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MESSAGE FROM THE CHAIR

We are pleased to present the Annual Report of Partnerships British Columbia for 2003/04 and we are proud to say that the company is fast becoming a leader in assessing and implementing public private partnerships.

We ended the fiscal year – our first full year of operation – with eight projects under way in the procurement process. The projects, with a total capital value of approximately $3.5 billion, were designed to meet British Columbians’ infrastructure needs in areas such as transportation and health care. Despite a strong business case, there was one false start this year with the Coquihalla Highway project, which was cancelled early in the competitive process.

Underlying the project successes were many months of hard work – from putting in place a governance, business and operational framework to implementing a comprehensive human resource strategy. Partnerships British Columbia also invested (and will continue to invest) a great deal of energy in building strong relationships with public sector clients, private sector stakeholders and P3 organizations in Canada and around the world.

As we’ve built relationships, we’ve built our reputation and made significant progress towards becoming a Centre of Expertise in public private partnerships. For example, more than 300 businesses from Canada and elsewhere registered as users of the Partnerships British Columbia website and business directory during the year; a number of major P3 financiers have established operations in British Columbia since our inception; and, as part of our human resource strategy, we have attracted employees with international expertise to work in British Columbia.

We are determined to foster a healthy market and consistent approach to P3s in British Columbia and across the country, working with other provinces and various levels of government to attract a critical mass of P3 knowledge, experience and expertise for future projects.

We look forward to seeing the company reach its full potential as the province seeks creative ways to deliver roughly $10 billion worth of infrastructure improvements by 2010. Partnerships British Columbia will support this effort by scoping and supporting P3 opportunities wherever they deliver the best value for money solutions for British Columbians.

Rick Mahler
Chairman of the Board
Partnerships British Columbia
ACCOUNTABILITY STATEMENT

Partnerships British Columbia’s 2003/04 Annual Report was prepared under our direction in accordance with the Budget Transparency and Accountability Act. We are accountable for the contents of the report, including the selection of performance measures and the reported results. All significant decisions, events and identified risks as of April 2004 have been considered in preparing the report.

Sincerely,

Rick Mahler
Chair

Larry Blain
President and CEO
CORPORATE PROFILE

Partnerships British Columbia is a company owned by the Province and governed by a board of directors reporting to its sole shareholder, the Province of British Columbia, represented by the Minister of Finance. Partnerships British Columbia is governed by the British Columbia Business Corporations Act.

MAJOR PRODUCTS AND SERVICES
The company’s core business is to:

- Provide specialized services to government and its agencies in the procurement of major public projects, ranging from advice to business transaction and procurement management, to overall project management.
- Identify new opportunities to enhance the effectiveness of major capital asset procurement through public private partnerships.
- Foster a business and policy environment for successful public private partnerships and related activities by offering a centralized source of knowledge, understanding, expertise and practical experience in these areas.
- Manage an efficient and leading edge organization that meets or exceeds performance expectations.

LOCATION OF OPERATIONS
Partnerships British Columbia has corporate offices in Vancouver and Victoria, providing physical proximity to both public sector clients (primarily in Victoria) and private sector stakeholders (primarily in Vancouver). Project work takes place throughout British Columbia, consistent with the government’s strategic priorities.

PRINCIPAL MARKETS/CLIENTS SERVED
The company’s principal clients are public sector agencies, including ministries, Crown corporations, health authorities and post-secondary institutions.

Partnerships British Columbia also works with the wider P3 industry, including the financial market, the construction industry, facilities managers and business advisor services across Canada and worldwide. The company strives to offer all clients one-window access to P3 advice, information and expertise.

PUBLIC PURPOSE
Partnerships British Columbia was established to bring together public and private sector expertise in order to facilitate public private partnerships, particularly partnerships involving capital projects. Aging infrastructure and increased demand has created an infrastructure deficit in British Columbia.

The Government of British Columbia has stated its intention to modernize government and to find more efficient and effective ways of providing services and infrastructure in support of health care, transportation, education and other priority programs. The government’s strategic plan specifically calls for the establishment of “public private partnerships or other alternative service delivery arrangements for capital infrastructure and program delivery.”

Public private partnerships provide government with another tool, where appropriate, to address infrastructure needs. By allocating responsibilities and risk to the sector best able to handle them, public private partnerships provide governments and citizens with improved value for money on capital projects.
ORGANIZATIONAL OVERVIEW

MISSION
Partnerships British Columbia serves the public interest by structuring and implementing public private partnerships. The company is committed to commercial viability, transparent operations, and achieving wide recognition for its innovation, leadership and expertise in public procurement.

VALUES

<table>
<thead>
<tr>
<th>Obtaining Value for Money</th>
<th>CORRESPONDING LEADERSHIP PHILOSOPHY</th>
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<tbody>
<tr>
<td></td>
<td>• explore &amp; encourage innovation, new ideas and partnerships for infrastructure solutions that result in value for money</td>
</tr>
<tr>
<td></td>
<td>• explore opportunities to increase social, economic, environmental, or other benefits derived from infrastructure investments</td>
</tr>
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</table>

| Serving the Public Interest | • ensure that public interest issues are assessed and protected in developing solutions to infrastructure challenges |
|                           | • provide public agencies with tools and support to identify, evaluate, allocate and manage risk effectively |

| Competition and Transparency | • ensure that all activities engaged in by Partnerships British Columbia and its staff maintain the highest levels of fairness and openness |

| Strong Accountability | • measure and report on performance at all levels |
|                      | • recognize achievement and benefit from lessons learned |

| Respect and Integrity | • focus on clients, provide leadership, encourage teamwork and value diversity and differences of opinion |
|                      | • protect confidentiality of commercial information |
THE YEAR IN REVIEW – PROJECT HIGHLIGHTS

As of April 1, 2004, Partnerships British Columbia had eight public private partnership projects underway in a procurement process, in addition to a number of other projects under development, and related projects underway. The company expects eight projects, worth $3.5 billion will close by April 2005 and seven projects will be under construction by the same date. Two projects, the Sea to Sky Highway Improvement Project and the Sierra Yoyo Desan Road, are already under construction. Listed below are the majority of Partnerships British Columbia’s projects.

**Abbotsford Regional Hospital and Cancer Centre**
The Abbotsford Regional Hospital and Cancer Centre is planned as a state-of-the-art 300-bed replacement for the aging MSA Hospital in Abbotsford. The facility will offer several enhanced programs, including integrating a new cancer treatment centre that will be part of the provincial network operated by the BC Cancer Agency. The cancer centre will provide much-needed diagnostic and treatment services.

Partnerships British Columbia’s role in this project is as project manager, which includes overseeing all aspects of the project including planning and scheduling, procurement, contract management, project development and financial controls.

An agreement is expected to be signed, and construction underway in fall of 2004. Construction completion and commissioning will be complete by early 2008.

**Academic Ambulatory Care Centre**
The Academic Ambulatory Care Centre (AACC), to be built on the Vancouver General Hospital site, will coordinate outpatient care and services—including associated specialty clinics, along with medical education, physician practice offices, research and related commercial/retail activities—at one site.

Partnerships British Columbia’s role in this project is to assist throughout the procurement process.

An agreement is expected to be signed in summer of 2004, with construction underway by fall of 2004.

**Britannia Mine Water Treatment Plant**
An acid-water treatment plant is planned at the former Britannia Mine site near Squamish, British Columbia. Once the largest copper mine producer in the British Commonwealth, the Britannia Mine has been a major source of acid mine water pollution in Howe Sound since its closure in the mid-1970’s and is currently the largest sources of acid rock drainage to a marine environment in North America.

Partnerships British Columbia’s role is to develop the business transaction for a design, build, finance and operate contract for a water treatment plant at Britannia Mine, and to work with the Ministry of Sustainable Resource Management to manage the procurement process.

An agreement is expected to be signed, and construction underway by fall of 2004.

