



British Columbia Transmission
CORPORATION™

Audited Financial Statements

March 31, 2006

Vancouver, Canada
May 8, 2006

MANAGEMENT REPORT

The financial statements of British Columbia Transmission Corporation (BCTC) are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates, which have been made using careful judgment. In management's opinion, the financial statements have been properly prepared within the framework of the accounting policies summarized in the financial statements and incorporate, within reasonable limits of materiality, all information available at May 8, 2006. The financial statements have also been reviewed by the Audit Committee and approved by the Board of Directors.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safe-guarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee.

The financial statements as at March 31, 2006, and for the year then ended have been examined by an independent external auditor. The external auditor's responsibility is to express his opinion on whether the financial statements, in all material respects, fairly present BCTC's financial position, results of operations, retained earnings and cash flows in accordance with Canadian generally accepted accounting principles. The Auditor's Report, which follows, outlines the scope of his examination and his opinion.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit Committee, comprised of directors who are not employees, meets regularly with the external auditor, the internal auditor and management to satisfy itself that each group has properly discharged its responsibility to review the financial statements before recommending approval by the Board of Directors. The internal and external auditors have full and open access to the Audit Committee, with and without the presence of management.



Jane Peverett
President and CEO



Brian Gabel
Vice President, Corporate
Services and CFO

Vancouver, Canada

May 8, 2006



Report of the
Office of the Auditor General
of British Columbia

*To the Members of the Board of
British Columbia Transmission Corporation, and*

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

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

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

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

*Victoria, British Columbia
May 8, 2006*

Errol S. Price, CA
Deputy Auditor General

BALANCE SHEET

<i>as at March 31 (in thousands)</i>	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 36,038	\$ 9,461
Short term investments (Note 4)	7,242	10,096
Accounts receivable	3,899	3,583
Prepaid expenses (Note 6)	1,360	2,040
Due from BC Hydro (Note 8)	21,590	1,345
	70,129	26,525
Other Receivables (Note 5)	344	1,361
Prepaid Expense - Long Term (Note 6)	3,234	3,949
Capital Assets (Note 7)	63,628	61,849
	\$ 137,335	\$ 93,684
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities		
Bank indebtedness	\$ -	\$ 2,846
Current portion of obligations under capital lease (Note 19)	99	93
Accounts payable and accrued liabilities	14,663	8,325
Accrued interest	376	375
Deferred revenue	1,439	610
Deferred leasehold inducements	1,752	1,685
Deferral accounts (Note 3)	23,393	-
	41,722	13,934
Accrued Employee Benefits (Note 9)	19,873	17,362
Asset Retirement Obligation (Note 10)	883	842
Long Term Debt (Note 11)	30,140	30,191
Obligations Under Capital Lease (Note 19)	6,947	7,046
	99,565	69,375
Shareholder's Equity		
Share capital (Note 12)	20,000	20,000
Retained earnings	17,770	4,309
	37,770	24,309
	\$ 137,335	\$ 93,684

Commitments and contingencies (Note 19)

See accompanying notes to the financial statements.

Approved on behalf of the Board:



R.T.F. (Bob) Reid
Chair of the Board



Bev Park
Chair, Audit Committee

STATEMENT OF OPERATIONS

<i>For the years ended March 31 (in thousands)</i>	2006	2005
Revenue		
Tariff (Notes 3 and 8)	\$ 79,194	\$ -
Asset management and maintenance (Notes 3 and 8)	90,200	-
Service fees and other (Notes 8 and 13)	34,738	93,404
Investment Income	1,214	1,384
	205,346	94,788
Expenses		
Cost of market (Note 14)	4,539	758
Operations, maintenance and administration (Notes 8 and 13)	157,280	71,579
Taxes and grants	265	251
Depreciation and amortization	19,707	17,263
Finance charges (Note 15)	1,994	1,555
	183,785	91,406
Income before Deferral Account Transfers	21,561	3,382
Deferral Accounts (Note 3)	(8,100)	-
Net Income	\$ 13,461	\$ 3,382

STATEMENT OF RETAINED EARNINGS

<i>For the years ended March 31 (in thousands)</i>	2006	2005
Retained Earnings, beginning of year	\$ 4,309	\$ 927
Net income	13,461	3,382
Retained Earnings, end of year	\$ 17,770	\$ 4,309

