opportunities. Management, staff, our Board, Shareholder, and partner—the Columbia Basin Trust—were regularly consulted on the resolution of these claims and all were in favour of the direction taken. My sincere thanks to all of those involved and in particular the contractors on the other side of both matters for their willingness to put our past differences behind us and look to the future.

We have also begun a strategic planning process and the first part of that process is an enterprise risk management (ERM) assessment. It's our intention to ensure that we address the ERM risks as well as deliver on the Shareholder and Board's objectives for Columbia Power. With the closing of our Victoria office and the departure of the staff there, the development leadership of the Waneta Expansion project was changed to ensure that the best possible people will bring that development to fruition. Victor Jmaeff has been appointed as the officer accountable.

We appreciate and embrace the Province's objectives to reduce greenhouse gas emissions.

Columbia Power's production of clean, green power goes to the heart of that commitment, but we are not stopping there. We are expecting to achieve a LEED Gold Standard (Leadership in Energy and Environmental Design—a North American green building certification system) for our upcoming office renovation. We are also working with our information technology providers at the Columbia Basin Trust to initiate the use of video-conferencing to reduce the need for meetings in Vancouver and Victoria and the associated emissions travelling generates. And, by moving to an electronic office, the reliance on paper, its filing, and the temperature-controlled space it requires will also be reduced. These are just a few of the initiatives we are taking to meet the Province's worthwhile objective.

In closing, I am proud to lead a staff of such dedicated, capable and professional people at Columbia Power Corporation. I truly believe the value the company has created is greater than the sum of its parts, and I hope to be able to demonstrate that in the coming years. My thanks to staff, management and our Board of Directors for the support you have all shown me in my very challenging and rewarding first year, as we achieved "Power Through Change".

Barry Chuddy
President and Chief Executive Officer

Organizational Overview

Columbia Power Corporation is a Crown corporation wholly owned and controlled by the Province of British Columbia, existing under the *Business Corporations Act* and reporting to the Minister of Energy, Mines and Petroleum Resources. Under the terms of its agency agreement with the Province, Columbia Power must obtain the approval of the Province's Treasury Board for all budgets and material decisions.

Established in 1994, Columbia Power's mission is to efficiently develop and operate commercially viable, environmentally sound and safe power project investments for the benefit of the Province and the residents of the Columbia Basin. In making power project investments, Columbia Power's goal is to support the employment, economic development and resource management objectives of the Province and the Columbia Basin Trust, within the confines of a commercial enterprise.

Columbia Power undertakes power projects through joint ventures with subsidiaries of the Columbia Basin Trust and manages the joint ventures on their behalf. Columbia Power is a small organization with approximately 50 full-time positions located in Castlegar. Columbia Power focuses on asset management activities while engaging private-sector firms to provide construction, plant operation and specialist consulting services. Through its joint ventures, Columbia Power is one of the largest producers of electricity in British Columbia.

Columbia Power oversees the operations of the 145 megawatt Brilliant Dam and Powerplant (purchased in 1996), the 120 megawatt Brilliant Expansion (completed in 2007), and the 185 megawatt Arrow Lakes Generating Station (completed in 2002). Environmental permitting is being pursued for the Waneta Expansion, and the design-evaluate-build process (see the "Business Model" section) has commenced.

Most of the power generated at the current operating projects is committed under long-term sales contracts to two utilities, FortisBC Inc. (FortisBC) and BC Hydro. A power sales agreement is currently being pursued for power from the Waneta Expansion.

Returns from Columbia Power's 50% share of the power projects are available to be distributed to the Province. Returns from the Columbia Basin Trust's 50% share of the power projects are available to be used by the Columbia Basin Trust to provide benefits to the people of the region, in accordance with the *Columbia Basin Trust Act*. (For more information on the *Columbia Basin Trust Act*, visit: www.cbt.org.)

Mandate, Vision and Values

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

Mandate

- To efficiently develop and operate commercially viable, environmentally sound and safe power project investments for the benefit of the Province and the residents of the Columbia Basin.
- To act as the manager of power project joint ventures with the Columbia Basin Trust.

Vision

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

Values

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

Business Model

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

Design

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

Evaluate

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

Build

With the signing of a design-build contract, many responsibilities are transferred to the design-build contractor. Columbia Power, however, engages an “Owner’s Consultant” to ensure compliance with contract terms, including monitoring of quality control and environmental permit requirements.

Operate

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

Manage

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

The Columbia Power business model is shown in Figure 1.

Figure 1. Columbia Power Corporation (CPC) Business Model

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

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

Risks managed

Motivated, skilled staff

Regulatory compliance

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

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

Key Relationships

The joint venture power project companies owned by Columbia Power and the Columbia Basin Trust are wholesalers of power, primarily under long-term purchase agreements with regulated utilities. A 12–year power purchase agreement (expiring in 2015) is in place with BC Hydro for the output of the Arrow Lakes Generating Station; a 60–year power purchase agreement (expiring in 2056) is in place with FortisBC for most of the output of the Brilliant Dam; and two 20–year purchase agreements (expiring in 2027 and 2030) are in place with BC Hydro for 90% of the output of the Brilliant Expansion.

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

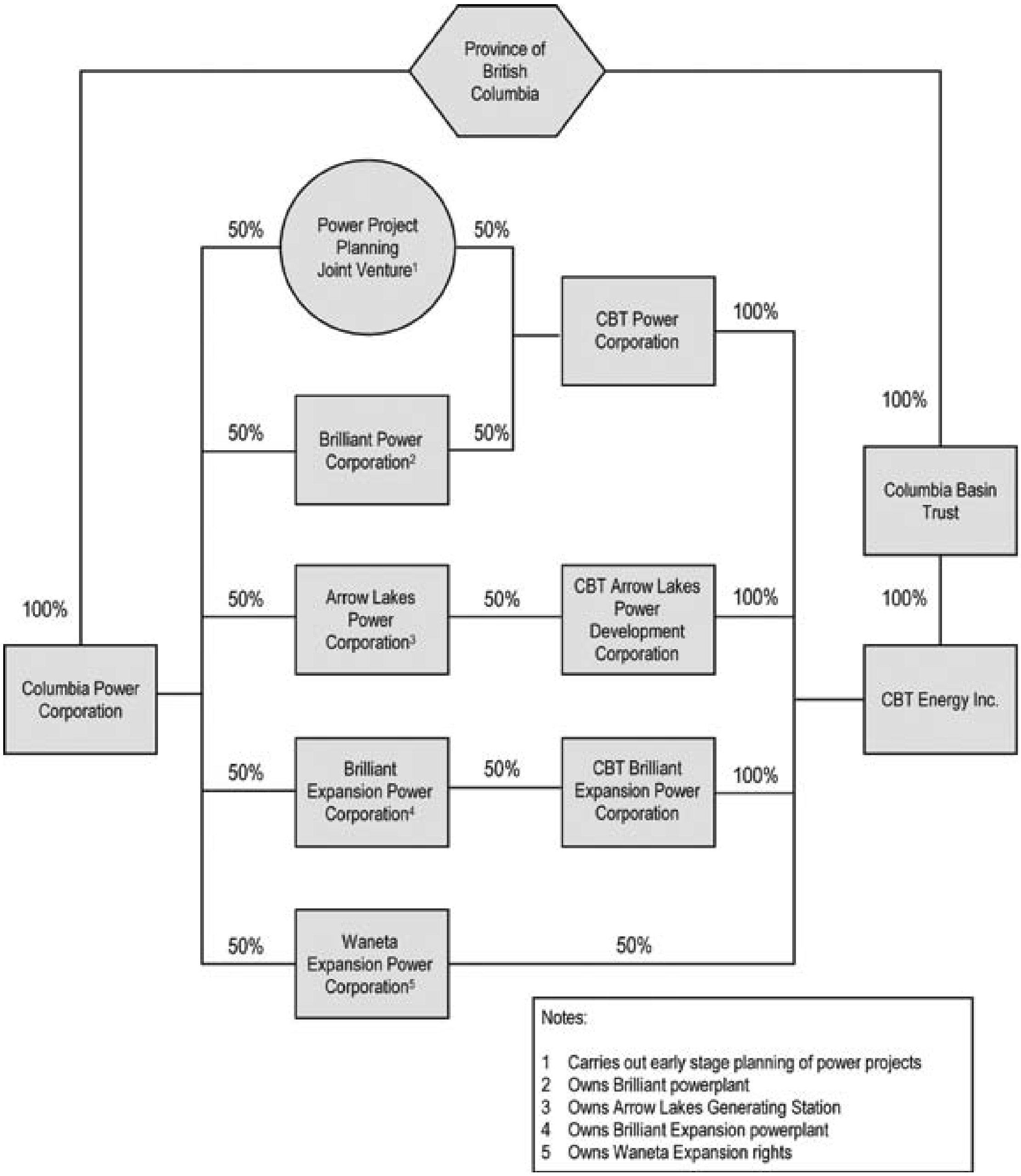
The Arrow Lakes Generating Station was constructed by Peter Kiewit Sons Co. Ltd. (Kiewit) under a fixed-price design-build contract. Kiewit was also contracted to perform the channel permanent repair work.

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

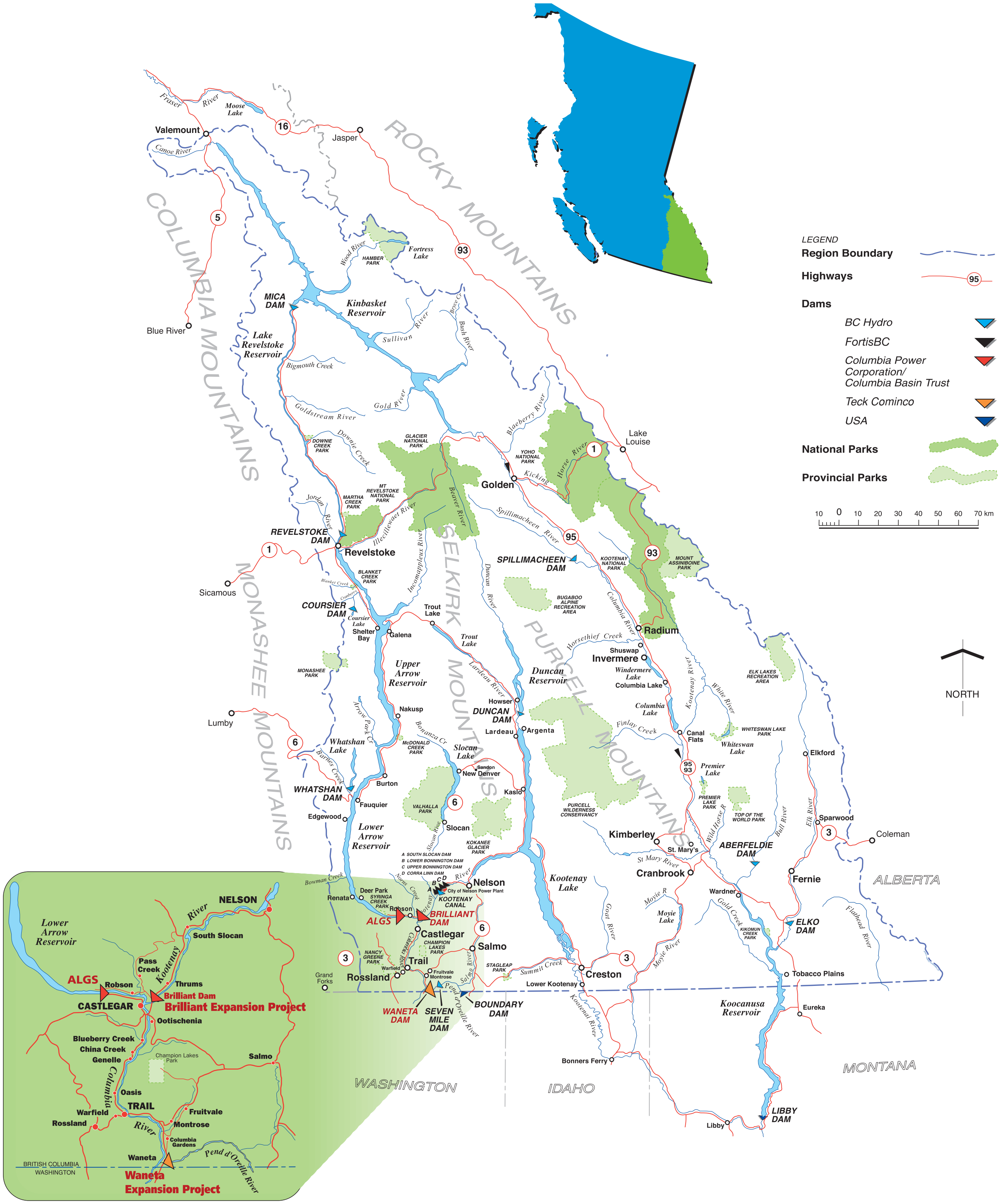
The Brilliant Dam, the related Brilliant Terminal Station and the Arrow Lakes Generating Station are operated and maintained by FortisBC Inc. (FortisBC) or a related entity under contract. A similar operation and maintenance contract was also negotiated for the Brilliant Expansion.