**New Fraser River Crossing**
The New Fraser River Crossing will improve the movement of goods and people between the north and south sides of the Fraser River in the Greater Vancouver region. Expected to open in 2007, the new crossing will reduce
travel times across this part of the river by a minimum of 20 to 30 minutes for drivers in Greater Vancouver.

Partnerships British Columbia’s role in this project is to support Translink and the Fraser River Crossing project team in developing and implementing the business transaction and procurement phase.

An agreement is expected to be signed by the end of 2004, with construction underway soon thereafter.

**Okanagan Lake Bridge**

A new, five-lane bridge is planned to replace the existing floating bridge across Lake Okanagan in Kelowna. A private sector partner will design, finance, build and operate the new bridge under a contract for service with performance-based payments.

Partnerships British Columbia’s role is to advise the Ministry of Transportation on the business transaction and work with the project team on the procurement process.

An agreement is expected to be signed by spring 2005, with preliminary construction by Ministry of Transportation to begin by fall 2004 in order to advance timelines for the project.

**Richmond-Airport-Vancouver (RAV) Rapid Transit Line**

The RAV project is a proposed, 19.5-kilometre rail rapid transit line connecting central Richmond, the Vancouver International Airport and downtown Vancouver. It is estimated that, depending upon configuration, the line will cost CDN $1.5 to $1.7 billion. Under the proposed deal structure, the private sector partner would be responsible for design, financing, construction and operation of the rail rapid transit line. This project is sponsored and managed by Translink.

Partnerships British Columbia’s role has been to advise the Province with respect to its investment in the project.

**Sea-to-Sky Highway Improvement Project**

The Sea-to-Sky Highway links communities from West Vancouver to Whistler. Set in a spectacular mountain landscape, the highway presents complex engineering and construction challenges.

British Columbia’s Ministry of Transportation is undertaking improvements to the highway between Horseshoe Bay and Whistler to improve its safety, reliability and capacity. By spring 2009, extensive highway improvements will make travel along the corridor safer for residents, commuters and tourists. This must be completed prior to the Olympics. Over the longer term, highway improvements will serve population growth, economic development in corridor communities and increasing demand for resident travel, visitor travel and goods movement.

Partnerships British Columbia’s role is to advise the Ministry of Transportation on the business transaction and work with the project team on the procurement process.

Construction is already underway to advance timelines for the project and an agreement is expected to be signed by March / April 2005.

**Sierra Yoyo Desan (SYD) Road**

The SYD Road is a 188 kilometre multi-user resource road located northeast of Fort Nelson. The SYD Road is currently operating under a partnership, established in 1998, between industry and government, with companies paying for the use of the road. A major upgrade of the SYD Road is now
required to facilitate all-season oil and gas activities as part of the Province’s Oil and Gas Development Strategy.

Partnerships British Columbia’s role is to advise the Ministry of Energy & Mines on the business transaction and to work with the project team on the procurement process.

Construction is already underway and an agreement is expected to be signed in May 2005.

ADDITIONAL PROJECTS UNDERWAY

**Bridge Studios** – As part of its core review process, the Government of British Columbia determined it was appropriate to sell the Bridge Studios, located in Burnaby, British Columbia. Partnerships British Columbia managed the negotiations, on behalf of the Provincial Government, with the private purchaser.

**Burns Bog** – The Government of British Columbia, together with the Government of Canada, the Greater Vancouver Regional District (GVRD) and the Corporation of Delta reached an agreement to protect and preserve Burns Bog. Partnerships British Columbia facilitated the agreement on behalf of the province.

**Knowledge Network** – Knowledge Network has evolved over the last two decades from its original mandate to deliver television-led, formal educational courses and curriculum. With the growing trend among educators and students to use the Internet and online delivery for distance education, the role of Knowledge Network has shifted from direct educational delivery to providing life-long educational programming.

Partnerships British Columbia is leading the process on behalf of the Ministry of Advanced Education to locate a private or non-profit sector partner which will assume the role of the province’s educational television broadcaster.

**Land Title Registry** – Partnerships British Columbia carried out the financial feasibility analysis and prepared the business case for the creation of the new Land Title Registry. Partnerships British Columbia’s work led to the creation of a new independent authority to improve and expand the province’s land title and survey system.

**Pacific National Exhibition** – Partnerships British Columbia negotiated an agreement on behalf of the Province to transfer the management and operation of the Pacific National Exhibition (PNE) to the City of Vancouver in order to strengthen local involvement in shaping the PNE well into the future. The City of Vancouver assumed control of the PNE in January 2004.

PROJECTS UNDER DEVELOPMENT

Partnerships British Columbia is currently undertaking a business case analysis to determine if Phase 2 of the Kicking Horse Canyon highway improvement project (Park Bridge to Brake Check) delivers value for money as a performance based public private partnership.

Further, Partnerships British Columbia is also involved in a number of other projects at an early stage to investigate the potential for a partnership to deliver value for money. These projects include the transportation and healthcare sectors, long-term care, municipal water treatment plants, and others.
GOALS AND OBJECTIVES
Consistent with the government’s strategic plan to deliver public services effectively and affordably, increase private sector investment in the province and develop new solutions to infrastructure challenges, Partnerships British Columbia had three goals in 2003/04. These are listed below, along with their objectives.

Details on current strategies, targets and results are presented later in this section, following a discussion of changes Partnerships British Columbia has made to its goals, objectives and performance measures for the upcoming year.

GOALS

Goal # 1: Develop public private partnerships and innovative service approaches that result in value for money while protecting the public interest.

- To identify and assess opportunities for public private partnerships and related projects.
- To work with public agencies to deliver public private partnerships and related projects.
- To ensure sound business case analysis and management processes throughout project lifecycles.
- To assist public agencies in assessing and realizing value for money and reducing transaction costs.

Goal # 2: Become a commercially viable organization.

- To maximize revenues through the optimal use of resources.
- To equip Partnerships British Columbia with the mix of staff required to achieve its mission and vision.
- To ensure accountability to the shareholder.
- To foster a working environment that encourages flexibility, creativity and adaptability.

Goal # 3: Increase provincial P3 capacity.

- To build a positive climate for the development of successful public private partnerships and related activities.
- To provide practical expertise and experience in provincial infrastructure procurement and P3 implementation.
- To stimulate the development of P3 knowledge and experience throughout the public and private sectors, positioning British Columbia as a global leader in innovative service delivery.
CHANGES IN GOALS, OBJECTIVES AND PERFORMANCE MEASURES

Based on the goals, strategies, measures and targets established for 2003/04, most results were achieved. Many of these were interim in nature, including for example the completion of a business plan and operational framework. A human resource strategy and a project management system were also developed in 2003/04 for full implementation in 2004/05.

Since last year’s service plan, Partnerships British Columbia has significantly changed its performance measures from those described in the company’s first service plan. The company is only now completing its first full fiscal year of operations and is adapting its planning and reporting to accommodate the changes that have occurred in this start-up period.

Over the past year a new Board of Directors was appointed to govern Partnerships British Columbia and the board’s oversight has become integral to planning and performance measures. This oversight function is now more clearly enunciated in the new performance measures in the 2004/05 to 2006/07 Service Plan.

The company’s staffing mix also changed and recent restructuring of the executive is further refining the company’s business model.

Finally, exposure to the market through initial projects has meant that the performance measures conceived in the company’s early stages no longer reflect or properly measure the evolving business model. In response to this dynamic environment Partnerships British Columbia is adapting its measures as it becomes more familiar with the public private partnership industry.

By building stronger relationships with clients, customers and other stakeholders, Partnerships British Columbia is becoming better equipped to properly plan and measure its success. As the year progressed and the company evolved, so too did its goals, objectives and approach to measuring key aspects of corporate performance. In some cases, benchmarks were to be established in 2003/04 but were not because the company had chosen more appropriate and relevant performance measures tied to its goals for 2004/05 and beyond.