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS

<i>For the years ended March 31 (in thousands)</i>	2006	2005
Operating Activities		
Net income	\$ 13,461	\$ 3,382
Adjustment for non-cash items:		
Write-off of long-term receivable	985	-
Depreciation and amortization	19,707	17,263
Other amortization expense included in operations, maintenance and administration	806	1,679
Accrued employee benefits changes	1,153	1,548
	36,112	23,872
Changes in non-cash working capital:		
Accounts receivable and prepaid expenses	(1,360)	(1,902)
Due from BC Hydro	(17,222)	(14,951)
Accounts payable	4,444	(2,013)
Accrued interest and deferred revenue	830	741
Deferral accounts	23,393	-
	10,085	(18,125)
Cash provided by operating activities	46,197	5,747
Investing Activities		
Capital asset expenditures	(20,773)	(13,709)
Short term investments	2,854	(10,096)
Addition to long term prepaid expense	(443)	(6,668)
Other assets, net of repayment	32	(905)
Cash used for investing activities	(18,330)	(31,378)
Financing Activities		
Proceeds from long term debt	-	30,234
Accrued employee benefits payment from BC Hydro	1,358	6,531
Asset retirement obligation payment from BC Hydro	-	778
Reduction in borrowings	-	(9,943)
Leasehold inducement	291	(99)
Principal payments of obligations under capital lease	(93)	(86)
Cash provided by financing activities	1,556	27,415
Increase in Cash	29,423	1,784
Cash, beginning of year	6,615	4,831
Cash, end of year	\$ 36,038	\$ 6,615
Supplemental disclosure of cash flow information		
Interest paid	\$ 1,489	\$ 1,313

See accompanying notes to the financial statements.

Note 1: Nature of Operations

The British Columbia Transmission Corporation (“the Company” or “BCTC”) is a provincial Crown corporation incorporated on May 2, 2003 under the B.C. *Business Corporations Act* (formerly, the *Company Act*). The Company is authorized by the *Transmission Corporation Act* (May 29, 2003) and the Key Agreements designated by the Lieutenant Governor in Council (November 20, 2003) pursuant to that Act to plan, operate and manage the electric transmission system of the British Columbia Hydro and Power Authority (BC Hydro). As part of the Province’s Energy Plan, BCTC is established as a separate government-owned corporation that has full responsibility for planning, operating and maintaining the transmission assets to ensure independent, open and non-discriminatory access to the transmission system. BCTC reports to the Minister of Energy, Mines and Petroleum Resources and is regulated by the British Columbia Utilities Commission.

As of April 1, 2005 BCTC became a rate-regulated entity regulated by the British Columbia Utilities Commission (BCUC)(Note 3).

Note 2: Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in Canada (GAAP) and are expressed in Canadian dollars.

Use of Estimates

BCTC’s management has made a number of estimates and assumptions related to the reporting of assets and liabilities to prepare these financial statements in conformity with Canadian generally accepted accounting principles. Actual results could differ from these estimates.

Regulation

Effective April 1 2005, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 19 AcG-19 “*Disclosures by Entities Subject to Rate Regulation*” which provides disclosure requirements for rate regulated entities. Adoption of this guideline had no impact on comparative information.

Cash and Cash Equivalents

Cash and cash equivalents include cash, bank indebtedness and units in money market funds with original maturity dates of less than 90 days from the original date of acquisition.

Short Term Investments

Short term investments consist of units in bond pooled funds which invest in government securities or securities guaranteed by government. Units in the pooled funds are recorded at the lower of cost and their fair values.

Capital Assets

Capital assets are recorded at cost. During the construction of new assets, direct costs plus a portion of overhead costs and related financing costs are capitalized. Construction is transferred to capital assets in service when the asset is substantially complete. Depreciation commences in the month after an asset is put into service. Depreciation is provided principally on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	45 years
Computer hardware and software	3 – 10 years
Communication equipment	7 – 15 years
Furniture and equipment	5 – 40 years
Leasehold improvements	10 years

Asset Retirement Obligations

A provision for the future removal and site restoration costs arising on the retirement of capital assets is made where there is a statutory, contractual or legal obligation upon retirement. When the liability is initially recorded, the costs are capitalized to the carrying cost of the asset. Over time, the liability is accreted to its present value and the capitalized cost is amortized on a straight-line basis over the estimated useful life of the asset.

Impairment of Long-lived Assets

Capital assets and long-term prepaid expenses (long-lived assets) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment loss is calculated by deducting the estimated fair value of the asset from its carrying value.

Leases

Leases are classified as capital or operating depending upon the terms and conditions of the contracts.

Asset values recorded under capital leases are amortized on a straight-line basis over their estimated useful lives. Obligations recorded under capital leases are reduced by lease payments net of imputed interest.

Deferred Revenue

Deferred revenue consists principally of amounts received under Preliminary Study Agreements to investigate the requirements for interconnecting independent power generation facilities to the transmission system. The amounts received are deferred and included in income when earned.

Leasehold Inducements

Leasehold inducements are monies advanced on an operating lease for premises by the property owner. Inducements are amortized over the period of the lease and reduce lease expenses.

Revenue Recognition

BCTC earns revenues under the Open Access Transmission Tariff (OATT). OATT revenue is recognized on an accrual basis as services are provided. Tariffs are applicable to network integration transmission services, point to point and ancillary services.

Revenues earned through the provision of non-tariff services to BC Hydro for asset management and maintenance, generation related transmission asset management, and generation dispatch are recognized on a straight-line basis over the term of the contract.

Revenues earned through the provision of non-tariff services to BC Hydro for distribution operations and substation distribution asset management are recognized on an accrual basis as services are provided.

Other non-tariff services include engineering services provided to third parties and are recognized on an accrual basis as services are provided.

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. Foreign exchange gains and losses are included in the determination of earnings.

