

**BRILLIANT EXPANSION POWER CORPORATION**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED MARCH 31, 2005**

# BRILLIANT EXPANSION POWER CORPORATION

## FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2005

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# BRILLIANT EXPANSION POWER CORPORATION

## FINANCIAL STATEMENTS

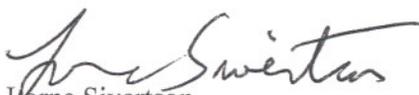
For the year ended March 31, 2005

### Statement of Management Responsibility

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

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

The Auditor General of British Columbia has been appointed by management to audit the 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 financial statements.



Lorne Sivertson  
President  
Columbia Power Corporation



Randall G. Smith, CA  
Comptroller  
Columbia Power Corporation

May 20, 2005



## Report of the Auditor General of British Columbia

*To the Boards of Directors of  
Columbia Power Corporation, and  
CBT Brilliant Expansion Power Corp.:*

I have examined the balance sheet of *Brilliant Expansion Power Corporation* as at March 31, 2005 and the statements of loss and retained earnings (deficit), 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 financial statements present fairly, in all material respects, the financial position of *Brilliant Expansion Power Corporation* as at March 31, 2005 and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Victoria, British Columbia  
May 20, 2005*

Wayne Strelloff, FCA  
Auditor General

# BRILLIANT EXPANSION POWER CORPORATION

## BALANCE SHEET

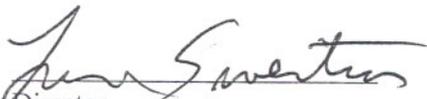
AS AT MARCH 31

(\$ in thousands)

|                                | <u>2005</u>       | <u>2004</u>       |
|--------------------------------|-------------------|-------------------|
| <b>ASSETS</b>                  |                   |                   |
| <b>Current assets</b>          |                   |                   |
| Cash (Note 3)                  | \$ 8,736          | \$ 2,393          |
| Accounts receivable            | 391               | 966               |
| Prepaid expense                | 156               | 170               |
|                                | <u>9,283</u>      | <u>3,529</u>      |
| <b>Deferred costs (Note 4)</b> | <u>170,969</u>    | <u>97,288</u>     |
| <b>Other assets</b>            |                   |                   |
| Expansion right (Note 5)       | <u>26,450</u>     | <u>26,450</u>     |
|                                | <u>\$ 206,702</u> | <u>\$ 127,267</u> |

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

APPROVED ON BEHALF OF THE BOARD:

  
Director

  
Director

# BRILLIANT EXPANSION POWER CORPORATION

## BALANCE SHEET

AS AT MARCH 31

(\$ in thousands)

|   | <u>2005</u>       | <u>2004</u>       |
|---|-------------------|-------------------|
| <b>LIABILITIES AND SHAREHOLDER'S EQUITY</b> |                   |                   |
| <b>Current liabilities</b>                  |                   |                   |
| Accounts payable and accrued liabilities    | \$ <u>3,603</u>   | \$ <u>5,367</u>   |
| <b>Commitments</b> (Note 11)                |                   |                   |
| <b>Contingencies</b> (Note 12)              |                   |                   |
| <b>Equity</b>                               |                   |                   |
| Retained Earnings (Deficit)                 | (647)             | -                 |
| Contributed surplus (Note 6)                | <u>203,746</u>    | <u>121,900</u>    |
|   | <u>203,099</u>    | <u>121,900</u>    |
|   | <u>\$ 206,702</u> | <u>\$ 127,267</u> |

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

# BRILLIANT EXPANSION POWER CORPORATION

## STATEMENT OF LOSS AND RETAINED EARNINGS (DEFICIT)

FOR THE YEAR ENDED MARCH 31

(\$ in thousands)

|   | 2005            |
|---|-----------------|
| RETAINED EARNINGS (DEFICIT), beginning of year  | \$ -            |
| Restructuring costs (Note 8)                    | (647)           |
| <b>RETAINED EARNINGS (DEFICIT), end of year</b> | <b>\$ (647)</b> |

