

Audited Consolidated Financial Statements of

PARTNERSHIPS BRITISH COLUMBIA INC.

For the Year ended March 31, 2007

Management Report

The consolidated financial statements of Partnerships British Columbia Inc. for the year ended March 31, 2007, 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, 2007.

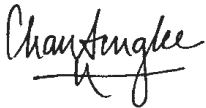
Management is responsible for the preparation of the consolidated financial statements and has established a system of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records provide reliable information for the preparation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

BDO Dunwoody LLP has performed an independent audit of the consolidated financial statements of Partnerships British Columbia Inc. The Auditors' report outlines the scope of their 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.



Chan-Seng Lee, CA
Comptroller
Partnerships British Columbia Inc.



BDO Dunwoody LLP
Chartered Accountants

600 – 925 West Georgia St.
Vancouver, BC
Canada, V6C 3L2
Telephone: (604) 688-5421
Telefax: (604) 688-5132
www.bdo.ca

Auditors' Report

**To the Board of Directors and Shareholder of
Partnerships British Columbia Inc.**

We have audited the Consolidated Balance Sheets of Partnerships British Columbia Inc. as at March 31, 2007 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. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Partnerships British Columbia Inc. as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures were reported upon by the Office of the Auditor General of British Columbia who expressed an opinion without reservation in their report dated May 5, 2006.

A handwritten signature in black ink that reads "BDO Dunwoody LLP". The signature is written in a cursive, flowing style.

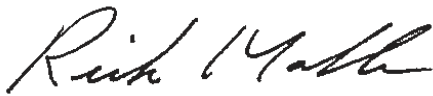
Vancouver, British Columbia
April 20, 2007

Partnerships British Columbia Inc.
Consolidated Balance Sheets as at March 31

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash and cash equivalents (Note 4)	\$ 23,744,693	\$ 30,452,092
Accounts receivable	3,864,417	4,187,911
Other current assets	35,666	72,370
Total current assets	27,644,776	34,712,373
Long-term investment (Note 4)	-	709,350
Capital assets (Notes 2 and 5)	321,422	353,593
Land (Note 10)	4,611,647	4,611,647
Construction in progress (Note 6)	223,524,928	120,686,777
Deferred development costs (Note 7)	13,860,246	12,314,825
Total assets	\$ 269,963,019	\$ 173,388,565

The accompanying Notes to Consolidated Financial Statements are an integral part of these Statements.

APPROVED ON BEHALF OF THE BOARD



R.T. Mahler, Director



H. Calla, Director

Partnerships British Columbia Inc.
Consolidated Balance Sheets as at March 31

	2007	2006
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,800,576	\$ 2,610,603
Deferred revenue	-	65,000
Total current liabilities	2,800,576	2,675,603
Loan payable (Note 8)	179,140,358	104,367,456
Deferred capital contribution (Note 9)	76,572,460	55,501,813
Total liabilities	258,513,394	162,544,872
SHAREHOLDER'S EQUITY		
Share capital		
Authorized		
5,000,000 common shares, no par value		
Issued		
2 common shares	2	2
Contributed surplus (Note 10)	7,152,726	7,152,726
Retained earnings	4,296,897	3,690,965
Total shareholder's equity	11,449,625	10,843,693
Total liabilities and shareholder's equity	\$ 269,963,019	\$ 173,388,565

The accompanying Notes to Consolidated Financial Statements are an integral part of these Statements.

Partnerships British Columbia Inc.
Consolidated Statements of Income and Retained Earnings
for the Years Ended March 31

	2007	2006
REVENUES		
Fees for services	\$ 6,087,822	\$ 6,612,671
Provincial government revenue	1,800,000	1,800,000
Other revenue	294,915	302,132
	<u>8,182,737</u>	<u>8,714,803</u>
EXPENSES		
Operating expenses		
Administration	355,674	366,846
Amortization	227,935	158,308
Building occupancy	539,297	479,531
Communications	24,502	83,508
Information systems	165,336	169,319
Professional services	420,179	538,531
Salaries and benefits	5,600,855	5,236,971
Travel	243,027	219,403
Total operating expenses	<u>7,576,805</u>	<u>7,252,417</u>
Operating income	605,932	1,462,386
Project recoveries	3,383,535	3,393,607
Project expenses (Note 11)	3,383,535	3,393,607
	<u>-</u>	<u>-</u>
Net income	605,932	1,462,386
Retained earnings, beginning of year	3,690,965	2,228,579
Retained earnings, end of year	<u>\$ 4,296,897</u>	<u>\$ 3,690,965</u>

The accompanying Notes to Consolidated Financial Statements are an integral part of these Statements.

Partnerships British Columbia Inc.
Consolidated Statements of Cash Flows for the Years Ended March 31

	2007	2006
Operating activities		
Net income	\$ 605,932	\$ 1,462,386
Add:		
Amortization	227,935	158,308
	<u>833,867</u>	<u>1,620,694</u>
Changes in working capital items:		
Accounts receivable	323,494	733,069
Other current assets	36,704	(8,309)
Accounts payable and accrued liabilities	189,973	(1,393,564)
Deferred revenue	(65,000)	(46,724)
	<u>1,319,038</u>	<u>905,166</u>
Investing activities		
Decrease (increase) in long-term investment	709,350	(122,189)
Purchase of capital assets	(195,764)	(166,808)
Construction in progress	(102,838,151)	(87,946,209)
Deferred development costs	(1,545,421)	(1,735,160)
	<u>(103,869,986)</u>	<u>(89,970,366)</u>
Financing activities		
Loan payable	74,772,902	70,795,234
Deferred capital contribution	21,070,647	34,527,781
	<u>95,843,549</u>	<u>105,323,015</u>
Increase (decrease) in cash and cash equivalents	(6,707,399)	16,257,815
Cash and cash equivalents, beginning of year	30,452,092	14,194,277
Cash and cash equivalents, end of year	\$ 23,744,693	\$ 30,452,092

The accompanying Notes to Consolidated Financial Statements are an integral part of these Statements.