The new goals are:

1. Pursue, structure and implement public private partnerships
2. Satisfy clients
3. Become commercially viable
4. Serve public interest and ensure fair processes
5. Become widely recognized as a Centre of Expertise

Performance measures for those goals will include:

- meeting project milestones including financial closings and new project engagements;
- an annual client satisfaction review that includes quantitative measures;
- success in meeting budget targets;
- measurements of equity against one-year operating expenses;
- value for money assessments and fairness and probity opinions on all projects (to be released after every financial closing); and
- functional management accountabilities accepted by the Board of Directors.

For a detailed discussion of future goals and performance measures, see the company’s Service Plan for 2004/05 – 2006/07.
KEY STRATEGIES AND RESULTS – PERFORMANCE IN 2003/04

Following is an overview of the key strategies used by Partnerships British Columbia to reach its goals, and the results achieved. This is notwithstanding that more comprehensive goals and strategies have been developed in the 2004/05 to 2006/07 Service Plan, as discussed earlier.

<table>
<thead>
<tr>
<th>STRATEGIES</th>
<th>RESULTS</th>
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<tr>
<td><strong>Goal #1:</strong> Develop public private partnerships and innovative service approaches that result in value for money while protecting the public interest.</td>
<td>• Partnerships British Columbia has established contractual relationships with a number of government agencies, including the ministries of health, transportation, energy and mines, and sustainable resource management, as well as a number of health authorities. Partnerships British Columbia has also developed good working relationships with a number of current and potential project proponents, and with firms and individuals in the legal, accounting and management consulting sectors, helping to draw international expertise to the province.</td>
</tr>
<tr>
<td>• Build strong working relationships with public and private agencies.</td>
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<tr>
<td>• Manage P3 and other related procurement processes (e.g. prepare solicitation documents such as Expressions of Interest and Requests for Proposals, negotiate contract terms with private sector partners and service providers).</td>
<td>• As of April 1, 2004, Partnerships British Columbia was managing or advising on 16 P3 or strategic asset disposition projects. Eight of these were in the market, with a total value of approximately $3.5 billion.</td>
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**Goal #2:** Become a commercially viable organization

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<tr>
<th>STRATEGIES</th>
<th>RESULTS</th>
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<tr>
<td>• Develop and implement a medium-term Business Plan that specifies priority P3 projects and business development activities.</td>
<td>• Partnerships British Columbia has a Business Development Plan which articulates a strategy for ensuring the company’s future viability, targeting new opportunities in long-term care, post-secondary institutions and water treatment facilities.</td>
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<td>• Complete and implement a performance-based human resource strategy and compensation framework; this includes assembling the diverse mix of private and public sector skills and expertise required, and complementing these with outside expertise (“stable” of qualified industry specific resources).</td>
<td>• Partnerships British Columbia ended 2003/04 with a staffing mix that includes considerable public and private sector expertise. Staff have been recruited from the United Kingdom as well as from across Canada, and many have considerable experience in both the public and private sectors. Areas of staff expertise include banking, financial management, public policy, and corporate and government relations.</td>
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<tr>
<td>STRATEGIES</td>
<td>RESULTS</td>
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<tr>
<td><strong>Goal #3: Increase Provincial P3 Capacity</strong></td>
<td><strong>Goal #3: Increase Provincial P3 Capacity</strong></td>
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<tr>
<td>- Develop strategic alliances with other P3 organizations and experts to expand British Columbia's knowledge and expertise.</td>
<td>- Partnerships British Columbia has developed strategic alliances with the government of the United Kingdom, its National Health Service and its P3 organization, Partnerships UK. Strategic links have also been forged with organizations in Australia, Spain and Brazil. Within Canada, Partnerships British Columbia is working with the several provincial and territorial governments to assess opportunities for cross-jurisdiction cooperation and to help establish a consistent national approach to developing and implementing public private partnerships.</td>
</tr>
<tr>
<td>- Provide a consistent point of access to government for potential private sector partners.</td>
<td>- During 2003/04, the Partnerships British Columbia website and business directory had 318 businesses register as active users, building on the company’s growing reputation as the chief point of access for private sector partners interested in P3s in British Columbia. Partnerships British Columbia also established ongoing working relationships with the business, financial, technical and legal advisory communities.</td>
</tr>
<tr>
<td>- Conduct forums and educational seminars to raise levels of knowledge and awareness on the benefits of public private partnerships and related opportunities in both the public and private sectors.</td>
<td>- Partnerships British Columbia staff presented at over 40 conferences, seminars and public speaking opportunities in 2003/04. Partnerships British Columbia staff regularly attend conferences and educational seminars in order to maintain the company’s knowledge advantage.</td>
</tr>
<tr>
<td>- Develop a central repository of P3 and related knowledge and expertise.</td>
<td>- Partnerships British Columbia has created and staffed an Office of Policy and Practices to lead the company’s knowledge management efforts which in turn support the development of a Centre of Expertise as the repository of intellectual capital.</td>
</tr>
<tr>
<td>- Establish a P3 information website including an online business directory.</td>
<td>- A regularly updated website has been established. The site provides information about public private partnerships in general and specific opportunities. The site includes a business directory for prospective private sector partners.</td>
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EXTERNAL ECONOMIC AND INDUSTRY FACTORS

P3 Market Size & Capacity
P3 markets worldwide are still in early stages of development. This allows Partnerships British Columbia to take a lead role in developing knowledge and experience and gaining recognition as a Centre of Expertise on P3s.

At the same time, the growth in the number of projects undertaken in British Columbia will be in direct competition with other jurisdictions. External factors will therefore play a significant part in Partnerships British Columbia’s success and the company may face challenges related to:

- growth of P3 markets in competing jurisdictions,
- general private sector interest in public private partnerships worldwide,
- development of private sector P3 capacity within British Columbia, and
- BC population growth and demographic shifts.

To meet these challenges, Partnerships British Columbia is developing relationships with other P3 stakeholders and business partners. This will ensure the continuous transfer of knowledge related to best practices. It will also support the development of a vibrant P3 community in BC, providing resources that will help offset capacity-related risks.

Construction Resource Pressures
Non-residential capital spending in BC is expected to be valued at more than $10 billion over the next six years. This represents considerable opportunity for the company, but may also create significant cost pressures on projects, as well as the possibility of labour shortages.

British Columbia is already seeing significantly higher costs for many construction materials and has a limited pool of general and sub contractors. There will be considerable pressure on this pool to meet the province’s construction demands. At present in BC, there are approximately 50,000 workers available in the institutional, construction, industrial and road building sectors. There may be a need for over 18,000 additional workers during peak building years between now and 2010.

National Infrastructure Deficit
Partnerships British Columbia is well positioned to take advantage of business opportunities arising from the growing need for infrastructure upgrading nation-wide. The Canadian Society of Civil Engineering estimates the cost to rehabilitate Canada’s civil infrastructure system at the municipal level is $57 billion, representing 70% of Canada’s total civil infrastructure. Canadians have already used 79% of the country’s infrastructure life expectancy.¹ This backlog of demand indicates a continued need for innovative and alternative forms of capital asset procurement.

Partnerships British Columbia is working directly with governments other provinces and territories to identify opportunities for future cooperation. It is also working to ensure a consistent approach to P3 development across the country.

Public Interest
As a public agency entrusted with a role in serving the public interest, Partnerships British Columbia is sensitive to public opinion regarding P3 projects and the industry in general. The relative newness of public private partnerships presents opportunities to demonstrate their value and contribute to public understanding and awareness.

The novelty of public private partnerships also poses risks. Until Partnerships British Columbia establishes a track record, it will be vulnerable to certain types of criticisms, whether these are founded or not. For example, some opponents claim P3s are tantamount to privatization, or that they represent reductions in public services.

Partnerships British Columbia will counter these assertions by ensuring its projects are successful in achieving and demonstrating value for money, in managing processes that are competitive, fair and transparent, and being open and accessible to stakeholders, including public opinion leaders and the media.