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

# BRILLIANT EXPANSION POWER CORPORATION

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31

(\$ in thousands)

|   | <u>2005</u>     | <u>2004</u>     |
|---|-----------------|-----------------|
| <b>DEVELOPMENT ACTIVITIES:</b>                      |                 |                 |
| Net loss for the period                             | \$ (647)        | \$ -            |
| Adjustments to reconcile cash flow from operations: |                 |                 |
| Restructuring Costs                                 | 647             | -               |
| Net change in non-cash working capital balances     | <u>(1,175)</u>  | <u>1,945</u>    |
|   | <u>(1,175)</u>  | <u>1,945</u>    |
| <b>FINANCING ACTIVITIES:</b>                        |                 |                 |
| Transfer of cash from related company               | -               | 10,442          |
| Equity investment                                   | <u>81,846</u>   | <u>63,000</u>   |
|   | <u>81,846</u>   | <u>73,442</u>   |
| <b>INVESTING ACTIVITIES:</b>                        |                 |                 |
| Construction-in-progress                            | <u>(74,328)</u> | <u>(72,994)</u> |
|   | <u>(74,328)</u> | <u>(72,994)</u> |
| <b>INCREASE IN CASH</b>                             | 6,343           | 2,393           |
| <b>CASH - beginning of year</b>                     | <u>2,393</u>    | <u>-</u>        |
| <b>CASH - end of year</b>                           | <u>\$ 8,736</u> | <u>\$ 2,393</u> |
| <b>CASH CONSISTS OF:</b>                            |                 |                 |
| Restricted cash (Note 3)                            | 7,104           | 1,657           |
| Cash available for operations                       | <u>1,632</u>    | <u>736</u>      |
|   | <u>\$ 8,736</u> | <u>\$ 2,393</u> |

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

# BRILLIANT EXPANSION POWER CORPORATION NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2005

## 1. Brilliant Expansion Power Corporation

### (a) Structure and Financing

Brilliant Expansion Power Corporation (BEPC) is jointly owned, on a 50/50 basis, by Columbia Power Corporation (a Provincial Crown Corporation) and CBT Brilliant Expansion Power Corp., (CBT Brilliant Expansion), an indirect subsidiary of Columbia Basin Trust. CBT Brilliant Expansion is a direct subsidiary of CBT Energy Inc., which is a subsidiary of Columbia Basin Trust (also a provincial Crown corporation). The Shareholders direct BEPC'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 construct and operate the Brilliant Expansion Project adjacent to the Brilliant Dam at Castlegar, British Columbia.

Columbia Power Corporation (CPC) is appointed the manager of BEPC with the authority to manage the day-to-day activities of BEPC, subject to the direction of the Management Committee and annual capital and operating budgets approved by the committee. BEPC's material transactions and agreements require the approval of the Province's Treasury Board and CBT Energy Inc.'s Board of Directors.

### (b) Brilliant Expansion Project

The Brilliant Expansion Project is a 120 megawatt, \$205 million power generation development near the existing Brilliant Dam. Brilliant Power Corporation (a related corporation) owns the Brilliant Dam and the existing power facility. In 1994, CPC purchased from Teck Cominco Limited (Teck Cominco) the rights to undertake an expansion. One half of the rights were transferred to CBT in 2000.

Proposals for construction of the Brilliant Expansion Project were received from two competing teams in July 2002. The evaluation process resulted in the Brilliant Expansion Consortium (BEC) formed by Skanska/Chant/SNC Lavalin being chosen as the preferred bidder. Treasury Board approval for the project was received in February 2003. The Design-Build Contract with BEC was signed February 25, 2003. Construction of the project began in April 2003.

# BRILLIANT EXPANSION POWER CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2005

(b) **Brilliant Expansion Project (continued)**

The assets and equity of the Brilliant Expansion Project were transferred from Power Project Planning Joint Venture (PPPJV; a related company) to BEPC in April 2003 (Note 6).