Notes to the Financial Statements *For the Years Ended March 31, 2006 and 2005*

Pension and Other Retirement Benefit Plans

The actuarial determination of the accrued benefit obligation for pensions and other retirement benefits uses the projected benefit method prorated on service, which incorporates management's best estimate of future salary levels, health care cost escalation, retirement ages of employees and other actuarial factors. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains (losses) arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period, from differences in actuarial experience versus the assumed experience or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10 percent of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees is 11 years.

Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

Note 3: Regulation

Effective April 1, 2005, BCTC is regulated by the BCUC which approves the Company's revenue requirement, rates, tariffs and capital expenditures following open, public processes.

BCTC operates under cost of service regulation as prescribed by the BCUC. The Company applies to the BCUC for the approval of rates recovering an annual revenue requirement. The BCUC approved BCTC's OATT on June 24, 2005. For the year ended March 31, 2006, BCTC earned transmission revenues under tariffs that were projected to recover a 13.51% return on deemed equity. Special Direction No. 9 sets out BCTC's deemed equity structure for the purpose of setting rates.

The Master Agreement sets out BCTC's authority and responsibility for designing, developing and applying to the BCUC for the approval of Transmission Revenue Requirement, which includes both BCTC and BC Hydro transmission costs to be recovered through the OATT. There are three components to the Transmission Revenue Requirement:

1. BC Hydro Owner's Revenue Requirement
2. BC Hydro's Asset Management and Maintenance Revenue Requirement
3. BCTC Revenue Requirement

Under the OATT arrangement between BC Hydro and BCTC, the recovery of Asset Management and Maintenance Revenue Requirement is assigned by BC Hydro to BCTC as payment for the asset management and maintenance services provided by BCTC to BC Hydro under the Asset Management and Maintenance Agreement. Once the BCUC approved the OATT tariff, BCTC became responsible for the administration of the tariff including the offering, scheduling, billing and collection of transmission services and revenues. Under this agreement, BCTC bears the financial responsibility for funding any shortfalls or receiving surpluses in the total transmission revenue requirement for each fiscal year.

The BCUC approved a Revenue Deferral Account to recover shortfalls from or refund surpluses to customers through future rates. Consequently, BCTC's revenue deferral account includes a portion pertaining to BC Hydro's revenue requirement for transmission services. Under the Master Agreement, BCTC bills customers for the total amount to be recovered for BC Hydro and

Notes to the Financial Statements *For the Years Ended March 31, 2006 and 2005*

BCTC, collects payments from OATT customers and transfers the proportionate share of BC Hydro's Owner's Revenue Requirement to total Transmission Revenue Requirement to BC Hydro's bank account on a monthly basis. The balance represents the proportional share of the total of Asset Management and Maintenance and BCTC Revenue Requirement components to total Transmission Revenue Requirement, which remains with BCTC. Any excess or shortfall between actual payment to BC Hydro and its share of the approved transmission revenue requirement will be settled 60 days following the end of each fiscal year. Tariffs are applicable to network integration transmission services, point to point and ancillary services.

Commencing April 1, 2005 BCTC maintains BCUC approved deferral accounts for OATT related revenue, emergency maintenance costs, cost of market, regulatory expenditures, Grid West expenses and the System Control Modernization Study. The deferral accounts accumulate the difference between the BCUC approved amounts and the actual revenues and costs for recovery from/refund to customers through future rates as more fully described below.

Revenue Deferral Account

As outlined in the Master Agreement between BCTC and BC Hydro and designated by the Lieutenant Governor in Council on November 20, 2003, BCTC administers OATT for transmission services to recover its own costs as well as costs incurred by BC Hydro. BCTC therefore bears the financial responsibility for funding any short falls or receiving surpluses in the total OATT Revenue Requirement for each fiscal year. The BCUC has approved the establishment of the Revenue Deferral Account and other regulatory mechanisms to recover revenue shortfalls or refund revenue surpluses from customers. Consequently, BCTC's deferral account includes a portion pertaining to BC Hydro's Revenue Requirement for transmission services.

BCTC's Revenue Deferral Account captures annual variances between the forecast OATT revenues approved by the BCUC and the actual revenues for both BCTC and BC Hydro. BCTC reports the full amount of its own OATT revenue in Tariff revenue on the statement of operations. Any variance from forecast OATT revenues are deducted from earnings and recorded in the balance sheet deferral account. BC Hydro records its portion of the approved OATT revenues in its financial statements and these revenues are not recorded in the statements of BCTC. However any variance between BC Hydro's actual OATT revenues and BC Hydro's approved OATT revenue is recorded in BCTC's deferral account and an equivalent amount accrued as a receivable or payable to BC Hydro. The Revenue Deferral Account also includes variances relating to BCTC's ancillary service.

Emergency Maintenance Deferral Account

Captures the variances between forecast and actual non-capital emergency maintenance expenditures incurred as a result of unanticipated major equipment failures, extreme weather, wildfires or similar events.