SIGNIFICANT RISKS AND CAPACITY ISSUES (INTERNAL FACTORS)

Internal P3 Experience and Capacity
Partnerships British Columbia is a young organization, building the experience and skill sets it needs to be a leader in providing P3 products and services, and ensuring that it provides added value to its public sector agency clients. The company will have unparalleled opportunities for learning and development in the coming years as BC moves forward to implement public private partnerships.

At the same time, Partnerships British Columbia continues to face the critical challenge of balancing demand for its services with the practical limitations of its corporate capacity to ensure successful performance at both the project and organizational levels.

To mitigate the risks associated with this challenge, Partnerships British Columbia has developed, and is continuing to refine and apply, robust screening criteria to determine the viability of potential projects and their consistency with Partnerships British Columbia’s strategic priorities and operational capacity (e.g. technical, financial, policy and public interest criteria) and has developed project inventories that help match operational capacity with project priorities and demands.

The company has also implemented business development strategies and established strong communications and business relationships to generate a critical mass of project opportunities. Its focus on ensuring early project successes encourages identification of new project opportunities.

Legislative and Policy Environment
The Province’s legislative and policy environment continues to evolve in ways that enable and encourage the consideration of public private partnerships. As more projects are undertaken, further changes may be required to facilitate projects and maintain an attractive, competitive marketplace.

Partnerships British Columbia will continue to work closely with the Province to determine what future legislative and regulatory changes may be needed to achieve value for money on projects while protecting the public and stakeholders’ interests.

Risk Allocation and Management
As the Province gains experience with public private partnerships, both the public and private sectors have increased, and will
continue to increase, their capacity to address service delivery challenges, and to identify optimum approaches to risk sharing. This is improving value for money and allowing public agencies to focus more time and resources on their core businesses.

At the same time, the relative newness of the P3 approach continues to present its own risks. Recognizing this, Partnerships British Columbia is developing strategies and expertise to ensure that risks are identified and managed effectively throughout project life cycles, from pre-planning through financial close (i.e. the formal completion of partnership agreements), implementation, operation, and renewal or disposal.

These strategies will include ensuring public interest policy parameters are established early in project planning and appropriate screening criteria are applied, taking into consideration key public interest issues; applying appropriate evaluation techniques and sound business case processes to support informed decision-making; ensuring appropriate contract structuring, documentation and management to achieve value for money and protect the public interest; continuing to promote awareness and understanding of public private partnerships; and identifying and proactively managing project-related barriers.

**Partnerships British Columbia as an Agent of Government**

As an agent of government, Partnerships British Columbia is not independent. It requires the Province’s support and approval to begin major projects and to see them through to completion. Accordingly, it faces risks related to potential changes in government direction and priority-setting. For example, the government’s decision in 2003 to not proceed with the Coquihalla Highway P3 had direct impacts on the company’s business plan.

Partnerships British Columbia’s work is also affected by the rules, constraints and outcomes specified by government for each public private partnership and cannot engage private sector partners until these specifics are articulated. This creates opportunities to customize agreements to best meet both sectors’ needs. It also underlines the need for Partnerships British Columbia to work closely with the Province to ensure that partnership arrangements are consistent with the government’s strategic priorities.
KEY STRATEGIES THAT LED TO ACHIEVEMENT OF RESULTS

Partnerships British Columbia employed a number of strategies in order to achieve success. These include:

1. Strengthening relationships with client agencies – Partnerships British Columbia has developed strong working relationships with its key clients in the provincial government. These relationships are critical to ongoing project flow and to ensuring that public sector agencies are satisfied that the public interest is being served and that value for money is achieved.

2. Building the team – Partnerships British Columbia’s approach to human resources is critical to the Company’s ongoing success. Given that the Company’s services are knowledge based, commitment to building a high calibre and cohesive staff is critical to Partnerships British Columbia’s long term viability. Related to this is the effective work of Partnerships British Columbia’s Board of Directors and its commitment to effective corporate governance.

3. Developing the P3 market – Partnerships British Columbia knows that stakeholder communications are critical to the success of the Company and its projects and develops effective communications planning for all projects. By ensuring stakeholders are aware and kept informed of projects and their progress, Partnerships British Columbia helps build awareness and support for future projects and partnerships.

4. Achieving value for money – Partnerships British Columbia has expended considerable resources to develop tools and methods to monitor and ensure value for money is achieved on all projects undertaken, and to further demonstrate and communicate the value for money results of its projects.

5. Managing fair open and transparent processes that ensure proper project selection and implementation – Partnerships British Columbia, through its Board, applied rigorous assessment to the selection of partnership projects. The Company is not committed simply to advancing partnerships projects; rather it is committed to advancing only those projects where partnership arrangements are appropriate and best suited. By maintaining a selective approach, Partnerships British Columbia helps ensure that the projects it undertakes are appropriate, successful and in the public interest.

6. Harvesting knowledge and creating a Centre of Expertise – Through its commitment to effective staffing and value for money, Partnerships British Columbia has realized that harvesting and retaining knowledge gained from each project or piece of work is critical. By recognizing this, the Company can commit to lowering transaction costs and improving project timelines. Already Partnerships British Columbia is benefiting from the accumulation of knowledge and experience gained in previous projects.
MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis section reports on Partnerships British Columbia’s consolidated results and financial position. This discussion should be read in conjunction with the consolidated financial statements of the Company and related notes. This report contains forward-looking statements, including statements regarding business and anticipated financial performance of Partnerships British Columbia. Forward-looking statements are subject to a number of risks and uncertainties that may cause actual results or performance to differ materially from those expressed or implied.

OVERVIEW

Partnerships British Columbia had significantly more projects underway this year resulting in a net income of $1,965,993, as compared to a net loss of $26,930 in the prior year. The increase in 2004, when compared to 2003, is due primarily to the recognition of completion fees from the Pacific National Exhibition project and the milestone payments from Abbotsford Regional Hospital and Cancer Centre project.

REVENUE

Revenue is up significantly in 2004 compared to 2003. Total revenues of $13,572,265 were $6,932,598 higher than the previous year. Total revenues net of recoveries were $7,424,651, up $3,924,214 or 112% over the previous year (refer to Table 1).

<table>
<thead>
<tr>
<th>Revenues</th>
<th>2004</th>
<th>2003</th>
<th>Change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work Fees</td>
<td>$3,105,824</td>
<td>$3,075,496</td>
<td>$30,328</td>
<td>10,141</td>
</tr>
<tr>
<td>Milestone/Completion Fees</td>
<td>2,141,000</td>
<td>-</td>
<td>2,141,000</td>
<td>-</td>
</tr>
<tr>
<td>Provincial Government Revenue</td>
<td>2,100,000</td>
<td>3,353,000</td>
<td>(1,253,000)</td>
<td>(37)</td>
</tr>
<tr>
<td>Project Recoveries</td>
<td>6,147,614</td>
<td>3,139,230</td>
<td>3,008,384</td>
<td>96</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>77,827</td>
<td>117,109</td>
<td>(39,282)</td>
<td>(34)</td>
</tr>
<tr>
<td>Totals</td>
<td>$13,572,265</td>
<td>$6,639,667</td>
<td>$6,932,598</td>
<td>104</td>
</tr>
</tbody>
</table>

Table 1

Partnerships British Columbia’s revenue by source is represented graphically in Figure 1 and indicates the corresponding percentage for each source.

Figure 1

Fees for services of $5,246,824 in 2004 were significantly greater than the $30,328 reported in the prior year. Fees for services consist primarily of Work Fees, Milestone Payments and Completion Fees.
**Work Fees**
Revenue was recognized from several provincial government sources including:
- Ministry of Transportation
- Ministry of Advanced Education
- Ministry of Energy and Mines
- Ministry of Sustainable Resources

Non-ministry revenue was derived primarily from Translink and the Resort Municipality of Whistler.

Partnerships British Columbia’s revenue by sector is represented graphically in Figure 2 and indicates the corresponding percentage for each.