(c) **Significant Agreements**

(i) **Design-Build Contract**

In 2003, BEPC entered into a turn-key, design-build contract for approximately \$167 million with BEC for the construction of the Brilliant Expansion. Under the contract, commercial operations are scheduled to begin in August 2006. 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.

(ii) **Green Power Generation Electricity Purchase Agreement (GPG EPA)**

In 2003, BEPC entered into the GPG EPA with British Columbia Hydro and Power Authority (BC Hydro) obtaining the right and obligation to provide 23.12 average annual megawatts to BC Hydro for a 20 year period starting in 2006.

2. **Significant Accounting Policies**

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

(a) **Financial Statements**

These financial statements include the assets and liabilities of BEPC. The financial statements do not include all the assets, liabilities, revenues and expenses of the Shareholders.

# BRILLIANT EXPANSION POWER CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2005

**(b) Deferred Costs and Construction-in-Progress**

Costs incurred in undertaking the development and construction of the Brilliant Expansion project, including all costs attributable to the project as well as capitalized interest and taxes, are deferred. When the powerplant is placed into commercial production, the related deferred costs will form part of the capital assets.

**(c) Asset Retirement Obligations**

Canadian generally accepted accounting principles require BEPC 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 BEPC's assets may have asset retirement obligations. As BEPC 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.

**(d) Taxes**

BEPC is exempt from income taxes and federal large corporations tax.

**(e) 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.

# BRILLIANT EXPANSION POWER CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2005

### 3. Cash

Cash includes Canadian dollar operating, construction trust and letter of credit accounts. The construction trust account is a holding account for scheduled payments to the Design-Build contractor. The non-current account secures a letter of credit issued to BC Hydro for development security under the GPG EPA.

| (\$ in thousands)               | 2005            | 2004            |
|---------------------------------|-----------------|-----------------|
| <b>Current</b>                  |                 |                 |
| <b>Restricted</b>               |                 |                 |
| Canadian dollar bank account    | \$ 6,632        | \$ 1,190        |
| <b>Available for operations</b> |                 |                 |
| Canadian dollar bank account    | 1,632           | 736             |
|                                 | <u>8,264</u>    | <u>1,926</u>    |
| <b>Non-Current</b>              |                 |                 |
| <b>Restricted</b>               |                 |                 |
| Canadian dollar bank account    | <u>472</u>      | <u>467</u>      |
|                                 | <u>\$ 8,736</u> | <u>\$ 2,393</u> |

### 4. Deferred Costs

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

# BRILLIANT EXPANSION POWER CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2005

(a) **Deferred Costs Comprise the Following:**

|                            | Deferred Costs at<br>March 31, 2004 | 2004/05<br>Additions | Deferred Costs at<br>March 31, 2005 |
|----------------------------|-------------------------------------|----------------------|-------------------------------------|
| Deferred development costs | \$ 14,194                           | \$ -                 | \$ 14,194                           |
| Construction-in-progress   | 83,094                              | 73,681               | 156,775                             |
|                            | <u>\$ 97,288</u>                    | <u>\$ 73,681</u>     | <u>\$ 170,969</u>                   |

(b) **Deferred Costs by Expenditure Category**

| Project<br>Design &<br>Construction | Environmental<br>Assessment | Socio-<br>economic<br>Assessment | Finance/<br>Legal<br>Analysis | CPC/CBT<br>Management | March 31,<br>2005 |
|-------------------------------------|-----------------------------|----------------------------------|-------------------------------|-----------------------|-------------------|
| \$152,444                           | \$ 3,547                    | \$ 754                           | \$ 3,055                      | \$11,169              | \$170,969         |

**5. Expansion Right**

This interest in a hydroelectric power expansion right is recorded at cost and includes options to acquire lands near the Brilliant dam at no additional cost and the right to develop and operate new hydroelectric facilities on these lands. The fair value of this right may differ from cost. A fair value is not readily determinable due to the unique nature of the expansion right. This right will not be amortized until the power plant is operational.