Cost of Market Deferral Account

Captures variances between forecast and actual Cost of Market expenditures. Cost of Market Expenditures include:

- Congestion management expenses relating to the purchase of operating reserves, transmission location credits, unscheduled flow mitigation and operating agreements between control areas, and
- Ancillary services expenses BCTC incurs for all generation-based ancillary services that BCTC, in turn, sells to customers on a cost flow through basis.

Notes to the Financial Statements *For the Years Ended March 31, 2006 and 2005*

Regulatory Expense Deferral Account

Captures the variances between forecast and actual regulatory costs. These costs include BCTC's counsel, experts and staff, hearing costs associated with the applications and interveners costs as approved by the BCUC.

Grid West Expense Deferral Account

Captures the variances between forecast and actual expenditures. These costs include BCTC's counsel, consultants, travel and other out-of-pocket expenses.

System Control Modernization Study Deferral Account

Captures the project definition cost of the System Control Modernization Project.

Deferral Account Activity

BCTC has recorded the following amounts in respect to all deferral accounts, except for the System Control Modernization Study Deferral account, for the year ended March 31, 2006. The \$2 million actual cost recorded in the System Control Modernization Study Deferral account is capitalized as part of the project cost and included in the capital assets amount as unfinished construction. These costs were incurred prior to April 1, 2005.

The balances included in the regulatory deferral accounts are as follows:

<i>(\$ in thousands)</i>	Pertains to BCTC's Revenue Requirement	Pertains to BC Hydro's Revenue Requirement	Total Balance Sheet Impact Regulatory Liabilities	Decrease to BCTC's Net Income
Revenue	\$ 3,528	\$ 14,858	\$ 18,386	\$ 3,120
Emergency Maintenance	-	-	1,320	1,314
Cost of Market	-	-	1,263	1,261
Regulatory Expense	-	-	1,730	1,716
Grid West	-	-	694	689
Total	\$ 3,528	\$ 14,858	\$ 23,393	\$ 8,100

The Net Income impact described does not include the interest portion accruing on the Deferral Accounts whereas the Balance Sheet amounts include accrued interest. The Revenue Deferral Account amount of \$3,528,000 includes accrued interest of \$408,000. The interest recorded in each of the Deferral accounts was based on BCTC's weighted average cost of debt for F2006, 4.22%.

Note 4: Short Term Investments

<i>(\$ in thousands)</i>	2006	2005
Investments		
Short term bond unitized fund	\$ 3,553	\$ 3,188
Index government bond units	3,689	6,908
Total	\$ 7,242	\$ 10,096

Short term investments are recorded at their fair values.

Notes to the Financial Statements *For the Years Ended March 31, 2006 and 2005*

Note 5: Other Receivables

<i>(\$ in thousands)</i>	2006	2005
Mortgages receivable	\$ 330	\$ 847
Other long term receivable	-	495
Deferred debt costs	14	19
	\$ 344	\$ 1,361

BCTC has an Employee Housing Assistance Program, which grants five-year housing loans to employees. At March 31, 2006, there were two employee mortgages outstanding. These loans were issued at market rates and are secured by a second mortgage registered against their property. At the expiry of the mortgage term, the employees have the option to renew the mortgage for an additional five-year term.

Other long term receivable consisted of funding made to Grid West (formerly RTO West) pursuant to a funding agreement. Pursuant to the Master Agreement with BC Hydro, BCTC assumed all rights of BC Hydro as a "filing utility" in the Grid West development process and assumed the rights and obligations, including the funding obligation of BC Hydro under the RTO West Funding Agreement effective December 1, 2003. In January 2006, BCTC decided to suspend funding for the next phase of Grid West's development. On April 11, 2006, the Grid West Board of Directors voted to dissolve the corporation and wind-up its affairs. Grid West currently has few tangible assets that would serve as collateral for the outstanding loans. BCTC has written off the long term receivable.

Note 6: Prepaid Expenses

The long term prepaid expense balance as at March 31, 2006 relates to an initial asset utilization fee paid to BC Services Asset Corporation (SAC), a subsidiary of BC Hydro, pursuant to an agreement of key principles and terms with BC Hydro, upon which the current Master Services Agreement will be split between Accenture Business Services and BC Hydro and BCTC respectively. This fee is amortized over the utilization period of the related SAC assets, which is estimated to be 6.7 years commencing April 1, 2004.

<i>(\$ in thousands)</i>	2006	2005
Asset utilization fee payment	\$ 4,797	\$ 6,668
Other prepaid expenses	2,213	1,192
Less: Amortization	(2,356)	(995)
Less: Expensed due to non future usage	(60)	(876)
Total prepaid expenses at end of year	4,594	5,989
Less: Short term prepaid	(1,360)	(2,040)
Long term prepaid expense	\$ 3,234	\$ 3,949

Notes to the Financial Statements *For the Years Ended March 31, 2006 and 2005*
Note 7: Capital Assets
2006