The British Columbia Utilities Commission is a regulatory agency of the provincial government, operating under and administering the *Utilities Commission Act*. It approves the construction of new facilities planned by utilities and their issuance of securities. The Commission's function is quasi-judicial and it has the power to make legally binding rulings. While Columbia Power has obtained exemptions from utilities regulation, it interacts with many entities regulated by the BC Utilities Commission and hence monitors the hearings and proceedings to ensure Columbia Power's interests are protected.

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



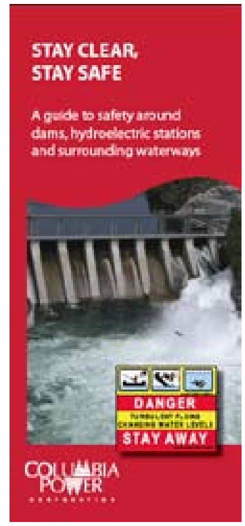
Columbia Power Corporation Project Locations in the Columbia Basin



Operations Overview

With three operating hydro facilities totalling 450 megawatts of power generating capacity, Columbia Power is committed to excellence in reliable and safe operations that demonstrate environmental stewardship.

In 2007/08 Columbia Power initiated its first public safety campaign based on the successful Ontario Power program of "Stay Clear, Stay Safe" for water safety around the local hydro facilities. An informative safety brochure was developed by Columbia Power and distributed to the public at community events, local campgrounds, and the local Chambers of Commerce. All Columbia Power facilities have a Public Safety Management Plan which provides for safe public access where possible, and fencing where necessary, as well as thorough, clear signage around the facility. Columbia Power further demonstrated its commitment to public protection and emergency preparedness by assisting in the coordinating and execution of a large cross-border emergency preparedness exercise involving BC Hydro, FortisBC, the United States Bureau of Reclamation, the United States Army Corps of Engineers, other American utility districts, BC regional districts and city emergency planners, as well as other local emergency authorities. This large integrated exercise, not done since the 1980s, provides confidence that emergency flood or dam safety events on the Columbia River can be effectively managed.



All of Columbia Power's current hydropower projects, including Waneta Expansion, are within the habitat area of the endangered white sturgeon. As such, Columbia Power has been in the forefront of the Canadian hydropower industry, working closely with the Department of Fisheries and Oceans in developing operating procedures, maintenance practices and potential infrastructure changes at the powerplants to reduce the risk of harm to white sturgeon. Another key environmental consideration for the Columbia Power facilities is oil, since the two large Kaplan turbine facilities—Arrow Lakes Generating Station and Brilliant Expansion—contain a closed system of oil for operation. After consultation with other Kaplan turbine facility operators, Columbia Power has developed a detailed response procedure for even the smallest oil observation, and is working with other local industrial groups for a coordinated response procedure in the event of any large release into water.

Columbia Power recognizes the increased need for physical and cyber security, both for regulatory compliance within the electric industry and to properly protect the safety and reliability of its valuable assets. 2007/08 saw the beginning of planning and implementation of enhanced security measures and procedures which will continue in the upcoming years.

Columbia Power is an active participant in the Canadian hydro industry and is both learning from and providing insights to the best operations and maintenance practices in the industry.

Review of Power Projects

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

185MW Arrow Lakes Generating Station

The Arrow Lakes Generating Station is a two-unit Kaplan turbine hydroelectric facility with a maximum capacity of 185 megawatts. It is located adjacent to and 400 metres downstream of the pre-existing BC Hydro Hugh Keenleyside Dam, impounding the Arrow Reservoir and discharging into the upper Columbia River. The Arrow Lakes Generating Station and related assets are owned by Arrow Lakes Power Corporation (ALPC), a company jointly owned, on a 50/50 basis, by Columbia Power and CBT Arrow Lakes Power Development Corp., an indirect subsidiary of the Columbia Basin Trust.

The Hugh Keenleyside Dam was constructed in the 1960s by BC Hydro under the terms of the Columbia River Treaty. The dam was built to store and regulate water releases for downstream flood control and power generation benefits in the United States. Construction of the Arrow Lakes Generating Station between 1999–2002 realized power benefits in British Columbia by utilizing water releases for generation that would otherwise be spilled through the dam's discharge facilities. The reduction of spill through utilizing water for power generation has also improved water conditions for fish by reducing the dissolved gas pressure levels downstream. The Arrow Lakes Generating Station is operated and maintained under a management agreement with Fortis Pacific Holdings Inc., a corporation related to FortisBC Inc.

The net income from Arrow Lakes Generating Station, for the year ended March 31, 2008, was $21.6 million compared with $18.9 million the previous year. This meets ALPC's expectations for its annual income target and demonstrates the reliable operations of the facility. The reliability and availability of the two generating units has improved as most post-construction equipment issues have been successfully resolved. Clarity of future annual revenue potential was attained in 2007/2008 due to the finalization of the energy entitlement to Arrow Lakes Generating Station under its commercial agreement with BC Hydro. The final energy entitlements are net of all permanent channel repairs and revised operating limits attributable to the permanent channel repair completed in 2006. No further changes to the annual energy entitlement are anticipated.

ALPC's sustaining capital expenditures are funded by cash flow from operations. ALPC paid a dividend of $23.5 million for fiscal 2007/08.

Arrow Lakes Generating Station Operations Summary Information

($ in thousands unless otherwise stated)

	2007/08	2006/07	2005/06	2004/05	2003/04
Power Sales Revenue	$ 32,325	$ 29,548	$ 23,724	$ 21,974	$ 26,597
Interest Revenue	513	441	727	1,485	1,945
Operating Expenses	2,718	3,227	2,755	3,543	3,255
Water Rentals	3,604	3,564	3,120	3,512	3,009
Interest Expense	3,957	4,357	4,738	5,097	3,197
Amortization	8,644	8,348	7,854	8,478	8,653
Net Income Before Channel Repairs	13,915	10,493	5,984	2,829	10,428
Channel Repair Costs	833	6,030	14,722	7,853	-
Recovery of Repair Costs and Losses	8,583	14,423	5,929	10,778	-
Net Income	21,665	18,886	(2,809)	5,754	10,428
Equity	239,841	242,333	225,147	227,956	258,847
Dividend Payments	23,546	1,700	-	-	4,290
Capital Expenditures	207	3,983	6,481	2,446	2,343
Long-term Debt	62,883	70,882	78,467	85,658	92,477
Current Portion of Long-term Debt	$ 7,999	$ 7,584	$ 7,192	$ 6,819	$ 6,466
Total Sales (megawatt-hours)	786,664	739,148	613,343	582,707	726,868
Average Price ($/megawatt-hour)	41.17	39.98	38.68	37.71	36.59
Annual Return on Equity	9.0%	7.8%	-1.2%	2.4%	3.9%
Debt Service Coverage Ratio	2.85	2.74	.85	1.67	-

Arrow Lakes Generating Station and intake channel (foreground) and BC Hydro's Hugh Keenleyside Dam

145MW Brilliant Dam and Powerplant

The Brilliant Dam and Powerplant is a four-unit Francis turbine facility with a combined capacity of 145 megawatts. It is located on the Kootenay River, 3 km upstream of the confluence with the Columbia River. The dam, powerplant and related assets are owned by Brilliant Power Corporation, which is jointly owned on a 50/50 basis by Columbia Power and CBT Power Corp., an indirect subsidiary of the Columbia Basin Trust.

The original 125 megawatt facility was purchased from Cominco Ltd. (now Teck Cominco Metals Ltd.) in 1996. Between 2000–2003, a significant upgrade and life extension program was conducted on the four units, resulting in an additional 20 megawatts of facility capacity, 120 gigawatt hours of additional energy, and modernization of all equipment for long-term reliability.

All of the energy from Brilliant is sold to FortisBC under the terms of the 60–year Brilliant Power Purchase Agreement, except for approximately 60 gigawatt hours of Brilliant Upgrade energy which is currently being sold to Powerex. The Brilliant Dam and Generating Station is operated and maintained by FortisBC on behalf of Brilliant Power Corporation.

The net income from Brilliant Power Corporation, for the year ended March 31, 2008, was $11.1 million compared with $10.2 million the previous year. The capital expenditures during the year were $2.3 million compared with $1.1 million in the previous year. Significant capital expenditures, totalling approximately $7.2 million are planned for the next two years, including another phase of the concrete rehabilitation program, additional dam anchoring, a major 50–year refurbishment of the eight spill gates, and the forebay retaining wall repair project to enhance dam safety and long-term reliability.

Brilliant Terminal Station

The Brilliant Terminal Station (BTS) is a 230 kilovolt switchyard which interconnects the Arrow Lakes Generating Station, Brilliant Expansion and Brilliant Dam and Powerplant to the integrated BC transmission system, including the British Columbia Transmission Corporation's Selkirk Substation, BC Hydro's Kootenay Canal, and FortisBC's Warfield Substation. BTS is the electrical hub of the existing powerplants. It is owned by Brilliant Power Corporation and earns revenue under the same terms as the *Brilliant Power Purchase Agreement*. It is operated and maintained by FortisBC under separate agreement. Columbia Power jointly manages the BTS with FortisBC through a management committee. Although its annual operations and maintenance budget is small, there is a significant capital expenditure forecast for 2008, which is expected to have beneficial effects for the substation and the long-term revenue of the Brilliant Joint Venture.

Brilliant Dam Operations
Summary Information

($ in thousands unless otherwise stated)

	2007/08	2006/07	2005/06	2004/05	2003/04
Power Sales Revenue	$ 33,908	$ 33,076	$ 33,219	$ 30,986	$ 29,563
Brilliant Terminal Station Revenue	3,073	3,052	2,937	2,822	1,567
Interest Revenue	582	634	429	366	282
Operating Expenses	2,436	2,576	2,643	2,689	2,413
Taxes and Water Rentals	7,139	6,955	7,012	6,764	5,984
Interest Expense	12,087	12,114	12,363	12,348	11,612
Amortization	4,800	4,888	4,845	5,364	4,841
Net Income	11,101	10,229	9,722	7,009	6,562
Equity	73,575	67,693	68,993	67,395	66,966
Dividends	10,700	11,600	9,200	8,900	8,530
Capital Expenditures	2,313	1,101	1,851	4,012	24,174
Long-term Debt	146,482	153,845	157,597	161,088	114,524
Current Portion of Long-term Debt	4,034	3,752	3,491	3,248	1,858
Advance from Related Corporations	$ -	$ -	$ -	$ -	$ 42,439
Total Sales (megawatt-hours)	974,717	980,431	989,538	980,848	975,182
Average Price ($/megawatt-hour)	34.79	33.74	33.57	31.59	30.32
Annual Return on Equity	15.1%	15.0%	14.3%	10.4%	10.4%
Debt Service Coverage Ratio	1.78	1.75	1.72	1.64	1.67

Amy Stevenson, Columbia Power's Vice President, Operations & Environment, Health & Safety Affairs, with the Brilliant power plant in the background.

120MW Brilliant Expansion Generating Station

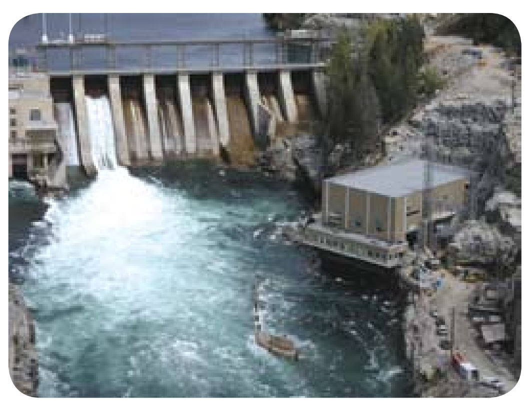
The Brilliant Expansion Generating Station (Brilliant Expansion) is a single unit, 120 megawatt Kaplan turbine facility located on the Kootenay River adjacent to and 160 metres downstream of the pre-existing Brilliant Dam and Powerplant. The unit is connected to Brilliant Terminal Station (BTS) located approximately 0.5 kilometre away via a 230 kilovolt transmission line.