![PBC 2003/04 Revenue by Sector](image)

**Figure 2**

**Milestone Payments / Completion Fees**
Milestone payments were recognized for Ministry of Transportation projects in the amount of $147,500. It was agreed by the client that the milestones were met and that Partnerships British Columbia was entitled to a performance adjustment under the terms of the engagement.

Milestone payments of $2 million were recognized in 2004 compared to zero in the prior year. The largest completion fee was obtained from the Ministry of Health Services for work completed on the Abbotsford Regional Hospital and Cancer Centre. An additional $500,000 was recognized for work on the Pacific National Exhibition Project. Other completion fees include $393,500 recognized for the Burns Bog project.

Several significant projects generated substantial revenues compared to the previous year. These projects included:
- Abbotsford Regional Hospital and Cancer Centre
- Transportation Services
- Gateway
- Okanagan Lake Bridge
- Sea to Sky Highway Improvement Project
- Richmond-Airport-Vancouver Rapid Transit Line
- New Fraser River Crossing
- Sierra Yoyo Desan Road
- Pacific National Exhibition
- Burns Bog

Additional revenue of $1.5 million was recognized for professional services and advice provided on transportation and other projects.

Partnerships British Columbia’s revenue by major project is represented graphically in Figure 3 and indicates the corresponding percentage for each.

---

2 Work fees are considered revenue recognized for services rendered in the period based on extent of progress or percentage of deliverables completed.
3 Milestone and completion fees are considered revenue recognized only when the rendering of services under contract is completed or substantially completed or the milestone is achieved. Milestone and completion fees are considered part of Fees for Service.
Project Recoveries
Project recoveries of $6,147,614 were $3 million higher than the previous year. Project expenses and recoveries associated with the Abbotsford Regional Hospital and Cancer Centre were recorded as a deferred capital contribution. The remaining project recoveries represent reimbursable project expenses.

Other Revenue
Other revenue consists of interest from investments and interest on the $1.5 million note receivable from the Fraser Health Authority for the land purchase. The interest on the note is accrued and paid at “Financial Close” which is expected in the fall of 2004.

EXPENSES

Salaries and Benefits
Salaries and benefits amounted to $3,436,274 in 2004, compared to $1,929,609 in 2003. The increase of $1,506,665 over the prior year is primarily due to a full year’s operations with full staffing complement and $575,000 for performance pay paid following employee performance review and in accordance with employee conditions of employment.

Professional Services
Professional services amounted to $517,263 in 2004, compared to $815,091 in 2003. This decrease is primarily due to a reduction in professional service contracts associated with a startup company. In addition, a number of significant contracts associated with Capital Division completed in 2002/03.

Building Occupancy
Building occupancy costs amounted to $330,882 in 2004, compared to $201,752 in 2003. This increase is primarily due to the costs associated with opening the Vancouver office, a necessity in order to be more accessible to the business community and to facilitate Lower Mainland based project offices.

Administration
Administration costs amounted to $301,882 in 2004, compared to $251,018 in 2003 although administrative costs decreased as a percentage of gross revenue. This increase in costs in 2004 is primarily due to new project engagements that required additional staff, and the increased costs associated with operating two offices – one in Victoria and one in Vancouver. Both offices are necessary to ensure a close working relationship with public sector clients in Victoria and the private sector investment community in Vancouver.

Travel
Travel costs amounted to $188,404 in 2004, compared to $102,149 in 2003. This increase is primarily due to increased project related travel.
**Information Systems**
Information systems expenditures amounted to $168,055 in 2004, compared to $126,531 in 2003. The higher costs in 2003/04 are attributed to the installation and setup of the Vancouver office, setup of the wireless network, as well as, additional users.

**Communication/Marketing**
Communications costs amounted to $76,218 in 2004, compared to $13,864 in 2003. This increase is primarily due to an increase in the number of active P3 projects and the associated communication and marketing costs.

**Human Resources Costs**
Human resources costs amounted to $41,939 in 2004, compared to $48,998 in 2003. This decrease is primarily due to a reduction in executive recruitment fees and a reduction in the amount spent on training and seminars.

**Amortization**
Amortization expense amounted to $109,312 in 2004, compared to $38,355 in 2003. This increase is primarily due to more assets in use in order to service operational growth. Significant increases in furniture and business equipment and leasehold improvements relating to the setup of the Vancouver office and the demising of the Victoria office contributed to the increased amortization.

Partnerships British Columbia’s 2003/04 net expenditures are represented graphically in Figure 4 and indicates the corresponding percentage for each.
MANAGEMENT REPORT

The consolidated financial statements of Partnerships British Columbia Inc., for the year ended March 31, 2004, have been prepared by management in accordance with Canadian generally accepted accounting principles. These consolidated financial statements present fairly the financial position of Partnerships British Columbia Inc. as at March 31, 2004.

Management is responsible for the preparation of the consolidated financial statements and has established a system of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records provide reliable information for the preparation of consolidated financial statements.

The Board of Directors carries out its responsibility for the review of the consolidated financial statements. The Board meets with management and the external auditor to discuss the results of audit examinations and financial reporting matters. The external auditor has full access to the Board.

The Auditor General of British Columbia has performed an independent audit of the consolidated financial statements of Partnerships British Columbia Inc. The Auditor’s report outlines the scope of his examination and expresses an opinion on the consolidated financial statements of Partnerships British Columbia Inc.

Larry Blain
President and Chief Executive Officer
Partnerships British Columbia Inc.

David Riecken, CGA
Senior Financial Officer
Partnerships British Columbia Inc.
Report of the Auditor General of British Columbia

To the Board of Directors of
Partnerships British Columbia Inc., and

To the Shareholder of Partnerships British Columbia Inc.:

I have audited the consolidated balance sheet of Partnerships British Columbia Inc. as at March 31, 2004 and the consolidated statements of income and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company’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 Partnerships British Columbia Inc. as at March 31, 2004 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 7, 2004

Wayne Strelloff, FCA
Auditor General
PARTNERSHIPS BRITISH COLUMBIA INC.

Consolidated Balance Sheet
as at March 31

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents (Note 3)</td>
<td>$4,276,089</td>
<td>$4,135,086</td>
</tr>
<tr>
<td>Accounts receivable (Note 4)</td>
<td>8,680,645</td>
<td>3,629,161</td>
</tr>
<tr>
<td>Note receivable (Note 5)</td>
<td>1,520,095</td>
<td>-</td>
</tr>
<tr>
<td>Other current assets</td>
<td>14,247</td>
<td>161</td>
</tr>
<tr>
<td>Total current assets</td>
<td>14,491,076</td>
<td>7,764,408</td>
</tr>
<tr>
<td>Capital assets (Notes 2 and 6)</td>
<td>429,002</td>
<td>297,526</td>
</tr>
<tr>
<td>Deferred development costs (Note 7)</td>
<td>6,290,389</td>
<td>-</td>
</tr>
<tr>
<td>Total assets</td>
<td>$21,210,467</td>
<td>$8,061,934</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements

APPROVED ON BEHALF OF THE BOARD

[Signatures]

R. T. Mahler, Director

M. E. Hosier, Director
PARTNERSHIPS BRITISH COLUMBIA INC.

Consolidated Balance Sheet

as at March 31

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>$4,266,614</td>
<td>$3,504,236</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>950,000</td>
<td>-</td>
</tr>
<tr>
<td>Short term debts payable</td>
<td>1,507,300</td>
<td>-</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>6,723,914</td>
<td>3,504,236</td>
</tr>
<tr>
<td>Deferred capital contribution (Note 7)</td>
<td>7,962,862</td>
<td>-</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>14,686,776</td>
<td>3,504,236</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SHAREHOLDER'S EQUITY</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Authorized</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5,000,000 common shares, no par value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issued</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 common shares</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Contributed surplus (Note 8)</td>
<td>4,584,626</td>
<td>4,584,626</td>
</tr>
<tr>
<td>Retained earnings (deficit)</td>
<td>1,939,063</td>
<td>(26,930)</td>
</tr>
<tr>
<td>Total shareholder's equity</td>
<td>6,523,691</td>
<td>4,557,698</td>
</tr>
</tbody>
</table>

Total liabilities and shareholder's equity: $21,210,467 | $8,061,934

*The accompanying notes are an integral part of the financial statements*
PARTNERSHIPS BRITISH COLUMBIA INC.