<i>(\$ in thousands)</i>	Cost	Accumulated Depreciation	Total
Bentall Centre and Edmonds location:			
Buildings under capital lease	\$ 7,297	\$ (614)	\$ 6,683
Computer hardware and software	19,807	(6,254)	13,553
Communication equipment	420	(67)	353
Furniture and equipment	2,595	(391)	2,204
Leasehold improvements	2,660	(381)	2,279
	32,779	(7,707)	25,072
Other locations:			
Buildings	6,304	(2,294)	4,010
Computer hardware and software	19,692	(17,272)	2,420
Communication equipment	25,521	(12,848)	12,673
Furniture and equipment	3,668	(1,428)	2,240
Asset retirement obligation cost	142	(133)	9
Contribution in Aid of Construction	(144)	72	(72)
	55,183	(33,903)	21,280
	87,962	(41,610)	46,352
Unfinished construction	17,276	-	17,276
Total	\$ 105,238	\$ (41,610)	\$ 63,628

2005

<i>(\$ in thousands)</i>	Cost	Accumulated Depreciation	Total
Bentall Centre and Edmonds location:			
Buildings under capital lease	\$ 7,297	\$ (351)	\$ 6,946
Computer hardware and software	8,619	(1,712)	6,907
Communication equipment	410	(29)	381
Furniture and equipment	2,173	(243)	1,930
Leasehold improvements	1,865	(150)	1,715
	20,364	(2,485)	17,879
Other locations:			
Buildings	6,304	(742)	5,562
Computer hardware and software	18,821	(10,238)	8,583
Communication equipment	25,340	(7,994)	17,346
Furniture and equipment	3,668	(556)	3,112
Asset retirement obligation cost	142	(129)	13
Contribution in Aid of Construction	(144)	44	(100)
	54,131	(19,615)	34,516
	74,495	(22,100)	52,395
Unfinished construction	9,454	-	9,454
Total	\$ 83,949	\$ (22,100)	\$ 61,849

During Fiscal 2006, the Company formally scheduled the replacement of the existing control centre assets for October 2008 as a result of the System Control Modernization Project. These assets are depreciated over the earlier of the remaining life or the period to October 2008 and are shown under "Other Locations".

Notes to the Financial Statements *For the Years Ended March 31, 2006 and 2005*

Note 8: Transactions with Related Parties

- (a) BC Hydro pays the Company for the cost of system operation and asset management services and other services as follows:

<i>(\$ in thousands)</i>	2006	2005
Revenues from BC Hydro		
Tariff revenue	\$ 71,705	\$ -
Asset management and maintenance	90,200	-
Service fees and other	32,705	93,145
Total revenues from BC Hydro	\$ 194,610	\$ 93,145

- (b) The amounts due from (to) BC Hydro as at March 31 are as follows:

<i>(\$ in thousands)</i>	2006	2005
Tariff billing distributed to BC Hydro in excess of their Revenue Requirement	\$ 15,304	\$ -
Accrued tariff billing receivable (payable)	13,148	(1,842)
Service fees and cost recoveries	6,654	4,729
Services performed by BC Hydro and subsidiaries	(13,516)	(518)
BC Hydro loading charges refund	-	1,964
Costs paid by BC Hydro on behalf of BCTC	-	(2,988)
Total due from BC Hydro	\$ 21,590	\$ 1,345

- (c) Included in the operations, maintenance and administration expense is \$75,956,000 (2005 - \$3,867,000) for services purchased from BC Hydro and subsidiaries and \$5,763,000 (2005 - \$4,166,000) of labour overhead cost recoveries from BC Hydro. Included in capital expenditures is \$395,000 (2005 - \$1,793,000) for services purchased from BC Hydro.
- (d) Included in due from BC Hydro and deferred revenue is \$986,000 (2005 - \$ 66,000) of engineering and other services from BC Hydro in relation to systems studies.
- (e) In December 2003, the Company entered into lease contracts with BC Hydro for control centre buildings and land (see Note 19). Two building leases valued at BC Hydro's net book value of \$7,297,000 are accounted for as capital leases. These amounts have been included in the financial statements as capital assets and obligations under capital lease. At March 31, 2006, the balance of the obligations under capital lease was \$99,000 (2005 - \$93,000) current and \$6,947,000 (2005 - \$7,046,000) non-current. Included in finance charges is \$521,000 (2005 - \$528,000) of interest expense relating to the capital leases. Other land and building leases with BC Hydro are accounted for as operating leases. Included in the operations, maintenance and administration expense is \$200,000 (2005 - \$200,000) for these operating leases.

Notes to the Financial Statements *For the Years Ended March 31, 2006 and 2005*

Note 9: Accrued Employee Benefits

<i>(\$ in thousands)</i>	2006	2005
Registered pension plan (see Note 17)	\$ (800)	\$ (219)
Supplemental pension plan (see Note 17)	2,320	482
Total Accrued benefit liability	1,520	263
Post-retirement benefit costs (see Note 17)	8,490	7,744
Time bank liabilities	9,863	9,355
	\$ 19,873	\$ 17,362

The defined benefit costs for the year ended March 31, 2006 were \$3,217,000 (2005 - \$2,857,000).