The Brilliant Expansion and related assets are owned by Brilliant Expansion Power Corporation, a company jointly owned, on a 50 / 50 basis, by Columbia Power and CBT Brilliant Expansion Power Corp., an indirect subsidiary of the Columbia Basin Trust. Brilliant Expansion was constructed between 2003–2007, with its official commencement of commercial operation occurring on September 7, 2007. Approximately 90% of the Brilliant Expansion energy and capacity is sold under two long-term agreements to BC Hydro. Operation and maintenance of the Brilliant Expansion is conducted under contract to FortisBC.

Brilliant Expansion net income since commencement of commercial operation is $2.4 million. Monthly energy expectations are lower than anticipated due to energy reductions attributable to the construction tailrace berm remnants in place immediately downstream of the powerplant. Plans are underway for a three-month outage in the fall of 2008 to complete tailrace berm removal work. These improvements are expected to enhance the operations and output of both the Brilliant Expansion plant and the existing Brilliant Dam. The scope of the work during the fall outage includes:

1) Construction of an approximately 30 metre long permanent deflection wall on the north side of the tailrace to allow divers to safely work around the powerhouse main rock trap and also prevent any more loose rock or debris from falling into the Brilliant Expansion tailrace;
2) Removal of rock and debris from the main and auxilliary rock traps. The rock traps are intended to catch loose rocks in the tailrace and prevent them from entering the powerhouse draft tube;
3) Bring the tailrace area bed down to intended design levels.

Detailed equipment inspections will also be conducted during this three-month outage.



Remnants of the construction tailrace berm are visible in the river in front of the powerhouse. They are scheduled for removal in the fall of 2008.

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

	2007/08
Power Sales Revenue	$ 8,484
Interest Revenue	294
Operating Expenses	2,808
Water Rentals	667
Interest Expense	301
Amortization	2,645
Net Income	2,357
Equity	233,883
Dividend Payments	n/a
Capital Expenditures	23,158
Long-term Debt	$ 0
Total Sales (megawatt-hours)	131,212
Average Price ($/megawatt-hour)	64.66
Annual Return on Equity	1.0%
Debt Service Coverage Ratio	n/a

A controlled blast was conducted to remove the intake channel rock plug at the Brilliant Expansion Project.

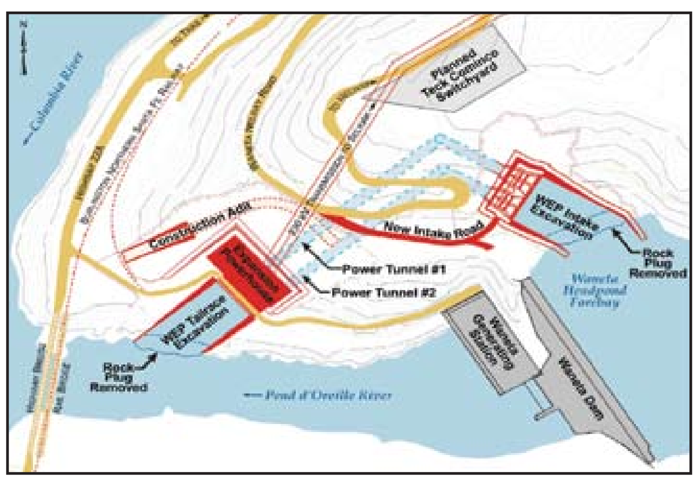
Waneta Hydroelectric Expansion Project

The Waneta Expansion is a project to construct a second powerhouse adjacent to the Waneta Dam on the Pend d'Oreille River south of Trail, BC. The expansion project will share the dam's hydraulic head and make use of waterflows that would otherwise be spilled. The rights to use this hydraulic head, as well as the land necessary to build the expansion project, were acquired by Columbia Power from Cominco Ltd. (now Teck Cominco Metals Ltd.) in 1994. These rights are now held by Waneta Expansion Power Corporation, the company formed jointly by Columbia Power and the Columbia Basin Trust to develop, construct and operate the project.

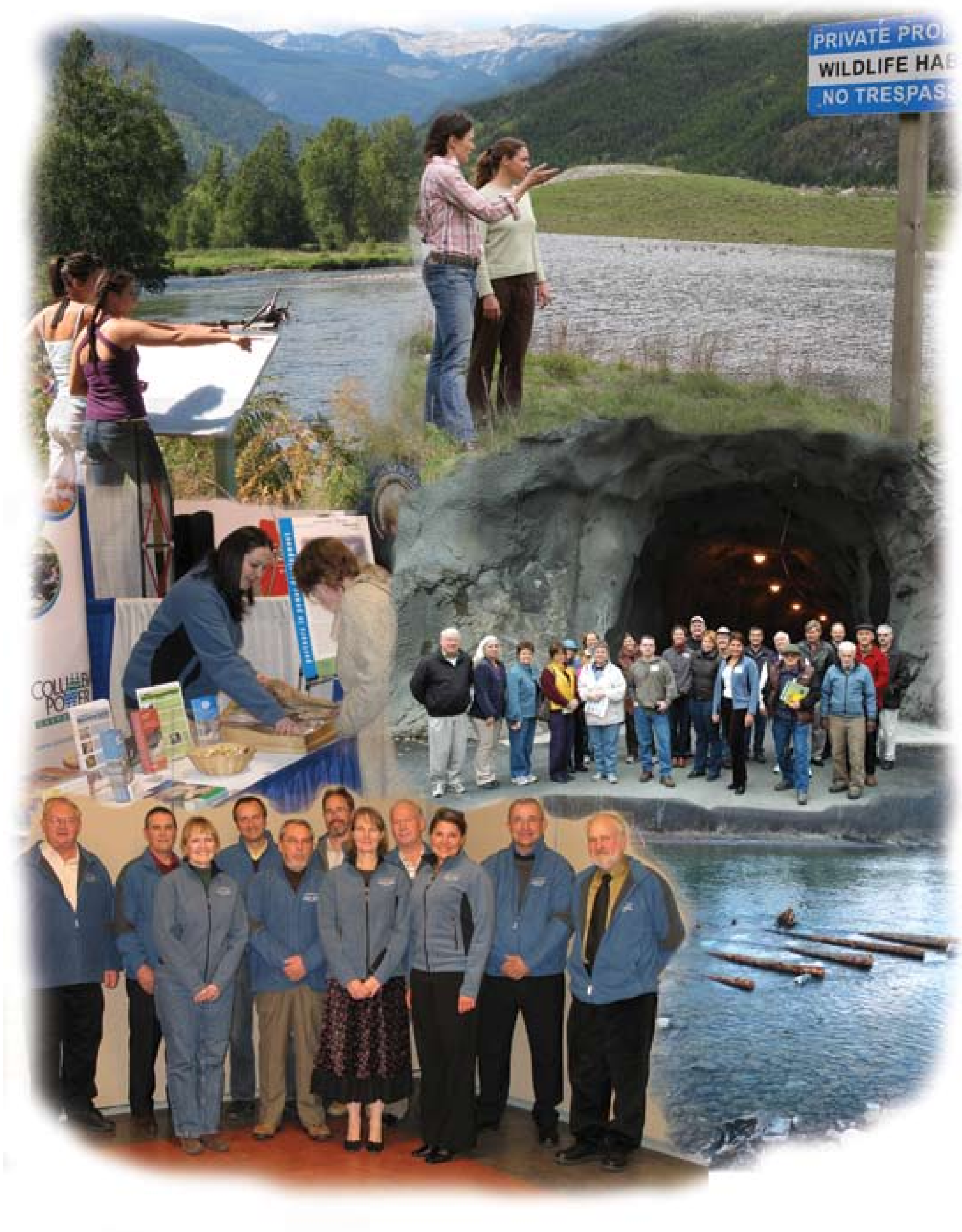
The base concept for the Waneta Expansion has been structured to avoid potential environmental impacts on white sturgeon habitat in the Columbia—Pend d'Oreille confluence area. Water will be conveyed through two large-diameter tunnels from the Waneta forebay into a two-unit powerhouse to be built "in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

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

The project met a major milestone in receiving Provincial Environmental Approval in November of 2007 following a comprehensive review process involving local, provincial and federal stakeholders and agencies. Issuance of the Request for Proposals for construction of the project has been authorized by the Board. Construction could begin in 2009, subject to receipt of requisite approvals and acceptable design-build bids, entering into arrangements for the sale of the project output, confirmation of viability in the final evaluation and the approval of our Shareholder.



Plan view of Waneta Expansion design base concept.



Pictured clockwise from top right: Sheila Street (left) Columbia Power's Manager, Environmental Support discusses the Arrow Lakes Generating Station wetland area with the 2008 summer student; Columbia Power staff lead a tour of the Brilliant Expansion Project for delegates attending the Columbia Basin Trust's Annual General Meeting in October 2007; one of the fish habitat structures utilized in the Slocan River Rainbow Trout Habitat Enhancement Project; the Brilliant Expansion Project's Community Impact Management Committee, which includes local business people, local government representatives and community members; Sonja Anderson, from Columbia Power's Communications and Community Relations department, shows the model of the Waneta Expansion to an interested visitor during a regional trade show; hikers stop to view the interpretive signage installed by Columbia Power along the Slocan River site of the fish habitat structures.

Report on Performance

Columbia Power Corporation's mandate, which was established by agreements between the Province and the Columbia Basin Trust, drives Columbia Power Corporation's line of business (see the sequential business model in Figure 3). Projects move through the planning, construction and operations phases, with Columbia Power providing overall management. The organization's values are applied in setting goals and objectives and conducting business activities. Performance measures are the scorecards for measuring the achievement of Columbia Power's vision.

Figure 4 illustrates how Columbia Power's mandate, vision and values are linked to its business model and performance. Columbia Power's performance measurement framework, current year results and future targets are more fully described in Appendix A (see www.columbiapower.org/company/serviceplan.asp).

Performance Plan Summary

Columbia Power Corporation achieved mixed results relative to its 2007/08 performance targets. On the positive side, the following objectives were realized:

- Achieved effective construction management by managing project deficiencies.
- Achieved reliable plant operations for the Brilliant powerplant and Arrow Lakes Generating Station, confirmed by strong energy entitlement ratios. The plant operations and the future direction for operations performance measures are further discussed in Appendix B (see www.columbiapower.org/company/serviceplan.asp).
- Maintained investment grade bond ratings and a capital structure that will allow further bond issues as required for project investment.
- Achieved a return on equity greater than planned for the period.
- Achieved cost-effective joint venture management for the Brilliant powerplant and Arrow Lakes Generating Station, demonstrated by lower-than-expected operation, maintenance and administration (OMA) unit costs.

On the negative side, the settlement of contractor claims caused Brilliant Expansion construction costs to exceed budget.

The objective of developing projects on time was not achieved for the Brilliant Expansion, as commercial operation did not commence until September 2007. After commercial operation commenced, Brilliant Expansion was initially unable to restart after an outage due to concerns about endangered white sturgeon safety.

Columbia Power Corporation's results were affected by the construction delays and the challenging initial period of operations at the Brilliant Expansion, offset by the recovery at Arrow Lakes Generating Station of channel repair costs as a result of a settlement agreement there.