Consolidated Statement of Income and Retained Earnings
For the Year Ended March 31

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project recoveries</td>
<td>$6,147,614</td>
<td>$3,139,230</td>
</tr>
<tr>
<td>Fees for services</td>
<td>5,246,824</td>
<td>30,328</td>
</tr>
<tr>
<td>Provincial government revenue</td>
<td>2,100,000</td>
<td>3,353,000</td>
</tr>
<tr>
<td>Other revenue</td>
<td>77,827</td>
<td>117,109</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>13,522,265</td>
<td>6,639,667</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>EXPENSES</strong></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and benefits</td>
<td>3,436,274</td>
<td>1,929,609</td>
</tr>
<tr>
<td>Professional services</td>
<td>517,263</td>
<td>815,091</td>
</tr>
<tr>
<td>Building occupancy</td>
<td>330,882</td>
<td>201,752</td>
</tr>
<tr>
<td>Administration</td>
<td>301,882</td>
<td>251,018</td>
</tr>
<tr>
<td>Travel</td>
<td>168,404</td>
<td>102,149</td>
</tr>
<tr>
<td>Information systems</td>
<td>168,055</td>
<td>126,531</td>
</tr>
<tr>
<td>Communications</td>
<td>76,218</td>
<td>13,864</td>
</tr>
<tr>
<td>Human resources</td>
<td>41,939</td>
<td>48,998</td>
</tr>
<tr>
<td>Amortization</td>
<td>109,312</td>
<td>38,355</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>5,170,229</td>
<td>3,527,357</td>
</tr>
<tr>
<td>Project expenses (Note 9)</td>
<td>6,436,043</td>
<td>3,139,230</td>
</tr>
<tr>
<td><strong>Net income (loss)</strong></td>
<td>1,965,993</td>
<td>(26,930)</td>
</tr>
<tr>
<td>Deficit, beginning of year</td>
<td>(26,930)</td>
<td>-</td>
</tr>
<tr>
<td>Retained earnings (deficit), end of year</td>
<td>$1,939,063</td>
<td>$(26,930)</td>
</tr>
</tbody>
</table>

*The accompanying notes are an integral part of the financial statements.*
PARTNERSHIPS BRITISH COLUMBIA INC.

Consolidated Statement of Cash Flows
For the Year Ended March 31

<table>
<thead>
<tr>
<th>Operating activities</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income (loss)</td>
<td>$1,965,993</td>
<td>$ (26,930)</td>
</tr>
<tr>
<td>Adjustments to reconcile cash flow from operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization of capital assets</td>
<td>109,312</td>
<td>38,355</td>
</tr>
<tr>
<td>(Increase) in accounts receivable</td>
<td>(5,051,484)</td>
<td>(3,638,604)</td>
</tr>
<tr>
<td>(Increase) in notes receivable</td>
<td>(1,520,095)</td>
<td>-</td>
</tr>
<tr>
<td>(Increase) in other current assets</td>
<td>(14,086)</td>
<td>(161)</td>
</tr>
<tr>
<td>Increase in accounts payable &amp; accrued liabilities</td>
<td>762,378</td>
<td>3,504,236</td>
</tr>
<tr>
<td>Increase in deferred revenue</td>
<td>2,622,473</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(1,125,509)</td>
<td>(123,104)</td>
</tr>
</tbody>
</table>

| Investing activities                                      |            |            |
| Purchase of capital assets                                | (240,788)  | (335,881)  |
| Deferred development costs                                | (8,290,389)| -          |
|                                                           | (6,531,177)| (335,881)  |

| Financing activities                                      |            |            |
| Short term debts payable                                  | 1,507,300  | -          |
| Deferred capital contribution                             | 6,290,389  | -          |
|                                                           | 7,797,689  | -          |

| Increase (decrease) in cash and cash equivalents          | 141,003    | (458,985)  |

| Cash and cash equivalents, beginning of year             | 4,135,066  | 4,594,071  |

| Cash and cash equivalents, end of year                    | $ 4,276,089| $ 4,135,066|

The accompanying notes are an integral part of the financial statements.
1. **Nature of business**

Partnerships British Columbia Inc. (Partnerships British Columbia or the “Company”) is a company owned by the Province of British Columbia (the “Province”) and governed by a board of directors reporting to its shareholder, the Minister of Finance. The Company has been mandated to promote public private partnerships and to advise, support and, in some cases, manage the creation of P3s and to carry out related activities. The mandate of the Company is to maximize the value to the Province of public capital assets, such as hospitals, educational facilities, and highways and to minimize the cost and improve the quality of government services provided using these assets.

The Company’s core business is to:

- Provide specialized services to government and its agencies in the procurement of major public projects, ranging from advice to business transaction and procurement management;
- Provide advice to the Province and its agencies on P3 project management, deal structure, risk management, procurement; and the selection and engagement of consultants;
- Foster a positive business and policy environment for successful P3s and related activities by continually expanding British Columbia’s base of knowledge, understanding and expertise in these emerging areas; and
- Manage an efficient and leading edge organization that meets or exceeds performance expectations.

The Company’s clients are public sector agencies, including ministries, Crown corporations, and local authorities such as Regional Health Districts. To serve these clients effectively, Partnerships British Columbia is also working to build strong relationships with private sector partners such as businesses, investors and the financial services sector.

2. **Significant accounting policies**

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

**a. Consolidation**

The consolidated financial statements include the accounts of Partnerships British Columbia Inc. and its subsidiary Abbotsford Hospital and Cancer Centre Inc.

**b. Short term investments**

Short term investments consist of units in the Province of British Columbia Pooled Investment Portfolios. Units are carried at the lower of cost and fair market value.

**c. Capital assets**

Capital assets are recorded at cost and amortized on a straight-line basis over their estimated useful lives. Assets costing less than $500 are expensed in the fiscal period purchased. Estimated useful lives are:
PARTNERSHIPS BRITISH COLUMBIA INC.
Notes to Consolidated Financial Statements
For the Year ended March 31, 2004

- Computer Software 2 years
- Computer Hardware 3 years
- Furniture & Equipment 5 years
- Leasehold Improvements 5 years
- Website Development 3 years

d. Deferred development costs
Deferred development costs represent the direct development costs and overhead costs directly attributable to the development of the Abbotsford Hospital and Cancer Centre. These costs include pre-acquisition costs such as feasibility studies, environmental studies, legal and other professional services. When the project is complete, these costs will form part of the capitalized cost of the asset. Deferral of the costs commenced April 1, 2003 at which time the project was defined, the costs were identifiable and there was reasonable certainty that the project would go ahead.

e. Federal and provincial taxes
Partnerships British Columbia is exempt from corporate income taxes; however, it is subject to the Goods and Services Tax.

f. Revenue recognition
Project recoveries: Reimbursements of eligible expenses are recognized in the period the expenses are incurred.

Fees for services: charged by Partnerships British Columbia for professional services rendered and are recognized during the fiscal period when the services are rendered.

Provincial government revenue: As per the April 1, 2002 Public Private Partnerships Agreement between the Province and PBC, Provincial government revenue will cover indirect project costs and specific project costs ineligible for reimbursement by the Province and is recognized on a monthly basis.