Note 10: Asset Retirement Obligation

On April 1, 2004, the Company recorded an asset retirement obligation (ARO) for the system control centre facility as it is legally required to remove the facility at the end of its useful life (estimated to be October 2008) and to restore the site to its original condition in accordance with the lease agreement. The system control centre facility was placed in service by BC Hydro in 1974. This asset was transferred to the Company on December 1, 2003 under the Asset Lease, License and Transfer Agreement. The ARO liability for this facility is estimated to be \$1,000,000 at the end of October 2008, with timing of expenditures expected to commence in November 2009. The present value of this ARO liability, calculated to be \$795,000, was recorded in April 2004 using a credit adjusted risk free rate of 5.9%. BC Hydro paid the Company \$778,000 for its share of the ARO liability.

For the year ended March 31, 2006, amortization of the ARO cost was \$4,000. The liability was as follows:

<i>(\$ in thousands)</i>	2006	2005
ARO liability – beginning of period	\$ 842	\$ 795
Accretion expense	41	47
ARO liability – end of period	\$ 883	\$ 842

Note 11: Long Term Debt

In May 2004, the Company issued a debenture, series BCTR-CD-6(1) to the Province of British Columbia with a face value amount of \$30,000,000, a coupon rate of 4.3% and an effective interest rate of 4.1%. The balance at March 31, 2006 consists of the face value of the debenture, \$30,000,000 and \$140,000 of unamortized premium. The debenture is due on December 18, 2008 with interest payable semi-annually in June and December of each year.

The Company currently has no short term borrowings. Under the terms of an agreement with the Province of British Columbia, the Company is authorized to borrow up to \$25,000,000 under the short-term commercial paper program. Interest is charged at the prevailing money market rates. In addition, the Company has available a \$5,000,000 demand revolving line of credit with a chartered bank.

Notes to the Financial Statements *For the Years Ended March 31, 2006 and 2005*

Note 12: Share Capital

Authorized Share Capital

The Company is authorized to issue 10,000,000 common shares without par value.

Common Shares

	2006		2005	
	Shares	Amount	Shares	Amount
Issued at incorporation	1	\$ 1	1	\$ 1
Issued pursuant to Subscription Agreement for cash consideration	1	20,000,000	1	20,000,000
Issued and Outstanding	2	\$ 20,000,001	2	\$ 20,000,001

The Province of British Columbia owns both common shares.

Note 13: One Time Incentive Payment

On November 30, 2005 the Province of British Columbia announced a new negotiating framework which provided a one time incentive payment to BC public sector employees for settlement of their compensation agreement. Included in service fees and other revenue and operations, maintenance and administration is \$835,000 (2005 - \$0) received from the Province of British Columbia for the reimbursement and payment of the incentive bonus to all eligible employees.

Note 14: Cost of Market

Cost of market expenses include ancillary service and congestion management costs. Ancillary service costs include scheduling, system control and dispatch, reactive supply and voltage control, regulation and frequency response, energy imbalance, operating reserves and loss compensation. Ancillary service costs are needed with transmission service to maintain reliability within and among the control areas affected by the transmission service. Congestion management costs relate to the purchase of operating reserves, transmission locational credits, unscheduled flow mitigation, and operating agreements between control areas. Congestion management costs are incurred to maximize the transmission capacity available to be contracted by customers.

<i>(\$ in thousands)</i>	2006	2005
Congestion Management	\$ 916	\$ 758
Ancillary Services	3,623	-
	\$ 4,539	\$ 758

Note 15: Finance Charges

<i>(\$ in thousands)</i>	2006	2005
Interest on debenture	\$ 1,250	\$ 1,054
Interest on capital leases	521	528
Interest on deferral accounts	436	-
Interest on other	95	234
Less: Interest capitalized to construction	(308)	(261)
	\$ 1,994	\$ 1,555

Note 16: Financial Instruments and Concentration of Risk

Fair values

At March 31, 2006, the Company's financial instruments included cash and cash equivalents, short term investments, accounts receivable, other receivables, accounts payable and accrued liabilities, accrued interest, due from BC Hydro, accrued employee benefits, asset retirement obligation, long-term debt, and obligations under capital lease. The fair values of the Company's financial instruments approximate carrying amounts unless otherwise disclosed.

Credit Risk Management

BCTC is directly exposed to counterparty credit risk as a result of providing transmission and related services to its customers. BCTC's customers are utilities and their affiliates in the western United States and western Canada. Credit risk is managed by authorizing transactions with only credit-worthy counterparties as determined by BCTC Board-approved policies, and by monitoring the credit risk and credit standing of customers on a regular basis.

Foreign Currency Risk

BCTC's temporary investments are denominated in Canadian dollars and are not exposed to foreign exchange fluctuations.

Interest Rate Risk

For temporary investments, interest rate is minimized by investing in short-term fixed income pooled funds which are comprised of Government of Canada and provincial short-term paper. BCTC's investments are managed by bclMC.

The long-term debt bears a fixed interest rate for the loan. Consequently, the long-term debt risk exposure is minimal.