Figure 3: Performance Plan Summary

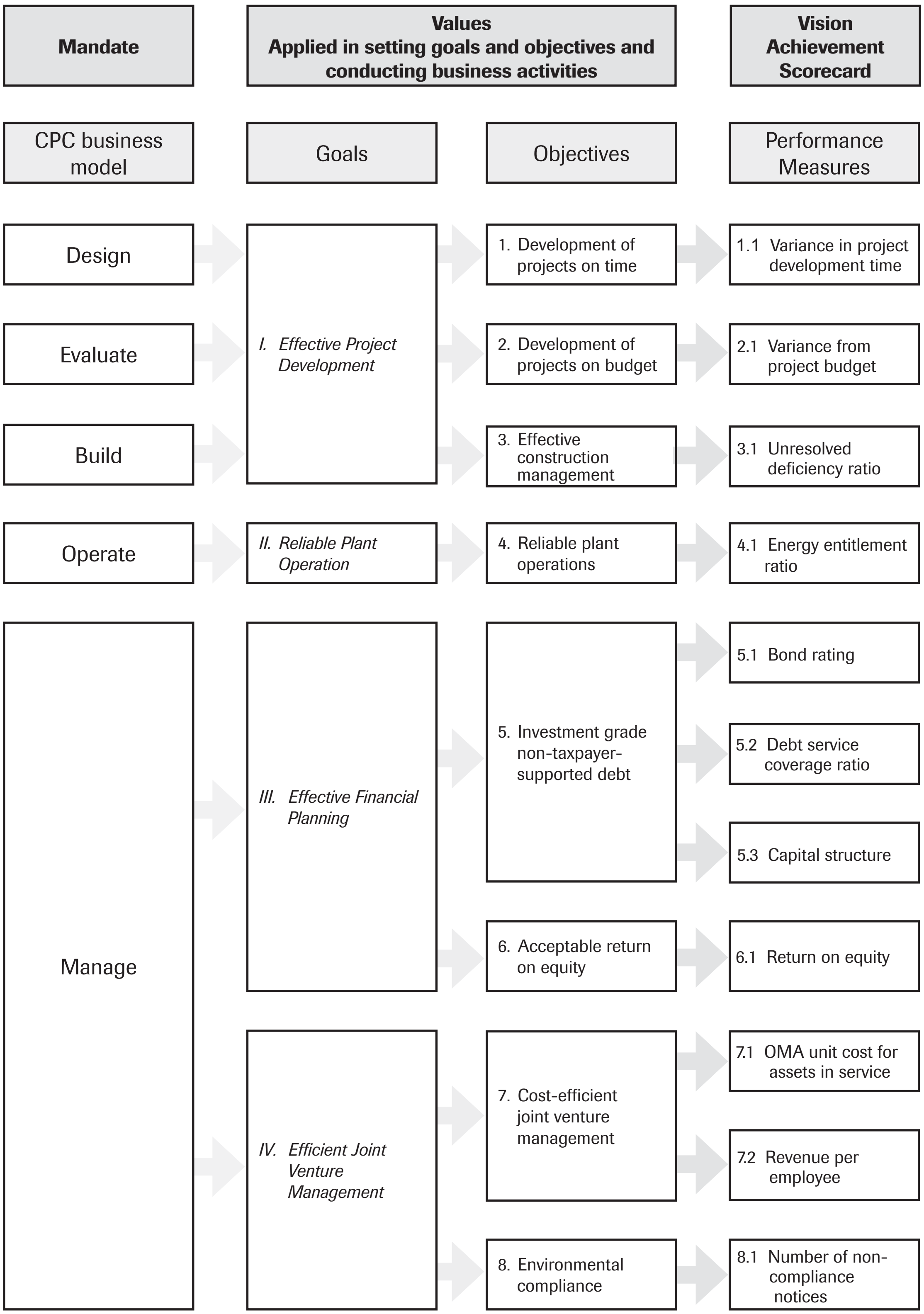


Figure 4: Performance Measures at a Glance

	Benchmark	2007/08 Actual	2007/08 Target	Achievement	Significance
1.1 Variance in project development time	ALGS: 7 months early; BTS: On time	WAX proceeding to RFP stage	Monitor WAX schedule	✓	Progress toward WAX project
2.1 Variance from project budgets	ALGS: On budget; BTS: On budget	BRX: Claim settlement completed	Managing claims from BRX Contract	✓	No outstanding claims for BRX
3.1 Unresolved deficiency ratio	Baseline to be developed	ALGS and BRX: Deficiencies actively monitored	BRX: Less than or equal to 1	✓	Receive fit for purpose projects
4.1 Energy entitlement ratio	1st Quartile: See Benchmarking Appendix B	ALGS: 99% BRD: 99% BRX: 76%	ALGS: >95% BRD: >95% BRX: >90%	ALGS: ✓ BRD: ✓ BRX: ✗	Limited Outages for ALGS and BRD. Sturgeon related startup issues encountered with BRX
5.1 Bond rating	Investment grade bond ratings	Maintained ratings for all bonds	Maintain or improve ratings for all bonds	✓	Maintain lowest possible cost of debt
5.2 Debt service coverage ratio	Greater than or equal to 1.3	ALGS: 2.9 BRD: 1.8 BRX: n/a	ALGS: 2.0 BRD: 1.8 BRX: 2.3	ALGS: ✓ BRD: ✓ BRX: n/a	Maintain lowest possible cost of debt. Debt not issued for BRX
5.3 Capital structure	CEA composite measure for 2006 = 77:23	28:72	37:63	✓	Future borrowing potential maintained. BRX borrowing deferred
6.1 Return on equity	Over the life of the project comparable to regulated utilities	4.8%	4.0%	✓	Return on equity above target due to ALGS insurance recovery
7.1 OMA unit cost for assets in service	1st Quartile: See Benchmarking Appendix B	ALGS: $3.01 BRD: $2.02 BRX: $20.15	ALGS: $3.54 BRD: $2.48 BRX: $10.21	ALGS: ✓ BRD: ✓ BRX: ✗	ALGS & BRD: Operations, maintenance and admin costs lower than target. BRX: high initial OMA relative to production
7.2 Revenue per employee	CEA composite average for 2006: $433,000	$1,045,000	$897,000	✓	Revenue per employee above target due to ALGS resuming operations
8.1 Environmental compliance	Baseline information to be developed	No non-compliance notices	Zero material non-compliance notices	✓	Manage in accordance with environmental values

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

Performance Measures Framework

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

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

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

Source of Data and Reliability

Columbia Power believes its performance measures are reliable and valid. Although current and historical performance measures are not audited, they are derived largely from audited information, information subject to third-party verification and information independently provided.

A number of Columbia Power's performance targets are based on forecasts of future events. They were estimated using assumptions that reflect Columbia Power's planned courses of action and judgments as to the most probable set of economic conditions. Because of the nature of forecasting future events, users of this information are cautioned that actual results may vary from the information presented.

Alignment with Government's Strategic Plan

The government's *2008/09–2009/10 Strategic Plan* has five "Great Goals" for the next decade, which were originally enumerated in the *Throne Speech* of February 2005:

Goal 1: To make British Columbia the best educated, most literate jurisdiction on the continent.

Goal 2: To lead the way in North America in healthy living and physical fitness.

Goal 3: To build the best system of support in Canada for persons with disabilities, special needs, children at risk and seniors.

Goal 4: To lead the world in sustainable environmental management, with the best air and water quality, and the best fisheries management, bar none.

Goal 5: To create more jobs per capita than anywhere else in Canada.

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

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

Through the payment of dividends to the Province and the Columbia Basin Trust, payments in lieu of taxes to local governments, and water rentals to the Province, the joint venture power projects help fund: education, health care and other provincial social support programs and services; the Columbia Basin Trust social programs in the Columbia Basin; and local government services in the City of Castlegar and Regional District of Central Kootenay. Over the period 2008/09 to 2010/11, the joint venture power projects are expected to generate $90 million of net income for their shareholders—the Province and the Columbia Basin Trust. The projects will also contribute $41 million in property taxes, grants-in-lieu of property taxes, and water rentals during this period.

In keeping with its commitment to share the benefits of power project investments with Columbia Basin residents, Columbia Power also provides direct sponsorship funding for community services, regional events, and scholarships and bursaries in the Columbia Basin. Examples of sponsorship include: cultural and sporting events, community festivals, equipment for search and rescue groups, fisheries enhancement, hiking trail improvements and wildlife group funding. Columbia Power also provides scholarships to graduating classes of all 19 secondary schools in the Columbia Basin, and makes bursaries available to students enrolled at the three post-secondary institutions in the Columbia Basin: the College of the Rockies, the Kootenay School of the Arts, and Selkirk College.

Columbia Power was instrumental in organizing and sponsoring the "Welcome to Kootenay Country" delegation at the Union of BC Municipalities Conference in Vancouver in September 2007.

Goal 4 – Sustainable environmental management and the best fisheries management

Columbia Power's Environmental Policy was reviewed and revised during the year by incorporating a commitment to avoid the unauthorized release of pollutants. The second audit of the Environmental Management System (EMS) was completed in early 2008. The audit reviewed improvements made to the EMS during the year, and confirmed that the EMS was effectively implemented and is capable of achieving the Environmental Policy commitments.

The Brilliant Expansion Project has applied for certification under the EcoLogo program as a low-impact hydro project. This certification will confirm the project as a "green power" project. It is anticipated that the planned Waneta Expansion Project will also qualify for EcoLogo certification.

One major environmental benefit of the power projects is the reduction of supersaturated dissolved gas levels in the Columbia River. High supersaturated levels can cause gas bubble trauma in fish. Water can become supersaturated when it flows over a waterfall or the spillway of a dam. By passing water through turbines instead of spilling it, the joint venture projects have resulted in a significant improvement to this important water quality parameter.

The Arrow Lakes and Brilliant Expansion projects have significantly reduced the number of days that the provincial total dissolved gas water quality guideline of 110% is exceeded in the Columbia River. The Waneta Expansion Project will further reduce the average annual days of exceedance from 81 to 76 at the United States/Canada border. This will benefit the United States, which spends millions of dollars annually to reduce total gas pressure. For this reason, nine United States federal and state agencies (including the Environmental Protection Agency, the Fish and Wildlife Service, and the Colville Confederated Tribes) have endorsed the power projects. Columbia Power also participates in the Columbia River Integrated Environmental Monitoring Program and the Transboundary Gas Group to discuss and coordinate measures to address dissolved gas issues on the Columbia River.

A significant focus over the past year has been to mitigate the impact of the projects on endangered white sturgeon after a number of incidents in 2007. Modifications were implemented to the start-up procedure for the Brilliant Expansion Project and a camera system was installed to monitor the draft tube exits. Columbia Power also participates in the Upper Columbia White Sturgeon Recovery Initiative.

The power projects are involved in two major fish compensation projects:

- One is the Arrow Lakes Reservoir Fertilization program. Annual contributions of about $200,000 (a quarter of the program cost) are made to the program. The fertilization program involves adding a mixture of liquid nitrogen and phosphorus to the water to increase fish productivity through the food chain. A five-year review of the program concluded that the bottom-up approach to restoring kokanee has been successful, and that the objectives of the fertilization experiment have been met.
- The second program is the Slocan River Rainbow Trout Habitat Enhancement Program. The riparian restoration component of this program addresses long-term habitat requirements by providing grants ($20,000 annually) to landowners and community groups conducting riparian restoration work along the Slocan River. A second component to the program that provides short-term habitat benefits is the construction of in-stream fish habitat structures. Five structures were built in 2005 as a demonstration

phase and have been evaluated. Plans to install 11 more structures in the fall of 2008 have been developed and are under discussion with fisheries agencies and the public.

Columbia Power also participates in discussions on fisheries issues associated with the operation of the power projects. One major forum for these discussions is the Columbia Operations Fisheries Advisory Committee, which consists of hydro facility owners and operators (BC Hydro, FortisBC, Teck Cominco Metals Ltd.), fisheries agencies, and First Nations. Issues such as fish stranding on the lower Columbia River are addressed through this forum. Recovery of white sturgeon and salmon are other issues that Columbia Power will discuss.

Columbia Power is currently planning a major "green" renovation to the Castlegar office using the LEED Standard.

Planning for the Waneta Expansion Project includes the installation of premium quality motors and lighting, which will reduce energy consumption in the powerplant.

Goal 5 – Job creation

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

Construction of the 120 megawatt Brilliant Expansion began in the first quarter of 2003/04 and commenced commercial operation in September 2007. The project created more than 450 person-years of direct employment (with 85% local hires), over $50 million in direct and indirect income, and nearly $44 million in regional procurement.

Subject to the requisite reviews and approvals, construction of the Waneta Expansion is planned to begin in 2009 and take approximately four years to complete. The Waneta Expansion construction is estimated to create 680 person-years of direct employment (with 75% local hires), $65 million in direct and indirect income, and $25 million in local procurement.

Supply of competitively-priced and reliable power to BC Hydro and FortisBC helps maintain British Columbia's relatively low energy costs and support economic development and job creation. The joint venture power projects also help fund the Columbia Basin Trust economic programs and related job creation in the Columbia Basin.

Management Discussion and Analysis

Results of Operations

Net income earned by Columbia Power Corporation in 2007/08 was $15.7 million, compared with planned net income for the year of $12.8 million and net income of $14.8 million in the previous year. Net income of Columbia Power includes the consolidated 50% share of the net income of Arrow Lakes Power Corporation, Brilliant Expansion Power Corporation and Brilliant Power Corporation. Revenues were not significantly affected by foreign exchange volatility or fluctuations in electricity markets, as most power sales are under long-term contracts in Canadian dollars.

Arrow Lakes Power Corporation recorded net income of $21.7 million in 2007/08 compared to planned income of $10.6 million and net income of $18.9 million in 2006/07. The increase is primarily as a result of an additional insurance recovery of the cost of permanent repairs and losses related to the Arrow Lakes Generating Station approach channel. Higher power sales revenues, lower operating expenses and lower interest expense also had an impact on the operating results.

Brilliant Expansion Power Corporation recorded net income of $2.4 million in 2007/08 after commencing commercial operation in September 2007. The net income was $2.3 million less than planned due to the construction delays encountered. Revenue was $11.5 million less than forecast while operating and financing expenses were each $4.6 million below forecast.