**6. Contributed Surplus**

Contributed surplus consists of equity transferred from PPPJV in April 2003 and subsequent equity investments.

| (\$ in thousands)                         | 2005              | 2004              |
|---|-------------------|-------------------|
| Opening contributed surplus               | \$ 121,900        | \$ -              |
| Equity transferred from a related company | -                 | 58,900            |
| Equity investment during year             | 81,846            | 63,000            |
| Contributed surplus at March 31           | <u>\$ 203,746</u> | <u>\$ 121,900</u> |

# BRILLIANT EXPANSION POWER CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2005

### 7. Related Party Transactions

#### (a) Payments to BEPC's Manager

During the year, the manager charged the joint venture \$1.4 million (2004 - \$1.9 million) for the manager's costs. The amount includes staff compensation, office space, and project overhead costs which were billed to BEPC on a cost recovery basis.

CPC as the manager of the joint venture was also paid a management fee of \$336,000 (2004 - \$509,000) for services provided, based on a reasonable allocation of its corporate overhead.

#### (b) Due to Related Parties

Amounts payable includes \$522,000 (2004 - \$627,000) to CPC and \$93,000 (2004 - \$157,000) to Power Project Planning Joint Venture. The amounts represent current payables and were paid subsequent to year end.

### 8. Columbia Basin Initiative Restructuring

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

In 2001, the Province signed an option agreement granting CBT Energy Inc., a subsidiary of CBT, the right to acquire 100% of the outstanding shares of CPC at a price equal to the greater of CPC's equity book value and market value. The option expires July 31, 2005.

In January 2004, the Minister of Energy and Mines announced changes to be made to the Columbia Basin Initiative. The Minister's direction to CBT and CPC included the Province's intention to transfer the shares of CPC to CBT, and to amalgamate CPC and all CBT subsidiaries into a single power company with a separate expert Board of Directors.

# BRILLIANT EXPANSION POWER CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2005

### 8. Columbia Basin Initiative Restructuring (continued)

This restructuring initiative was subsequently discontinued after CBT approached the provincial government in the fall of 2004 regarding the potential sale of its interest in the joint power projects to BC Hydro. The Province determined it would also sell CPC's interest in the power projects, subject to due diligence and acceptable terms, and asked BC Hydro to examine the proposal. On September 30, 2004 the BC Hydro Board of Directors approved in principle the proposal to acquire the interest in the Columbia Basin power projects owned jointly by CPC and CBT, and undertook a due diligence review of those facilities. On November 23, 2004 BC Hydro suspended its due diligence when CBT announced, following its process of public consultation, that it would not proceed with the sale.

On January 26, 2005 the Minister of Energy and Mines instructed CBT and CPC that the existing structure, which retains a separate CPC and CBT, would be continued. This direction allows both organizations to focus on their respective mandates, which remain unchanged. CPC will continue as Manager responsible for the development, construction and operation of power projects. CBT will continue to invest and deliver economic, social and environmental benefits to Columbia Basin residents. BEPC recorded a \$647,000 expense in 2004/05 relating to Columbia Basin Initiative Restructuring costs in prior periods.

### 9. Share Capital

Authorized:

100 common shares, no par value

Issued:

100 common shares

\$100

### 10. Financial Instruments

BEPC's financial instruments consist of cash, accounts receivable and accounts payable. Unless otherwise noted, it is management's opinion that BEPC is not exposed to significant interest, currency or credit risks arising from these financial instruments.

# BRILLIANT EXPANSION POWER CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2005

### 11. Commitments

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

### 12. Contingencies

BEPC has tentatively reached a negotiated settlement with the construction contractor in regards to a claim for costs incurred for construction of the tailrace berm. This settlement allows the target date for operations under the design-build contract to change from August 7, 2006 to September 7, 2006 and may result in a payment to the contractor of as much as \$2 million depending upon the date that commercial operation begins. This amount can be accommodated within contingencies established for this project.

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.