Note 17: Employee Benefit Plans

The Company provides a defined benefit registered pension plan to all employees ("Pension Plan"). Pension benefits are based on years of membership service and highest five-year average pensionable earnings. Employees make basic and indexing contributions to the plan funds based on a percentage of current pensionable earnings. Annual cost-of-living increases are provided to pensioners to the extent that funds are available in the indexing fund. The Company contributes amounts as prescribed by an independent actuary towards the cost of providing basic benefits under the plan.

In addition, the Company provides a supplementary pension arrangement that provides additional pension benefits to employees to the extent that their benefits under the registered pension plan are constrained by the maximum pension limits under the *Income Tax Act*. At March 31, 2006 the Supplemental Plan includes the minimum pension guarantee provided by BCTC to five (5) former employees of BC Hydro with prior service under one of the BC public service pension plans, as well as certain enhanced benefits payable to BCTC employees at the Vice-President level and above.

The Company provides post-retirement benefits other than pensions including medical, extended health and life insurance coverage for retirees who have at least ten years of service and qualify to receive pension benefits.

Notes to the Financial Statements *For the Years Ended March 31, 2006 and 2005*

The Company has measured its accrued benefit obligations and the fair value of plan assets for accounting purposes as at March 31, 2006. The most recent actuarial valuation of the Pension Plan for funding purposes was as of August 1, 2003, prepared by Mercer Human Resource Consulting. The next actuarial valuation of the Pension Plan for funding purposes will be prepared as at December 31, 2005.

The Pension Plan received an asset transfer from the BC Hydro Pension Plan on April 29, 2005 in relation to the 151 employees who elected to transfer their accrued pension as at August 1, 2003 from the BC Hydro Pension Plan to the Pension Plan. The amount of the transfer, including interest, was \$25,912,000. In addition, on this same date, a cash payment from BC Hydro in the amount of \$594,000 was also contributed into the Pension Plan. On January 16, 2006, the Pension Plan received \$514,000 in relation to the non-Order In Council (OIC) transfers from the BC Hydro Pension Plan. In total, the Pension Plan assets increased by \$27,020,000 as a result of amounts received from BC Hydro and the BC Hydro Pension Plan.

On April 29, 2005 and on January 16, 2006, the Company received cash payments to its general operating fund from BC Hydro in recognition of assuming benefits in respect of the Supplemental Plan of \$1,472,000 and \$26,000 respectively. Additionally, \$140,000 was transferred to the BC Hydro Pension Plan in relation to non-pension post-retirement benefits for employees who transferred from the Company to BC Hydro.

Elements of defined benefit costs

(\$ in thousands)	Pension Plans		Other Benefit Plans	
	2006	2005	2006	2005
Company current service cost				
Basic benefits	\$ 1,961	\$ 1,823	\$ 332	\$ 272
Indexing benefits	266	232	-	-
Interest cost	1,729	307	548	477
Actual return on plan assets	(3,179)	(135)	-	-
Special termination benefits	110	-	-	-
Actuarial loss (gain) on accrued benefit obligation	4,579	318	979	985
Costs arising in the period	5,466	2,545	1,859	1,734
Differences between costs arising in the period and costs recognized in the period in respect of:				
Return on plan assets	1,427	(119)	-	-
Actuarial gain	(4,575)	(318)	(960)	(985)
Net periodic pension cost recognized	\$ 2,318	\$ 2,108	\$ 899	\$ 749

Weighted-average assumptions for expense

	Pension Plans		Other Benefit Plans	
	2006	2005	2006	2005
Discount rate	6.0%	6.25%	6.0%	6.5%
Expected long-term rate of return on plan assets	7.0%	7.0%	-	-
Rate of compensation increase	3.5%	3.5%	3.5%	3.5%

Weighted-average assumptions for year end disclosure

	Pension Plans		Other Benefit Plans	
	2006	2005	2006	2005
Discount rate	5.4%	6.0%	5.4%	6.0%
Rate of compensation increase	3.5%	3.5%	3.5%	3.5%

Notes to the Financial Statements *For the Years Ended March 31, 2006 and 2005*
Change in accrued benefit obligation

(\$ in thousands)	Pension Plans		Other Benefit Plans	
	2006	2005	2006	2005
Accrued benefit obligation at beginning of period	\$ 6,410	\$ 2,437	\$ 8,816	\$ 7,086
Obligation assumed from (transferred to) BC Hydro	28,518	-	(140)	-
Company current service cost				
Basic benefits	1,961	1,823	332	272
Indexing benefits	266	232	-	-
Interest cost	1,729	307	548	477
Actual return on plan assets – indexing benefits	1,046	21	-	-
Employee contributions				
Basic benefits	1,249	1,099	4	-
Indexing benefits	265	232	-	-
Benefits paid	(332)	(59)	(17)	(4)
Special termination benefit	110	-	-	-
Actuarial loss	4,579	318	979	985
Accrued benefit obligation at end of period	\$ 45,801	\$ 6,410	\$ 10,522	\$ 8,816