Brilliant Power Corporation recorded net income of $11.1 million in 2007/08 compared to planned income of $11.1 million and net income of $10.2 million in 2006/07. The increase over the prior year is primarily as a result of escalation of power sales revenues and reduced interest expense during the year. Return on capital revenue was lower than forecast due to deferral of some capital spending until completion of the Brilliant Expansion project. Sales of upgrade-regulated entitlement to Powerex Corp. were lower than planned as a result of power prices being below forecast. The decrease in revenue relative to plan was offset by lower expenses.

The debt service coverage ratios at Brilliant Power Corporation and Arrow Lakes Power Corporation improved during the year. The investment grade bond ratings for the two corporations were maintained.

During 2007/08, Columbia Power's return on equity was 4.8% compared with the planned return of 4.0% for the year and actual performance of 4.7% in the previous year. This reflected the approach channel insurance recovery from Arrow Lakes Power Corporation and improved operating income.

Financing Activities

Investing activities were funded from Columbia Power's cash reserves and cash from operations. The use of internal sources of cash had a positive impact on financing costs. Columbia Power declared a dividend of $2 million for 2007/08, payable to the Province of British Columbia, the same amount as in the previous year.

Investing Activities

Capital spending during the year was $15.2 million, compared with planned expenditures of $14.9 million for the year and expenditures of $10.4 million in the previous year. Almost all of these funds were invested in power projects undertaken jointly with the Columbia Basin Trust, and they represent Columbia Power's 50% portion of joint venture capital spending. The major component of the capital expenditures was the construction of the Brilliant Expansion, followed by additions to the Arrow Lakes Generating Station and the Brilliant Powerplant and Terminal Station. Capital expenditures were also invested in the Waneta Expansion development activities. Columbia Power used distributions from the power projects to pay for corporate asset additions.

Power Sales Activities

For Columbia Power, a high priority in 2008/09 is to secure markets for Waneta Expansion power, provided terms and conditions are acceptable. A memorandum of intent has been signed with a potential purchaser.

The sale of generation from the Arrow Lakes Generating Station is fully subscribed under a long-term sales agreement with BC Hydro which expires in 2015.

Under a 60-year power purchase agreement, 94% of the power from the Brilliant Dam is sold to FortisBC. Subsequent to the commencement of commercial operations, the remainder was sold on a market basis to Brilliant Expansion Power Corporation for resale.

Brilliant Expansion Power Corporation sells approximately 40% of its power to BC Hydro under the *2002/03 Green Power Generation Electricity Purchase Agreement*. Brilliant Expansion Power Corporation has also entered into a long-term sales agreement with BC Hydro under a *2006 Electricity Purchase Agreement* for most of the Brilliant Expansion residual power, starting in 2009/10. Brilliant Expansion power not sold to BC Hydro in 2007/08 is sold on a short-term basis to Powerex Ltd.

Columbia Power is a Western System Power Pool member.

Liquidity and Sources of Capital

Columbia Power has set aside cash and temporary investment reserves to complete the tailrace work at the Brilliant Expansion and to partially fund Brilliant Dam capital spending and the development of the Waneta Expansion.

Future operational cash is earmarked to fund sustaining capital for operating plants and, subject to the dividend requirements of the Province and the Columbia Basin Trust, to provide equity for the Waneta Expansion.

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

Critical Accounting Estimates

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

Changes in Accounting Policies

Effective April 1, 2007, Columbia Power adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA).

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

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

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

Columbia Power has designated its financial instruments as follows:

Cash and temporary investments are classified as "Held for Trading". Any changes in fair value of temporary investments are recorded in net earnings.

Accounts receivable and Recoverable channel repair costs and losses are classified as "Loans and Receivables". These financial assets are recorded at values that approximate their amortized cost using the effective interest method.

Accounts payable and accrued liabilities and Long-term bonds are classified as "Other Financial Liabilities". These financial liabilities are recorded at values that approximate their amortized cost using the effective interest method.

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

As a result of adopting Section 3855, deferred financing costs relating to long-term debt have been reclassified from deferred debt issue costs to long-term debt on the balance sheet. These costs have been taken into earnings using the effective interest method over the life of the related debt.

ii) Section 1530, Comprehensive Income, introduces a new financial statement "Statement of Comprehensive Income" and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including gains and losses arising on translation of self-sustaining foreign operations, gains and losses from changes in fair value of available for sale financial assets and changes in the fair value of the effective portion of cash flow hedging instruments. Columbia Power has not recognized any adjustments through other comprehensive income for the year ended March 31, 2008.

iii) Section 3865, Hedges, specifies the criteria under which hedge accounting may be applied, how hedge accounting should be performed under permitted hedge strategies and the required disclosures. This standard did not have an impact on Columbia Power for the year ended March 31, 2008.

iv) Section 1506, Accounting Changes, relates to changes in accounting policies and changes in accounting estimates and errors. Under the revised Section 1506, accounting treatment and disclosure of changes in accounting policies, accounting estimates and correction of errors are made only if they result in the financial statements providing reliable and more relevant information. Additional disclosure is required when the company has not applied a new primary source of GAAP that has been issued but is not yet effective, as when changes in accounting estimates and errors occur. Adoption of this revised standard has resulted in additional disclosure under "Future Accounting Pronouncements".

A few of Columbia Power's hard working and dedicated staff. Pictured clockwise from top right: Amy Stevenson, Vice President , Operations & Environment, Health & Safety Affairs; Llewellyn Matthews, Director, Environmental Health & Safety; Audrey Repin, Director, Communications & Community Relations; Mary Baker, Senior Accounting Technician; Lea Dreher, Executive Assistant; Giulio Ambrosone, Vice President, Project Implementation.

Consolidated Results of Operations and Forecasts
($ in thousands unless otherwise stated)

	2007/08 Budget	2007/08 Actual	2007/08 Variance	2008/09 Forecast	2009/10 Forecast	2010/11 Forecast
Revenues						
Sale of Power and Transmission	$ 44,650	$ 38,896	$ (5,754)	$ 43,622	$ 48,307	$ 51,636
Other	1,075	2,906	1,831	1,059	1,238	1,435
	45,725	41,802	(3,923)	44,681	49,546	53,071
Expenses						
Operating	21,969	21,735	234	22,280	22,585	23,225
Financing	10,652	8,270	2,382	8,929	13,209	12,613
	32,621	30,005	2,616	31,209	35,794	35,838
Net Income Before Channel Expenses and Recoveries	13,104	11,797	(1,307)	13,472	13,752	17,233
Channel Expenses	(343)	(416)	(73)	-	-	-
Channel Recoveries	-	4,291	4,291	-	-	-
Net Income	12,761	15,672	2,911	13,472	13,752	17,233
Capital Spending	$ 14,925	$ 15,226	$ 301	$ 10,026	$ 76,972	$117,482
Full-time Equivalents	51	40	11	52	53	54

Capacity, Outlook and Risks

The key strategic issues facing Columbia Power Corporation include:

- Obtaining federal and provincial approvals, permits and licenses to develop and operate power projects on international rivers within a complex environmental regulatory system, which includes federal and provincial regulators, an international treaty and local, regional, United States and First Nations stakeholders.
- Developing regional support for the joint venture power projects through consultation with local and regional community stakeholders, negotiating land issues with owners and addressing First Nations issues related to the power projects.
- Securing power sales contracts for the Waneta Expansion in a domestic market where the joint venture power projects represent a relatively low-cost source of new power supply, but also where there is one dominant wholesale buyer, and where retail access to large ("transmission voltage") customers is being developed but is not yet a practical reality.
- Ensuring the Brilliant Expansion is fit for purpose.
- Adjusting to a higher Canadian dollar, which has lowered the value of future power

sales tied to United States market prices, and to higher construction, machinery and equipment costs, which have increased in response to escalating labour rates and global prices for commodities such as concrete, steel, copper and fuel.

- Implementing a plan to finance the construction of the Waneta Expansion, managing the uncertainty of future interest rates (thus the cost of debt financing), and determining the appropriate capital structure for the joint ventures.
- Developing human resource and compensation strategies to ensure appropriate succession planning, recruitment and staff retention for Columbia Power in a labour market that is expected to become increasingly competitive due in part to an aging population. Since the closure of the Victoria office in December 2007, Columbia Power faces additional challenges attracting senior staff to a rural area.

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

The Brilliant powerplant, Brilliant Terminal Station, and the Arrow Lakes Generating Station are operated and maintained by FortisBC or its related company under long-term service agreements. The Brilliant Expansion is operated and maintained under a shorter term service agreement with FortisBC.

Columbia Power develops and operates the joint venture power projects using limited-recourse project debt without a Provincial debt guarantee. Like independent power producers, the power project joint venture companies sell into the wholesale power market, primarily under long-term purchase agreements with regulated utilities. Most of the power from the Brilliant Dam is sold to FortisBC under a 60-year purchase agreement that expires in 2056. This agreement provides for approved capital and operating costs, including reasonable increases in those costs over the term of the agreement, to be passed through to FortisBC with approved capital expenditures earning a pre-determined rate of return on equity. There is also a provision for market-based price adjustments beginning in the 30th year of the agreement. Power from the Arrow Lakes Generating Station is sold to BC Hydro under a 12-year purchase agreement that expires in 2015, and about 90% of the power from the Brilliant Expansion is sold to BC Hydro under two 20–year purchase agreements that expire in 2027 and 2030. These agreements have provisions for the contract price to escalate.

Columbia Power's net income and return on equity will continue to increase as recently completed projects generate power and revenue for a full 12 months. Factors that could affect the future rate of return include: power market developments, interest and exchange rate movements, payments to government, and access to transmission systems. The BC Energy Plan: A Vision for Clean Energy Leadership released in February 2007 supports the development of Columbia Power's projects by requiring self sufficiency by 2016, ensuring adequate transmission system capacity, improving the procurement process for electricity and promoting clean or renewable energy.

Future dividends will be determined based on annual cash earnings, working capital requirements, reserves for future capital replacement, and new power project investment opportunities. One source of recent financial uncertainty for Columbia Power has been the damage to the approach channel at the Arrow Lakes Generating Station. With resolution of the Arrow Lakes Generating Station channel problem, Columbia Power's outlook for the future is for stable earnings growth. At the Brilliant Powerplant and Terminal Station and the Arrow Lakes Generating Station, prices are fixed by long-term contracts and are not affected by changes in power markets. Entitlement agreements with BC Hydro provide firm amounts of power regardless of actual water flows, thereby reducing annual hydrology risk. Interest costs for projects in operation are fixed through the issuance of long-term bonds. At the Brilliant Dam, earnings stability is further enhanced by the cost-of-service nature of the power sales agreement with FortisBC. Although the power sales agreement with BC Hydro for the Arrow Lakes Generating Station does not have this feature, the plant is relatively new and operating costs are low relative to revenues, as is typical in a hydroelectric generating facility.

Commercial operation of the Brilliant Expansion commenced in September 2007. With the extension of the Canal Plant Agreement to include Brilliant Expansion Power Corporation, an entitlement agreement is in place for the Brilliant Expansion, which significantly reduces annual hydrology risk.

With approximately 90% of the Brilliant Expansion plant output sold under two long-term contracts with BC Hydro, Brilliant Expansion Power Corporation's remaining output is sold on a short-term market basis. Columbia Power has a memorandum of intent with a potential purchaser for sale of power from the Waneta Expansion.

The following table presents an analysis of the primary risks that Columbia Power faced and the strategies implemented during 2007/08 to address these risks.

Risk Management by Columbia Power Corporation in 2007/08

Risk	Issue/Impact	Results During 2007/08
Waneta Expansion Construction Decision	Construction of Waneta Expansion is subject to: environmental permitting, design-build bids, entitlement negotiations, power marketing and long-term borrowing costs. Each could affect project timing, cost, scale and viability.	The Waneta Expansion has received federal approval under the Canadian Environmental Assessment Act. Work towards the issuance of the Waneta Expansion request for proposal continued throughout 2007/08. Completion of the design-build competition and final bid evaluation is planned for 2008. Columbia Power has achieved a transfer of the Waneta Water Reserve to Columbia Power / Columbia Basin Trust, and has also signed a *Waneta Co-operation Agreement* and a *Transmission Rights Agreement* with Teck Cominco Metals Ltd.
Waneta Expansion Entitlement / Canal Plant Agreement Renegotiations	BC Hydro, Columbia Power, FortisBC and Teck Cominco Metals Ltd. have negotiated a renewed and extended *Canal Plant Agreement* that includes the Brilliant Expansion and provisions for the Waneta Expansion. The agreement runs until at least December 31, 2035.	The renewed and extended *Canal Plant Agreement* came into effect in April 2006. Negotiations are continuing with BC Hydro for an entitlement agreement for the Waneta Expansion.
Plant Reliability	If the Brilliant Expansion and Arrow Lakes Generating Station plant outage factor were to increase by 1 percentage point, revenues and net income would decline by $650,000 in 2008/09.	Plant outage risk for the Brilliant Dam is transferred to FortisBC as the power purchaser/plant operator. Design-build contracts are secured by: performance, labour and materials bonds; either cash holdbacks or letters of credit; and parent company guarantees. Columbia Power is continuing to work with the design-build contractors to ensure the facilities are fit for purpose and deficiencies are resolved. continued....