Other revenue: substantially consists of interest earned on investments which is recognized in the fiscal period earned.

g. Related parties
Partnerships British Columbia is related through common ownership to all Province of British Columbia ministries, agencies and Crown Corporations. Transactions with these entities, considered to be in the normal course of operations, are recorded at the exchange amounts. Transfers of assets are recorded at net book value.

h. Accounting estimates
The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions based on information available. Such estimates and assumptions may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from the amounts estimated.
3. **Cash and cash equivalents**

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$2,160,308</td>
<td>$732,690</td>
</tr>
<tr>
<td>Restricted cash</td>
<td>1,672,473</td>
<td>-</td>
</tr>
<tr>
<td>Short term investments</td>
<td>443,308</td>
<td>3,402,396</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,276,089</strong></td>
<td><strong>$4,135,086</strong></td>
</tr>
</tbody>
</table>

Restricted cash represents a contribution from the Fraser Valley Regional Hospital District for procurement costs in relation to the Abbotsford Hospital and Cancer Centre. The restricted cash is part of the deferred capital contribution referred to in Note 7.

4. **Accounts receivable**

At March 31, 2004, accounts receivable includes receivables from clients in the amount of $5,817,660 and accrued receivables for recoverable project costs in the amount of $2,518,514. Other receivables include net GST recoverable from the Government of Canada in the amount of $343,871.

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade accounts</td>
<td>$5,817,660</td>
<td>$3,275,920</td>
</tr>
<tr>
<td>Accrued Project Recoveries</td>
<td>2,518,514</td>
<td>321,956</td>
</tr>
<tr>
<td>Other</td>
<td>344,471</td>
<td>31,285</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$8,680,645</strong></td>
<td><strong>$3,629,161</strong></td>
</tr>
</tbody>
</table>

5. **Note receivable**

The note receivable represents a loan agreement between Partnerships British Columbia and the Fraser Health Authority for the purpose of land acquisition for the Abbotsford Hospital and Cancer Centre. The Company agreed to make the loan to Fraser Health Authority to facilitate the purchase. The Company borrowed the money for the loan from the Province of British Columbia under the Short-Term Financing Agreement dated June 18, 2003. The Fraser Health Authority has agreed to transfer the acquired land to Abbotsford Hospital and Cancer Centre Inc. once an agreement has been signed by Abbotsford Hospital and Cancer Centre Inc. and the private sector partner.

6. **Capital assets**

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Accumulated Amortization</th>
<th>NBV 2004</th>
<th>NBV 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer Software</td>
<td>$75,292</td>
<td>$50,311</td>
<td>$24,981</td>
<td>$50,285</td>
</tr>
<tr>
<td>Computer Hardware</td>
<td>80,401</td>
<td>27,624</td>
<td>52,777</td>
<td>51,526</td>
</tr>
<tr>
<td>Furniture &amp; Equipment</td>
<td>213,368</td>
<td>40,468</td>
<td>172,900</td>
<td>117,954</td>
</tr>
<tr>
<td>Leasehold Improvements</td>
<td>189,256</td>
<td>23,178</td>
<td>166,078</td>
<td>59,363</td>
</tr>
<tr>
<td>Website Development Costs</td>
<td>18,398</td>
<td>6,132</td>
<td>12,266</td>
<td>18,398</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$576,715</td>
<td>$147,713</td>
<td>$429,002</td>
<td>$297,526</td>
</tr>
</tbody>
</table>

7. **Deferred development costs**

Partnerships British Columbia created a subsidiary, Abbotsford Hospital & Cancer Centre Inc. (AHCC Inc.), to provide a single public sector entity to contract with the private sector partner. Partnerships British Columbia will own the subsidiary throughout the development period and it is contemplated that once the Project is complete, ownership of the subsidiary will be
transferred to the Fraser Health Authority and the Provincial Health Services Authority as the organizations overseeing the operations of the facility.

Deferred development costs represent the accumulation, in AHCC Inc., of the planning costs directly attributable to the acquisition of the Abbotsford Hospital and Cancer Centre. These deferred costs, in the amount of $6,290,389, are offset by a corresponding deferred capital contribution from the Ministry of Health Services.

8. Contributed surplus
Partnerships British Columbia Inc. was incorporated on October 26, 1977 (as Duke Point Development Limited) under the Business Corporations Act, formerly the Company Act, as a wholly-owned government corporation of the Province. In March 2002, Duke Point Development Limited transferred all physical property to the Province and ceased all land development activities. In August 2002, as part of the restructuring of the Corporation, the Province, as shareholder, authorized the elimination of the accumulated deficit of Duke Point Development Limited, in the amount of $29,786,662, by reducing the Shareholder’s contributed surplus of $34,371,288 by a corresponding amount. The remaining balance of $4,584,626 represents the contributed surplus following restructuring of the Corporation from Duke Point Development Limited to Partnerships British Columbia Inc. On May 8, 2002 the name was changed to Partnerships British Columbia Inc. and full operations started June 1, 2002.

9. Project expenses
Under a Public Private Partnerships Agreement between the Province and PBC, dated April 1, 2002, Partnerships British Columbia may assume responsibility for costs for certain non-P3 projects, projects under development and certain small projects. With the exception of most of the Abbotsford Hospital and Cancer Centre Project costs, which were deferred development costs, as noted in 7 above, these costs are included in operating expenses.

For certain P3 projects, Partnerships British Columbia incurs project expenses, nearly all of which are reimbursed by its client.

Project Expenses during the year are:

<table>
<thead>
<tr>
<th>Project</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abbotsford Hospital &amp; Cancer Centre</td>
<td>$76,078</td>
</tr>
<tr>
<td>Britannia Mine</td>
<td>139,977</td>
</tr>
<tr>
<td>Coquihalla</td>
<td>796,319</td>
</tr>
<tr>
<td>Fraser River Crossing</td>
<td>662,424</td>
</tr>
<tr>
<td>Gateway</td>
<td>818,741</td>
</tr>
<tr>
<td>Kicking Horse Canyon</td>
<td>157,376</td>
</tr>
<tr>
<td>Knowledge Network</td>
<td>143,932</td>
</tr>
<tr>
<td>Okanagan Lake Bridge</td>
<td>819,386</td>
</tr>
<tr>
<td>Sea to Sky Highway Improvement Project</td>
<td>1,821,699</td>
</tr>
<tr>
<td>Sierra Yoyo Desan Road</td>
<td>754,407</td>
</tr>
<tr>
<td>Other</td>
<td>245,704</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$6,436,043</strong></td>
</tr>
</tbody>
</table>


PARTNERSHIPS BRITISH COLUMBIA INC.
Notes to Consolidated Financial Statements
For the Year ended March 31, 2004

10. Commitments
Partnerships British Columbia is committed to payments under an operating lease for premises in Victoria and Vancouver through fiscal 2007. The Vancouver office lease ends March 31, 2006 and the Victoria office lease ends August 31, 2007.

The estimated payments are:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004/05</td>
<td>$445,691</td>
</tr>
<tr>
<td>2005/06</td>
<td>386,511</td>
</tr>
<tr>
<td>2006/07</td>
<td>97,300</td>
</tr>
<tr>
<td></td>
<td>$929,502</td>
</tr>
</tbody>
</table>

11. Employee benefit plans
Partnerships British Columbia and its employees contribute to the Public Service Pension Plan under the terms of the Public Sector Pension Plans Act. The Public Service Pension Plan is a multi-employer, defined-benefit pension plan and is available to substantially all Partnerships British Columbia employees.

The British Columbia Pension Corporation administers the Plan, including payment of pension benefits on behalf of employers and employees to whom the Act applies. The most recent valuation (March 31, 2002) has determined the Plan is in a surplus position. Effective January 1, 2001, the Public Service Pension Plan's management changed to a joint trusteeship whereby the management, risks and benefits are shared between the employees and the employers.

Employees are entitled to specific retirement benefits as provided for under their terms of employment. The cost of employee future benefits for this plan is recognized as an expense in the year contributions are paid. Total employer contributions for fiscal 2004 are $147,227.