Change in plan assets

(\$ in thousands)	Pension Plans		Other Benefit Plans	
	2006	2005	2006	2005
Fair value of plan assets at beginning of period	\$ 5,577	\$ 2,028	\$ -	\$ -
Assets transferred from BC Hydro	27,020	-	-	-
Actual return on plan assets				
Basic benefits	3,179	135	-	-
Indexing benefits	1,046	21	-	-
Company contributions				
Basic benefits	2,293	1,889	13	4
Indexing benefits	266	232	-	-
Employee contributions				
Basic benefits	1,249	1,099	4	-
Indexing benefits	265	232	-	-
Benefits paid	(332)	(59)	(17)	(4)
Fair value of plan assets at end of period	\$ 40,563	\$ 5,577	\$ -	\$ -

The pension obligations assumed from BC Hydro, in relation to those employees who elected to transfer their pension benefits to BCTC, were \$28,518,000. This amount is \$1,498,000 higher than the \$27,020,000 assets transferred to the pension fund as the assets transferred from BC Hydro in relation to the pension obligations under the supplemental pension plan were included in the Company's general operating fund. The supplemental pension plan is not a registered pension plan and the pension obligations are met by the Company's general revenue.

Reconciliation of funded status to accrued benefit asset

(\$ in thousands)	Pension Plans		Other Benefit Plans	
	2006	2005	2006	2005
Funded status - excess (deficit) at end of period	\$ (5,238)	\$ (833)	\$ (10,522)	\$ (8,816)
Employer contributions after measurement date	-	-	-	-
Unamortized net actuarial loss	3,718	570	2,032	1,072
Accrued benefit liability	\$ (1,520)	\$ (263)	\$ (8,490)	\$ (7,744)

Notes to the Financial Statements *For the Years Ended March 31, 2006 and 2005*

Pension Plan assets by asset category

	2006	2005
Equity securities	54%	50%
Debt securities	44%	44%
Cash and short term	2%	6%
Total	100%	100%

Assumed cost trend rates have a significant effect on the amounts reported for the other benefit plans. A 1% change in assumed cost trend rates would have the following effects for 2006:

<i>(\$ in thousands)</i>	1% Increase	1% Decrease
Total of service and interest cost	\$ 230	\$ (173)
Accrued benefit obligation	2,509	(1,921)

Note 18: Insurance and Indemnity

The Company employs a comprehensive Enterprise Risk Management (ERM) framework to identify, assess, mitigate and monitor its risk exposure. For some risks, the Company uses insurance as an effective mechanism for risk transfer.

As of April 2005, the Company was no longer indemnified by BC Hydro for losses incurred by the Company in excess of \$50 million. As a result, the Company had to secure additional coverage for excess liability in the insurance market. Overall, the Company's insurance coverage and limits are within the acceptable range of industry practices.

To date, there have been no indemnity claims made by the Company.

Note 19: Commitments and Contingencies

- (a) The Company has land and buildings under capital and operating leases with BC Hydro. As well, the Company has entered into agreements with BC Hydro to purchase engineering and field services. The future minimum payments under capital and operating leases, and service agreements with BC Hydro are approximately as follows:

<i>(\$ in thousands)</i>	Capital Leases	Operating Leases	Service Agreements
2007	\$ 614	\$ 200	\$ 73,771
2008	614	200	42,850
2009	614	145	42,850
2010	614	36	42,850
2011	614	36	34,280
2012 and subsequent years	12,665	734	51,420
Total future minimum payments	15,735	\$ 1,351	\$ 288,021
Less imputed interest	(8,689)		
Capital lease liability	\$ 7,046		
Less: current portion	(99)		
Long term portion of capital lease	\$ 6,947		

Notes to the Financial Statements *For the Years Ended March 31, 2006 and 2005*

Since 2004, an agreement has been in place between BC Hydro, BCTC and Accenture Business Services (ABS) through which BCTC takes services and pays prices under the Master Services Agreement (MSA) between ABS and BC Hydro on an interim basis while the parties attempt to negotiate a separate services agreement for BCTC. An agreement was reached between BC Hydro and BCTC on the key principles and terms to split the contract. The finalization of this agreement was put on hold pending negotiations between BC Hydro and ABS on establishing a Permanent Pricing Methodology (PPM) under the Master Services Agreement (MSA). The PPM is subject to approval by the BC Hydro Board of Directors on May 26, 2006. Following approval by the BC Hydro Board of the PPM, BCTC and BC Hydro will complete their negotiations with ABS for separate agreements.

The capital leases are for the Lower Mainland and South Interior Control Centres (LMCC and SICC). The System Modernization Control Project is set to go into service in October 2008, which may affect the Lower Mainland Control Centre lease. The financial statement impact of the LMCC capital lease is not determinable at this time.

- (b) The future minimum payments on the ten-year lease for Bentall office premises are approximately as follows:

<i>(\$ in thousands)</i>	
2007	\$ 1,536
2008	1,536
2009	1,586
2010	1,636
2011	1,636
2012 to 2014	4,093
	\$ 12,023

- (c) BCTC has entered into two contracts relating to the System Control Modernization Project. These include a \$14 million contract for the Energy Management System and a \$6 million contract for control centre design and engineering services to be completed by October 2008.