Risk Management by Columbia Power Corporation in 2007/08 (continued)

Risk	Issue/Impact	Results During 2007/08
Plant Reliability, (continued)		Machinery and equipment have manufacturer warranties. All power projects also carry business interruption, property and liability insurance. An enhanced focus on operations was confirmed by adding a Vice President of Operations and making that an accountable group within Columbia Power.
Availability of Funds	Debt funding is required for completion of current and future projects.	The final $50 million power project equity contribution from the Province was received by Columbia Basin Trust on April 1, 2005. Key project agreements are structured to achieve financeable projects with a high credit rating. Columbia Power may utilize cash reserves to lessen the borrowing burden for Waneta Expansion during the construction period.
Brilliant Expansion and Waneta Expansion Power Marketing	Ninety percent of the Brilliant Expansion output has been marketed to BC Hydro under two 20–year contracts. The availability of a long-term sales arrangement for the Waneta Expansion could affect project financing and the final go-no/go decision.	Columbia Power sold the remaining Brilliant Expansion output and Brilliant Dam upgrade regulated energy on a short-term market basis. Columbia Power has signed a memorandum of intent with a potential purchaser for the output from Waneta Expansion.

Risk Management by Columbia Power Corporation in 2007/08 (continued)

Risk	Issue/Impact	Results During 2007/08
Transmission and Market Access	Columbia Power/Columbia Basin Trust power projects are located in a region with limited long-term firm transmission capacity to access adjacent markets in Alberta and the U.S.	Columbia Power has signed a long-term *Transmission Rights Agreement* with Teck Cominco Metals Ltd. Columbia Power monitors BC Utilities Commission hearings and intervenes in BC Transmission Corporation tariff and capital plan hearings. Columbia Power also pursues sales contract opportunities, with delivery at Columbia Power/Columbia Basin Trust points of interconnection.
Regulatory Risk	Columbia Power/Columbia Basin Trust power projects come under the *Utilities Commission Act* definition of public utilities.	Columbia Power has obtained a Ministerial Order exempting Columbia Power/Columbia Basin Trust power projects from regulation. Where appropriate, Columbia Power also intervenes in the regulatory proceedings of BC Hydro and FortisBC. The renewed and extended *Canal Plant Agreement* has been exempted from the provisions of the *Utilities Commission Act.*
Property Taxation	Taxing Arrow Lakes Generating Station and the Brilliant Expansion at current property tax rates would reduce annual project net income by about $6 million and $3 million, respectively. The Waneta Expansion would be similarly impacted. This would affect the economic viability of the power projects and the ability to raise debt to fund the Waneta Expansion.	Columbia Power has previously obtained Orders in Council exempting Arrow Lakes Generating Station and the Brilliant Expansion from property tax but instead pays grants-in-lieu of tax. Columbia Power will seek a similar tax exemption for the Waneta Expansion. The Province recently announced a tax policy confirming that Arrow Lakes Generating Station, the Brilliant Expansion and (once approved for exemption) the Waneta Expansion will pay grants-in-lieu of property tax, on a similar basis to the existing practice for BC Hydro *Columbia River Treaty* facilities and generation plants on the Peace, Columbia and Pend d'Oreille Rivers. Columbia Power has included such grants-in-lieu in its forward planning.

Risk Management by Columbia Power Corporation in 2007/08 (continued)

Risk	Issue/Impact	Results During 2007/08
Water Use Planning and Columbia River Treaty Operations Risk	Constraints imposed by BC Hydro water use planning and changes in upstream flow regulation associated with the Columbia River Treaty could adversely affect powerplant operations and project revenues, unless Columbia Power/Columbia Basin Trust are saved harmless.	Columbia Power has obtained an indemnity from BC Hydro saving harmless Columbia Power/Columbia Basin Trust power projects from the effects of water use planning. Columbia Power is also monitoring changes to U.S. regulation of the Libby Dam and has registered Columbia Power/ Columbia Basin Trust interests with the U.S. Army Corp of Engineers and BC Hydro (respectively, the designated U.S. and Canadian entities under the *Columbia River Treaty*).
Foreign Exchange Risk	A 1¢ change in the Canadian dollar relative to the US dollar represents about $40,000 per year for the 10% of Brilliant Expansion power entitlement not under long-term contract.	Sales to BC Hydro and FortisBC are in Canadian dollars. Ten percent of Brilliant Expansion power and all of Waneta Expansion power is potentially subject to this risk. Hedging instruments may be considered for potential US$ sales contracts.
Counter-party Credit Risks	Bond ratings and interest costs for Columbia Power/Columbia Basin Trust project debt are affected by the creditworthiness of the buyer. Power purchasers may also require Columbia Power to post security.	Columbia Power's marketing efforts are directed at selling power to purchasers with high credit ratings and entering backstop arrangements as appropriate. Columbia Power will negotiate with purchasers to minimize or, if possible, eliminate the requirement to post security.
Interest Rate Risk	Higher interest rates could negatively impact the cost of new project debt, project net income and the economics and financeability of the Waneta Expansion. A percentage point interest rate rise could reduce annual net income by up to $8 million.	Columbia Power continues to pursue debt management strategies and use interest rate hedges to manage risk to acceptable levels, as appropriate.

Risk Management by Columbia Power Corporation in 2007/08 (continued)

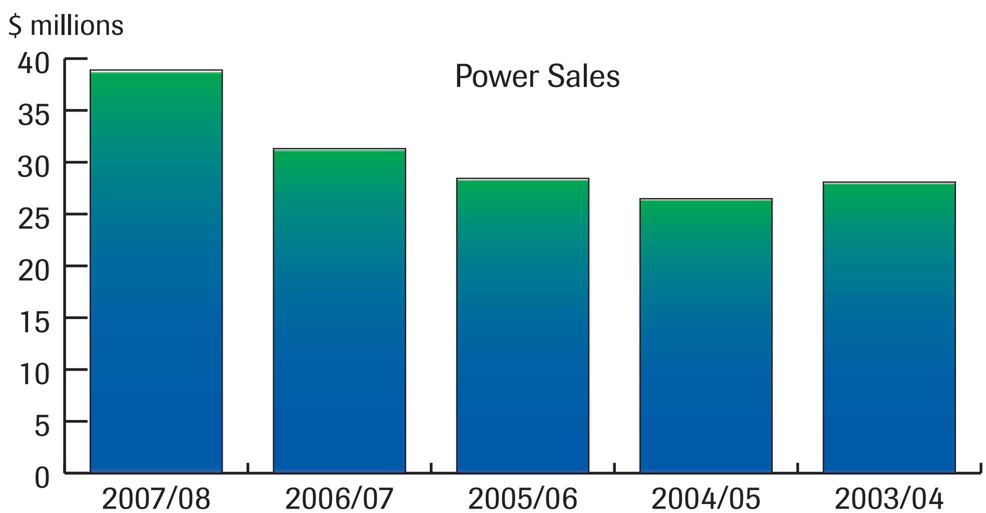
Risk	Issue/Impact	Results During 2007/08
Organizational Capacity	Key Columbia Power employees were severed as a result of the Victoria office closure. Other employees are eligible to retire in the near future. The potential loss through retirement of key employees and the corporate knowledge they possess poses a risk to Columbia Power's ongoing ability to manage and deliver projects.	Columbia Power has replaced most of the key employees, and will continue to develop human resource strategies to ensure appropriate succession planning, recruitment and staff retention. Columbia Power has completed development of its Performance Management Plan for all staff and has tied achievement of Corporate, Departmental and Individual Objectives to part of employee compensation. Where appropriate, objectives have focused on the need to transfer corporate knowledge as part of succession planning.

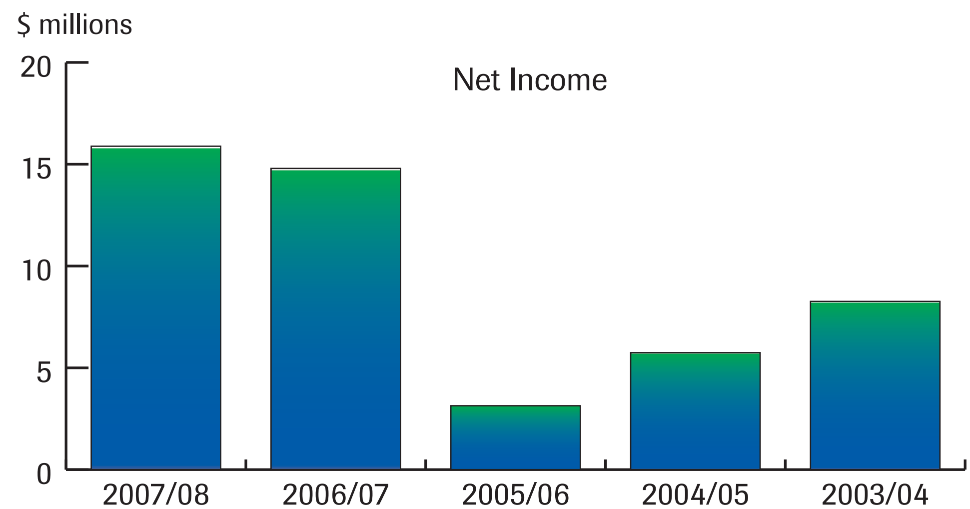
The Brilliant Terminal Station (foreground) is located on the hillside above the Brilliant Dam and Expansion. The confluence of the Kootenay and Columbia Rivers can be seen at the centre of the photo.

Five-Year Comparative Data

($ in thousands unless otherwise stated)

	2007/08	2006/07	2005/06	2004/05	2003/04
Power Sales	$ 38,896	$ 31,312	$ 28,438	$ 26,480	$ 28,081
Interest and Other Earnings	2,906	3,732	3,247	2,721	1,892
Net Income	15,672	14,794	3,138	5,744	8,262
Dividend Payments	2,000	2,000	2,000	2,000	2,000
Capital Assets and Deferred Costs	388,554	381,279	377,311	365,234	330,852
Long-term Bonds	109,696	118,031	123,374	128,407	107,664
Equity	330,695	317,350	304,557	303,417	299,673
Capital and Deferred Spending	$ 15,226	$ 10,426	$ 17,343	$ 41,865	$ 50,460
Debt-to-Equity Ratio	28:72	27:73	29:71	30:70	26:74





COLUMBIA POWER CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2008

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COLUMBIA POWER CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2008

Statement of Management Responsibility

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

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

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

Barry Chuddy
President and Chief Executive Officer

David de Git, CMA
Corporate Controller

May 16, 2008

Report of the Auditor General of British Columbia

To the Board of Directors of
Columbia Power Corporation and

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

I have audited the consolidated balance sheet of *Columbia Power Corporation* as at March 31, 2008 and the consolidated statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of *Columbia Power Corporation* as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Victoria, British Columbia
May 16, 2008

John Doyle, MBA, CA
Auditor General

COLUMBIA POWER CORPORATION

CONSOLIDATED BALANCE SHEET

AS AT MARCH 31
(in thousands)

		2008		2007
ASSETS				
Current assets				
Cash and temporary investments (Note 3)	$	36,230	$	40,411
Accounts receivable and unbilled revenue		9,403		6,112
Prepaid expenses and deposits		1,642		1,695
Recoverable channel repair costs and losses (Note 4)		6,450		-
		53,725		48,218
Capital assets (Note 5)		344,985		237,643
Other assets				
Due from joint venture partner (Note 10)		6,104		-
Hydroelectric power expansion rights (Note 6)		25,738		25,925
Deferred costs (Note 7)		10,888		109,777
Power sales right (Note 8)		6,943		7,934
Restricted cash (Note 3)		10,444		9,966
Recoverable channel repair costs and losses (Note 4)		-		2,159
Deferred debt issue costs (Note 9)		-		3,360
		60,117		159,121
	$	458,827	$	444,982

The accompanying notes are an integral part of the financial statements

APPROVED ON BEHALF OF THE BOARD:

Director

Director

COLUMBIA POWER CORPORATION

CONSOLIDATED BALANCE SHEET

AS AT MARCH 31
(in thousands)

		2008		2007
LIABILITIES AND SHAREHOLDER'S EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	$	12,563	$	3,844
Dividend payable		2,000		2,000
Interest payable on long term bonds		2,762		2,890
Current portion of long term bonds (Note 12)		6,017		5,668
Due to related parties (Note 20)		507		90
		23,849		14,492
Deferred Revenue		604		777
Long term bonds (Note 12)		103,679		112,363
Equity				
Share capital (Note 15)		-		-
Contributed surplus (Note 16)		276,065		276,065
Retained earnings		54,630		41,285
		330,695		317,350
	$	458,827	$	444,982

Commitments (Note 19)
Contingencies (Note 21)

The accompanying notes are an integral part of the financial statements.