12. Financial instruments
   a. Fair value: At March 31, 2004, the carrying value of financial instruments, including accounts receivable and payable, approximates their fair value.
   b. Interest rate risk: Interest rate risk is limited due to the short term nature of the investments held.
   c. Credit risk: The Company grants credit to its clients, the majority of whom are provincial government ministries or other government entities. Credit risk is limited due to the fiscal stability of these clients.
CORPORATE GOVERNANCE

Partnerships British Columbia’s Board of Directors was appointed June 24, 2003. The Board was appointed to enable the Company to further its goals of providing public infrastructure and services in an effective and affordable way. A significant role of the Board is to review and recommend potential partnership opportunities.

Partnerships British Columbia reports through its Board of Directors to its shareholder, the Provincial Government represented by the Minister of Finance.

THE BOARD OF DIRECTORS

Rick Mahler, Chair
Rick Mahler of Vancouver was appointed chair of the Partnerships British Columbia board on June 24, 2003. He was executive vice-president and chief financial officer for Finning International for 13 years. A financial executive with knowledge in public capital markets, mergers and acquisitions and business partnerships, Mahler also serves on the boards of Selkirk Financial Technologies, Fording Inc., Swiss Water Income Trust, the Vancouver Board of Trade and VGH/UBC Hospital Foundation. He holds a bachelor of science from the University of Waterloo and a master of business administration in finance from McMaster University.

Larry Blain
Larry Blain of Vancouver became chief executive officer of Partnerships British Columbia in January 2003, after 19 years as managing director of RBC Capital Markets and its predecessor firms. Previously, he was an economist with the Bank of Canada and director of central borrowing and planning with the BC Ministry of Finance. He received his PhD in economics from the University of British Columbia in 1977. Blain is a member of the Board of Directors of the Forum for Women Entrepreneurs and vice-chair of the Canadian Cancer Society’s B.C. capital campaign as well as a member of the Vancouver Canucks advisory board.

Harold Calla
Harold Calla of the Squamish Nation, North Vancouver, is director of finance for the Squamish Nation, a $32-million-a year operation, 75 per cent of which is generated through business opportunities. Over the past 10 years, Calla has made a significant contribution to the economic development of the Squamish Nation and its relationships with various levels of government and the private sector. He has a CGA designation.

Celia Courchene
Celia Courchene of Vancouver is vice-president, business development for Xenon Genetics, a private, B.C.-based biotechnology company. She has a background in business development at public biotechnology companies in Canada and the U.S. and in corporate law. Courchene has negotiated business deals with a variety of local, national and international partners in both her business and legal career. She holds a bachelor of arts with honours in economics from the University of Western Ontario and a bachelor of law from the University of Victoria.

Jim Dinning
Jim Dinning of Calgary, Alberta is executive vice-president of TransAlta Corp. During his 11 years as a member of the legislative assembly in Alberta, he served as provincial treasurer from 1992-97, in addition to serving as Minister of Education and Minister of Community and Occupational Health.
Dinning is a director on the boards of Finning International, Great Canadian Railtour Company and Shaw Communications. He holds a bachelor of commerce honours degree and a master’s degree in public administration from Queen’s University, and a honourary doctor of laws degree from the University of Calgary.

Ellen Hosier
Ellen Hosier of Vancouver is vice-president and COO of Windsor Management, a private real estate development company. She was vice-president and chief financial officer for A.L.I. Technologies and during her 18 years with Finning International, served as Corporate Treasurer and Corporate Secretary. She is a financial executive with knowledge in mergers and acquisitions, public capital markets and high growth companies. Hosier holds a bachelor of commerce from the University of British Columbia and a CA designation from the Canadian Institute of Chartered Accountants.

Charles Jago
Charles Jago of Prince George is president and vice chancellor of the University of Northern British Columbia. He is published in several leading historical journals, and created the northern medical program, a partnership between the University of British Columbia and the University of Northern British Columbia, in response to a critical shortage of health-care professionals working in northern B.C. He holds a bachelor of arts with honours in English and history from the University of Western Ontario, and graduated as the honours gold medalist from Huron College. He also holds a PhD in history.

Barry Lapointe
Barry Lapointe of Kelowna is president and CEO of the Kelowna Flightcraft Group of Companies. He currently serves on the boards of Purolator Courier Ltd. and the Airline Transportation Association of Canada, chairing the latter. He is a graduate of the British Columbia Institute of Technology, which awarded him an honourary doctorate of technology.

Doug MacKay
Doug MacKay of Vancouver is a professional engineer and chartered arbitrator. He has served on the board of the Vancouver International Airport Authority, as chair of the capital projects committee, and on the corporate strategy and commercial development committees. He was chief engineer at the Greater Vancouver Water District from 1966-1981, was later appointed commissioner of the water and sewage district and served as manager of the Greater Vancouver Regional District. MacKay currently has a private practice in arbitration and is a consultant to government and private industry in engineering, management and regional government matters.

Carol Stephenson
Carol Stephenson of Manotick, Ontario is dean of the Richard Ivey School of Business at the University of Western Ontario. She was the president and CEO of Lucent Technologies Canada from July 1999 to February 2003, and served as vice-president of Bell Canada, president and CEO of Stentor Resource Centre Inc. and president and COO of BCE Media Inc. Stephenson is currently a director the Ottawa Airport Authority, Sears Canada and ING Canada and a trustee of Union Energy Waterheater Operating Trust. She is a graduate of the University of Toronto and has successfully completed the executive program at the Graduate School of Business Administration, University of California at Berkeley, as well as the advanced management program at Harvard University. She also received an honorary doctorate in engineering from Ryerson Polytechnic University.
AUDIT AND RISK MANAGEMENT COMMITTEE
The Audit and Risk Management Committee reviews, recommends and in some cases approves all financial statements and other financial information. This includes audited financial statements, quarterly financial statements, the annual report and any quarterly reports, the annual service plan, annual business plan and operating and capital budgets and any budget presentations to government.

The committee also reviews and obtains reasonable assurance that the risk management, internal controls and information systems of Partnerships British Columbia are operating effectively. Finally the committee obtains the services of and oversees the external auditor.

The committee is chaired by Ellen Hosier. Other members are Harold Calla, Barry Lapointe and Doug Mackay.

HUMAN RESOURCES AND GOVERNANCE COMMITTEE
The Human Resources and Governance Committee assists the Board with human resource issues, compensation matters and the establishment of a plan of continuity and development of senior management. This includes overseeing the performance evaluation and compensation package of the President and Chief Executive Officer as well as overseeing any significant changes to organizational structure.

The Committee also provides a focus on corporate governance to enhance the performance of the Company. This includes assessing and making recommendations regarding board effectiveness and establish and leading the process for developing potential director criteria and candidate for recommendation to the Province.

The committee is chaired by Charles Jago. Other members are Carol Stephenson, Celia Courchene and Jim Dinning.
SENIOR MANAGEMENT TEAM

Larry Blain, President & CEO

Mike Marasco, VP Partnerships Development
The VP Partnerships Development is charged with: ensuring all projects meet milestones; developing and implementing a business development budget and strategy; creating and ensuring the progress of new business development initiatives; and allocating resources for all projects and business development initiatives.

Grant Main, VP Policy and Practices
The VP Policy and Practices: ensures that all Partnerships British Columbia deliverables meet best-practice standards; develops and implements internal quality control functions; ensures knowledge and experience gained on individual projects is properly applied to future projects; and develops and maintains the Company’s knowledge bank.

Suromitra Sanatani, VP Corporate & Government Relations
The VP Corporate and Government Relations provides effective communications support on all projects, develops and implements client satisfaction surveys and works with other executive members to ensure effective client coverage is maintained.

This officer is also charged with maintaining effective relationships with public sector clients, the shareholder and government decision-makers to ensure the Company’s work reflects public policy goals. This officer is also responsible for the Company’s marketing strategy and its pan-Canadian initiative.
CONTACT INFORMATION

For more information on Partnerships British Columbia, contact us at:

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partnershipsbc@partnershipsbc.ca

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