COLUMBIA POWER CORPORATION

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED MARCH 31
(in thousands)

		2008		2007
REVENUES				
Sale of power	$	37,359	$	31,312
Transmission facility revenue		1,537		1,526
Interest		2,154		1,433
Management fee		752		773
		41,802		35,044
EXPENSES				
Water rentals		4,696		4,225
Amortization of capital assets in service		6,752		5,529
Amortization of rights		1,176		930
Property tax		1,010		1,035
Operations and maintenance		1,778		1,474
Administration and management		3,120		2,139
Insurance		527		482
Community sponsorship		85		82
Grants-in-Lieu (Note 14)		347		27
Claims response		233		-
Expensed development costs (Note 7)		183		-
Restructuring costs (Note 17)		1,828		-
		21,735		15,923
INCOME FROM OPERATIONS		20,067		19,121
FINANCE CHARGES				
Interest expense		8,270		8,236
Amortization of deferred debt issue costs		-		288
FINANCE CHARGES		8,270		8,524
NET INCOME BEFORE CHANNEL REPAIR COSTS		11,797		10,597
CHANNEL REPAIR COSTS		(416)		(3,015)
RECOVERY OF REPAIR COSTS AND LOSSES (Note 4)		4,291		7,212
NET INCOME FOR THE YEAR	$	15,672	$	14,794

The accompanying notes are an integral part of the financial statements

COLUMBIA POWER CORPORATION

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED MARCH 31
(in thousands)

		2008	2007
RETAINED EARNINGS - beginning of year		$ 41,285	$ 28,491
Deduct:	Adjustment upon implementation of financial instruments standard	(327)	-
REVISED RETAINED EARNINGS - beginning of year		40,958	28,491
Add:	Net income	15,672	14,794
Deduct:	Dividends declared	(2,000)	(2,000)
RETAINED EARNINGS - end of year		$ 54,630	$ 41,285

The accompanying notes are an integral part of the financial statements

COLUMBIA POWER CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31
(in thousands)

		2008		2007
OPERATING ACTIVITIES:				
Net income for the year	$	15,672	$	14,794
Adjustments to reconcile cash flow from operations:				
Amortization of capital assets in service		6,752		5,529
Amortization of deferred debt issue costs		-		288
Amortization of power sales rights		1,176		930
Recoverable channel repair costs and losses (Note 4)		(4,291)		(780)
Net change in non-cash working capital balances		5,985		(9,204)
		25,294		11,557
FINANCING ACTIVITIES:				
Dividends paid		(2,000)		(2,000)
Principal repayment of Project Bonds		(5,668)		(5,342)
		(7,668)		(7,342)
INVESTING ACTIVITIES:				
Repayment from joint venture partner		(6,104)		-
Deferred costs		(2,263)		(7,761)
Additions to Brilliant power facility and terminal station		(1,157)		(551)
Additions to ALGS power facility		(103)		(1,992)
Additions to Brilliant Expansion		(11,277)		-
Purchase of furniture, equipment, vehicles and land		(425)		(122)
		(21,329)		(10,426)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS		(3,703)		(6,211)
CASH AND EQUIVALENTS - beginning of year		50,377		56,588
CASH AND EQUIVALENTS - end of year	$	46,674	$	50,377
CASH AND EQUIVALENTS CONSIST OF:				
Restricted cash and temporary investments		10,444		9,966
Cash and temporary investments available for operations		36,230		40,411
	$	46,674	$	50,377
Supplemental disclosure of cash flow information				
Interest paid	$	8,033	$	8,342

The accompanying notes are an integral part of the financial statements

COLUMBIA POWER CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2008

1. Columbia Power Corporation

(a) Structure and Financing

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

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

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

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

(b) Power Project Planning

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

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

(c) Brilliant Power Facility and Brilliant Terminal Station

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

(d) Arrow Lakes Generating Station

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

(e) Brilliant Expansion

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

(f) Significant Agreements

(i) Entitlement Agreements

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

(ii) Brilliant Power Purchase Agreement

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

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

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

(iii) Facilities Interconnection and Investment Agreement (FIIA)

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

(iv) Powerex Backstop Agreement

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

(v) Management and Services Agreements

BPC

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

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

ALPC

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

BEPC

Under a Services Agreement, Fortis Pacific Holdings Inc. operates and maintains the Brilliant Expansion on behalf of BEPC.

(vi) Design-Build Contract—ALGS

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

(vii) Design-Build Contract—Brilliant Expansion

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

(viii) Power Sales Right

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

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

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

(x) Electricity Purchase Agreement 2006 (EPA 2006)

In 2006, BEPC entered into the EPA 2006 with BC Hydro obtaining the right and obligation to provide 25.75 average annual megawatts from the Brilliant Expansion to BC Hydro for a 20–year period starting not later than February 1, 2010.

(xi) Confirmation of Sale of Unit Commitment Service (Confirm)

The construction of the Brilliant Expansion created improvements in the hydrology of the flow of water through the Brilliant Power Facility which created additional energy and capacity. An agreement, called the Confirm, was reached between Powerex and Brilliant Expansion Power Corporation (BEPC), for the sale of this additional energy and capacity by BEPC on BPC's behalf. Under the Canal Plant Agreement and the Confirm, this additional energy and capacity was sold as regulated upgrades energy by BEPC to Powerex, at prices close to market.

2. Significant Accounting Policies

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

(a) Consolidated Financial Statements

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

(b) Temporary Investments

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

(c) Capitalization and Amortization

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

(i) Brilliant Power Facility and Brilliant Terminal Station

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

Power facility	40 - 80
Terminal station	30 - 60

The estimates for asset life spans are consistent with industry norms.

(ii) Arrow Lakes Generating Station

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

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

The estimates for asset life spans are consistent with industry norms.

(iii) CPC Offices and Equipment

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

(d) Deferral of Power Project Costs

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

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

(e) Deferred Debt Issue Costs

Prior to April 1, 2007 expenditures incurred in issuing the Series A, B and C Brilliant Project Bonds and Series A Arrow Lakes Project Bonds were deferred and amortized on a straight line basis over the term of the bonds. With the adoption of new accounting standards for financial instruments, these costs are recorded with the Bonds and amortized using the effective interest method.

(f) Revenue Recognition

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

(g) Asset Retirement Obligations

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

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

(h) Taxes

CPC is exempt from corporate income taxes.

(i) Foreign Currency Translation

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

(j) Use of Estimates

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

(k) Changes in accounting policies

Effective April 1, 2007, CPC adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA).

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

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

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

CPC has designated its financial instruments as follows:

Cash and temporary investments are classified as “Held for Trading”. Any changes in fair value of temporary investments are recorded in net earnings.

Accounts receivable and Recoverable channel repair costs and losses are classified as “Loans and Receivables”. These financial assets are recorded at values that approximate their amortized cost using the effective interest method.

Accounts payable and accrued liabilities and Long-term bonds are classified as “Other Financial Liabilities”. These financial liabilities are recorded at values that approximate their amortized cost using the effective interest method.

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

As a result of adopting Section 3855, deferred financing costs relating to long-term debt have been reclassified from deferred debt issue costs to long-term debt on the balance sheet. These costs have been taken into earnings using the effective interest method over the life of the related debt.

ii) Section 1530, Comprehensive Income, introduces a new financial statement “Statement of Comprehensive Income” and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including gains and losses arising on translation of self-sustaining foreign operations, gains and losses from changes in fair value of available for sale financial assets and changes in the fair value of the effective portion of cash flow hedging instruments. CPC has not recognized any adjustments through other comprehensive income for the year ended March 31, 2008.

iii) Section 3865, Hedges, specifies the criteria under which hedge accounting may be applied, how hedge accounting should be performed under permitted hedge strategies and the required disclosures. This standard did not have an impact on CPC for the year ended March 31, 2008.

iv) Section 1506, Accounting Changes, relates to changes in accounting policies, changes in accounting estimates and errors. Under the revised Section 1506, accounting treatment and disclosure of changes in accounting policies, accounting estimates and correction of errors are made only if they result in the financial statements providing reliable and more relevant information. Additional disclosure is required when the company has not applied a new primary source of GAAP that has been issued but is not yet effective, as when changes in accounting estimates and errors occur. Adoption of this revised standard has resulted in additional disclosure under “Future accounting pronouncements”.

(l) Future accounting pronouncements

Effective April 1, 2008, CPC will adopt Section 1535, Capital Disclosures, which requires additional information in the notes to the financial statements about CPC’s capital and the manner in which it is managed. This disclosure includes qualitative and quantitative information regarding an entity’s objectives, policies and processes for managing capital.

Effective April 1, 2008, CPC will adopt Section 3862, Financial Instruments – Disclosures, which requires qualitative and quantitative information to assist users of the financial statements to evaluate the nature and extent of risks arising from the financial instruments. The new standard is not expected to have a material impact on CPC’s earnings.

3. Cash and Temporary Investments

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

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

A Canadian dollar bank account is held for future payment of ALPC’s commitment for fish entrainment compensation as per Note 19(b).

BEPC cash includes construction trust and letter of credit accounts. The construction trust account is a holding account for scheduled payments to the design-build contractor. The letter of credit account secures letters of credit issued to BC Hydro for development security under the GPG EPA and 2006 EPA.

($ in thousands)	2008	2007
Restricted		
Debt service reserve fund		
Canadian dollar bank account	$ 3,964	$ 3,964
Operating reserve account		
Canadian dollar bank account	1,306	1,251
Project construction commitments		
Canadian dollar bank accounts	5,174	4,751
	10,444	9,966
Available for operations		
Canadian dollar money market fund	29,583	37,073
Canadian dollar bank accounts	6,125	3,070
US dollar bank accounts	522	268
	36,230	40,411
	$46,674	$50,377

4. Recoverable Channel Repair Costs and Losses

On May 3, 2004, ALPC discovered damage caused by unstable hydraulic conditions to the concrete lining of the approach channel. Power generation was suspended while investigations took place and repairs were made to the channel.

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

As a result of the settlement of the recovery proceedings, ALPC's insurer has agreed to provide ALPC with a recovery of costs and losses of which CPC's

50% share is $6.5 million, in addition to CPC's 50% share totaling $13.4 million already received toward the settlement of its insurance claim. CPC had recorded $2.2 million of this recovery in the prior year, on a discounted cash flow basis. CPC's 50% share of the total cost of the channel repair damage to March 31, 2008 was $25.7 million, including lost revenues and capitalized costs.

5. Capital Assets

The Brilliant Expansion commenced operations in September 2007. Upon commencement of operations, Brilliant Expansion's deferred development costs were transferred to capital assets. CPC's 50% share is $112.4 million.

($ in thousands)	Cost	Accumulated Amortization	NBV 2008	NBV 2007
Brilliant power facility	$105,347	$19,340	$ 86,007	$ 86,825
Brilliant terminal station	13,100	1,929	11,171	11,607
Brilliant lands	2,509	-	2,509	2,459
ALPC power facility	137,539	16,634	120,905	123,516
ALPC transmission	10,745	1,897	8,848	9,219
ALPC lands	3,679	-	3,679	3,679
Brilliant Expansion	112,429	1,175	111,254	-
Computer systems	463	105	358	171
Furniture and equipment	229	195	34	50
Leasehold improvements	585	446	139	13
Vehicles	188	107	81	104
	$386,813	$41,828	$344,985	$237,643

6. Hydroelectric Power Expansion Rights

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

($ in thousands)	2008	2007
Expansion right	$ 25,925	$ 25,925
Less: Accumulated amortization	(187)	-
	$ 25,738	$ 25,925

7. Deferred Costs

Deferred costs are comprised of deferred development costs and construction-in-progress. Deferred costs are carried on the balance sheet based on management's judgment of anticipated future events. A number of significant estimates and qualitative factors are considered by management in determining the reported amounts of deferred project costs. $183,000 of development costs were considered not recoverable and were expensed.

Upon commencement of commercial operation in September 2007, development costs and construction-in-progress for the Brilliant Expansion were transferred to become a portion of its capital assets.

(a) Deferred Costs Comprise the Following

($ in thousands)	Deferred Costs at March 31, 2007	2007/08 Changes	Deferred Costs at March 31, 2008
Development costs Waneta Expansion (WAX)	$ 8,625	$ 2,263	$ 10,888
Development costs Brilliant Expansion (BRX)	6,376	(6,376)	-
Construction-in-progress BRX	94,776	(94,776)	-
	$109,777	$(98,889)	$ 10,888

(b) Deferred Costs by Expenditure Category

($ in thousands)

	Project Design & Construction	Environmental Assessment	Socio-economic Assessment	Finance/ Legal Analysis	CPC/CBT Management	Total March 31, 2008
WAX	$ 2,523	$ 2,306	$ 220	$ 976	$ 4,863	$ 10,888

8. Power Sales Right

The power sales right is recorded at cost. Amortization is recorded on the basis of power sold to BC Hydro over the year compared to the total power sales under the agreement. The term of the agreement is from January 2003 to December 2014. The fair value of the power sales right may differ from its cost. A fair value is not readily determinable due to the unique nature and the extended term of the power sales right.

($ in thousands)	2008	2007
Power sales right	$ 11,376	$ 11,376
Accumulated amortization	(4,433)	(3,442)
	$ 6,943	$ 7,934

9. Deferred Debt Issue Costs

Prior to April 1, 2007, debt issue costs were deferred and amortized separately from the Bonds on a straight line basis over the term of the Bonds. Under the new standards, these costs are recorded with the Bonds and amortized using the effective interest method. For comparability, debt issue costs have been reclassified from Other Assets to be recorded with the Bonds on the prior year balance sheet.

($ in thousands)		2008		2007
Deferred debt issue costs	$	-	$	4,465
Accumulated amortization		-		(1,105)
	$	-	$	3,360

10. Due from Joint Venture Partner

During the year, CPC advanced $11.9 million in cash reserves to BEPC for construction of the Brilliant Expansion at an interest rate that would be applicable to short term borrowing by CPC from the Province. $357,000 of accrued interest was recorded during the year. 50% of this related party loan is due from CPC's joint venture partner and will be repaid upon BEPC issuing debt.

11. Pension Plans

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

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

CPC maintains an executive pension benefit plan (EPBP). Pension payments from the EPBP commenced in January 2006 upon retirement of CPC's former President. CPC valued the pension liability at March 31, 2008 as $214,000 (2007 – $218,000) on a discounted cash flow basis.

12. Long Term Bonds

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

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

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

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

($ in thousands)			CPC's Portion of Principal Outstanding	
Series	**Interest rate**	**Maturity date**	**2008**	**2007**
BPC A	8.93%	May 31, 2026	$ 41,573	$ 42,435
BPC B	6.86%	May 31, 2026	12,397	12,723
BPC C	5.67%	May 31, 2026	22,952	23,640
ALPC A	5.39%	March 31, 2015	35,441	39,233
			112,363	118,031
	Current portion		(6,017)	(5,668)
			106,346	112,363
Less: deferred financing costs			(2,667)	-
			$103,679	$112,363

Principal repayments next five years:	
2009	$ 6,017
2010	6,386
2011	6,782
2012	7,202
2013	7,648
Subsequent years	78,328
	$112,363

13. Credit Facility

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

14. Grants-in-Lieu of Property Taxes

ALPC and BEPC are exempt from property taxes but pay grants-in-lieu of property taxes to host and impacted local governments based on the 185 and 120 megawatt capacities of the ALGS and Brilliant Expansion. In 2007/08 the charge per megawatt was $1,160. BEPC recorded the grants-in-lieu on a prorated basis from commencement of commercial operation.

Columbia Power Corporation was directed by the Province to make payments of the grants-in-lieu of property taxes to the host and impacted local governments.

15. Share Capital

Authorized:
6 common shares, no par value

Issued:
6 common shares $6

16. Contributed Surplus

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

17. Restructuring costs

On September 26, 2007 it was announced to staff that the Victoria office would close by December 31, 2007. CPC has recorded $1.8 million for restructuring costs, primarily related to severance agreements with CPC's Victoria employees. Additional non-severance costs related to restructuring may be incurred in 2008/09.

18. Financial Instruments

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

The fair values of cash, accounts receivable, recoverable channel repairs costs and losses and accounts payable approximate their carrying values due to the short term maturity of these instruments.

Since CPC has classified Long term bonds as “Other Financial Liabilities”, CPC has measured these at amortized cost using the effective interest method as required under CICA Handbook Section 3855.

CPC realizes most revenues and all significant expenses in Canadian dollars and is therefore not significantly exposed to currency fluctuations. The Long-term Bonds are at a fixed interest rate. Power sales are to BC Hydro, Powerex and FortisBC, therefore there is negligible credit risk.

The redemption feature in the long-term bond agreements meets the definition of an embedded derivative. This feature results in a net penalty upon redemption and is therefore of no economic value. No separate valuation of this feature is required in the financial statements.

19. Commitments

(a) Plant Operations

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

(b) ALPC Fish Entrainment Compensation

ALPC has made a commitment to contribute to the Columbia Basin Fish and Wildlife Compensation Program to compensate for fish entrainment for as long as fish are entrained in the ALGS. In 2007/08, CPC’s 50% portion of the contribution was $103,000 (2006/07 - $100,000). This funding will be used for fertilizing fish stocks in the Upper and Lower Arrow Reservoirs.

(c) BEPC Project Approval Certificate

The project approval certificate issued for the Brilliant Expansion by the BC Environmental Assessment Office contains a number of commitments during pre-construction, construction, post-construction and operations phases which are being actively managed by BEPC.

(d) Facilities Long Term Lease Commitment

CPC has entered into operating leases for office premises that provide for minimum annual lease payments totaling up to $122,000 per year for the next three years. CPC has signed a letter of intent to extend the lease for an additional ten years.

20. Related Party Transactions

These consolidated financial statements include amounts receivable from, amounts payable to and transactions with BC Hydro and its affiliates; the Trust and its affiliates; and the Province. Other than the Trust, which charges the joint ventures on a cost recovery basis, all related party transactions are at market rates.

(a) Due from and sales to related parties

($ in thousands)	2008 Due from Related Party	2008 Sales to Related Party	2007 Due from Related Party	2007 Sales to Related Party
BC Hydro	$ 216	$ 17,501	$ 35	$ 15,660
Powerex	3,071	5,484	126	1,554
BC Transmission Corp.	7	9		
Province	-	31	-	-
CBT and affiliates	-	4	-	9
	$3,294	$23,029	$161	$17,223

(b) Due to and purchases from related parties

($ in thousands)	2008 Due to Related Party	2008 Purchases from Related Party	2007 Due to Related Party	2007 Purchases from Related Party
Province	$ 18	$5,967	$ 13	$5,305
CBT and affiliates	485	1,024	51	588
BC Hydro	4	646	26	1,259
Powerex	-	47	-	47
BC Transmission Corp.	-	50	-	37
	$507	$7,734	$ 90	$7,236

21. Contingencies

(a) Power Projects

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

(b) Arrow Lakes Power Corporation

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

(c) Brilliant Expansion Power Corporation

BEPC has settled all contractor claims arising from the construction project, including an addition to the contract price which has been included as part of the construction cost of the project. As a condition of this settlement, BEPC will undertake instream works necessary to improve the hydraulic conditions in the tailrace area of the Brilliant Expansion, at its own cost and risk. The cost of this work has not been fully determined and therefore is not recorded in the financial statements.

BEPC is affected by federal, provincial and local government laws and regulations. The financial impact, if any, of complying with future legislative or regulatory requirements cannot currently be estimated.

22. Comparative Figures

Certain 2007 figures have been reclassified to conform with the current year's presentation.

Board of Directors

Lee Doney
Mr. Doney has held a series of senior provincial public sector positions, serving as a Deputy Minister for 17 years, under four different administrations. He has served twice as the Deputy Minister of Labour and Consumer Services, and once as the Deputy Minister of Forests. He has also served as CEO of the BC Labour Force Development Board, and Chair of the Workers' Compensation Board.

Jane Fleming
Ms. Fleming is president of Jane Fleming & Associates Inc., an independent planning and development company. She has over 30 years of experience in land use planning and land development and has served in a variety of positions in both the public and private sectors. She has been on the Board of Directors of the Vancouver International Airport Authority and the Board of Governors of Vancouver Community College, as well as a number of community boards.

Ron Miles
Mr. Miles has been a partner in the law firm Miles, Daroux, Zimmer & Sheard since 1996 and is also a member of the Columbia Basin Trust Board of Directors. He has served as a Councilor for the City of Cranbrook, Chair of the Cranbrook and District Regional Hospital, and has extensive community involvement in various service clubs and other non-profit

Josh Smienk
Mr. Smienk is the Area E Director of the Regional District of Central Kootenay and served as Chair of the Columbia Basin Trust from 1995 until 2007. He was instrumental in the creation and management of many successful CBT partnerships and was also a driving force in several public sector and community organizations throughout the Columbia Basin. Mr. Smienk was also a member of the Joint Venture Management Committee of CPC/CBT for over 10 years.

Charles Reid
Mr. Reid is a Certified General Accountant with an extensive background in corporate finance. He was the CFO of Canfor Corporation from 1999-2004 and has been a Director on the boards of the Canadian Chamber of Commerce, FM Global Insurance, and the Prince George Art Gallery.

Officers of Columbia Power Corporation

Barry Chuddy
President and Chief Executive Officer

Robert Krysac
Chief Financial Officer and Vice President, Finance and Stakeholder Relations

Don Rose
Acting General Counsel and Corporate Secretary

Victor Jmaeff
Vice President, Sales and Development

Giulio Ambrosone
Vice President, Project Implementation

Amy Stevenson
Vice President, Operations and Environmental Health and Safety Affairs

David de Git
Corporate Controller

Corporate Governance

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

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

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

The power project investments of Columbia Power and the Columbia Basin Trust are guided by the principle, as stated in the *Financial Agreement* between the Province and the Columbia Basin Trust, that the joint venture management committee formed for a power project will authorize the start of the power project only if:

- such a start is approved by the respective boards of directors of Columbia Power and the Columbia Basin Trust; and
- such a power project would meet conditions as would be set by a reasonable lender for the financing of a similar power project, including conditions related to debt servicing, return on equity, permits, construction agreements, contracts for the sale or distribution of electricity, and similar matters.

A *Shareholder's Letter of Expectations*, dated January 22, 2008, confirmed Columbia Power as the manager of the power projects in joint ventures with the Columbia Basin Trust. The letter can be viewed on the Columbia Power website at: www.columbiapower.org/content/Shareholder_Letter2008.pdf. As directed, Columbia Power is working towards compliance with the government's requirements for public sector carbon neutrality by 2010.

In the October 24, 2006 *Shareholder's Letter of Expectations,* Columbia Power was specifically directed to: recruit a President; work with the Columbia Basin Trust to increase efficiency and reduce the cost of power development and management activities; and to bring forward an interim plan for the development of the Waneta Expansion Project. As directed, a new President was recruited and commenced employment on June 1, 2007. Columbia Power and the Columbia Basin Trust are currently evaluating a number of shared services between the two companies, and an interim plan for the Waneta Expansion was submitted to the Province in the winter of 2006.

Columbia Power is currently working towards compliance with the *Best Practice Guidelines on Governance and Disclosure,* which were issued by the provincial government in February 2005. Terms of Reference for the Board and its Committees, the Chair, the Chief Executive Officer and the Corporate Secretary, as well as conduct expectations, Director biographies, the number of Board and Committee meetings held during the year, and Director attendance records can be found on the Columbia Power website at:
www.columbiapower.org/content/corporate_governance.asp

Glossary

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

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

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

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

Columbia River Treaty
An agreement ratified by the United States and Canada in 1964, which led to the construction of three storage dams in the Columbia River Basin (Duncan, Keenleyside and Mica) and another one in Montana (Libby). The purpose of these dams was flood control and power production in both countries.

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

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

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

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

Downstream benefits
The extra power that could be generated at United States powerplants on the Columbia River that results from the operation of Columbia River Treaty storage dams located in Canada. Under the Columbia River Treaty signed in 1964, the Province of British Columbia owns one-half of thisincremental power, called "Canadian Entitlement to the Downstream Benefits." The Province sold the first 30 years of these benefits to a group of United States utilities for US $254 million. The money helped pay for the construction of the three Treaty dams in Canada.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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