Partnerships British Columbia Inc. Notes to Consolidated Financial Statements For the Years Ended March 31, 2007 and 2006

1. Nature of Business

Partnerships British Columbia Inc. (Partnerships BC 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 public private partnerships 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 the Province 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 public private partnership project management, deal structure, risk management, procurement, and the selection and engagement of consultants;
- Foster a positive business and policy environment for successful public private partnerships 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 authorities. To serve these clients effectively, Partnerships BC is also working to build strong relationships with private sector partners such as businesses, investors and the financial services sector.

The Company's wholly-owned subsidiary, Abbotsford Regional Hospital and Cancer Centre Inc. (ARHCC) (formerly Abbotsford Hospital and Cancer Centre Inc.) was incorporated under the *Company Act* on September 2, 2003 to enter into a public private partnership as the public sector partner for the building and operation of a hospital and cancer centre in Abbotsford, British Columbia. ARHCC is classified as a not-for-profit organization under Section 149(1)(l) of the *Income Tax Act*. As set out in Note 3 to the financial statements, ownership of ARHCC will be transferred to the Fraser Health Authority and the Provincial Health Services Authority upon completion of the project.

2. Summary of Significant Accounting Policies

These Consolidated Financial Statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles. Significant accounting policies are as follows:

a. Principles of Consolidation

The Consolidated Financial Statements include the accounts of Partnerships BC and its wholly-owned subsidiary ARHCC.

b. Short-Term Investments

Short-term investments are carried at fair values.

c. Capital Assets

Capital assets are recorded at cost and amortized on a straight-line basis over their estimated useful lives using the following annual rates:

• Computer software	2 years
• Computer hardware	3 years
• Furniture and equipment	5 years
• Leasehold improvements	5 years
• Knowledge management	2 years
• Website development	3 years

Partnerships British Columbia Inc.
Notes to Consolidated Financial Statements
For the Years Ended March 31, 2007 and 2006

d. Deferred Development Costs

Deferred development costs represent the direct development and overhead costs directly attributable to the development of ARHCC. These costs include pre-acquisition costs such as environmental studies, legal and other professional services. When the project is complete, these costs will form part of the capitalized cost of the asset.

e. Federal and Provincial Taxes

Partnerships BC is exempt from corporate income taxes; however, it is subject to the *Goods and Services Tax* (GST).

f. Revenue RecognitionProject Recoveries

Reimbursements of eligible expenses are recognized in the period the expenses are incurred.

Fees for Services

The Company provides professional services under fee for service, cost based and fixed price contracts. Work-in-progress is valued at estimated net realizable value. Under level of effort contracts, revenue is recognized as services are provided. For cost based contracts, revenue is recorded as reimbursable costs are incurred. Revenue from fixed price contracts is recorded using the percentage-of-completion method whereby revenue and profit are based on a ratio of costs incurred to total estimated costs of the projects. Losses, if any, on fixed price contracts are recognized during the period they are identified. The Company recognizes revenue when persuasive evidence of an agreement exists, the terms are fixed or determinable, services are performed and collection is probable.

Capital Contributions

The Company follows the deferral method of accounting for capital contributions. Contributions are deferred and are amortized to income at the same rate as the related capital asset.

g. 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, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual amounts could differ from those estimates.

3. Consolidation

Partnerships BC incorporated a wholly-owned subsidiary, ARHCC, under the *Company Act* on September 2, 2003 and commenced operations on that date to provide a single public entity to contract with the private sector partner.

ARHCC entered into a project agreement with the private sector partner on December 7, 2004. Under the agreement, the private sector partner will design, construct, finance, operate and maintain the hospital and cancer centre until the end of the term of the agreement, May 6, 2038. All payment obligations to the private sector partner are guaranteed by the Province.

Once the project is completed, ownership of ARHCC will be transferred to the Fraser Health Authority and the Provincial Health Services Authority as the organizations overseeing the operations of the hospital and cancer centre (see note 13).

Partnerships British Columbia Inc.
Notes to Consolidated Financial Statements
For the Years ended March 31, 2007 and 2006

These Consolidated Financial Statements include the accounts of ARHCC as follows:

	2007	2006
Current assets	\$ 16,300,098	\$ 24,129,071
Long-term investment	-	709,350
Land	4,611,647	4,611,647
Construction in progress	223,524,928	120,686,777
Deferred development costs	13,860,246	12,314,825
Total assets	\$ 258,296,919	\$ 162,451,670
Current liabilities	\$ 16,000	\$ 14,300
Deferred capital contribution	76,572,460	55,501,813
Loan payable	179,140,358	104,367,456
Net assets	2,568,101	2,568,101
Total liabilities and net assets	\$ 258,296,919	\$ 162,451,670

4. Cash and Cash Equivalents

	2007	2006
Cash	\$ 7,035,926	\$ 6,888,474
Restricted cash	15,519,956	21,927,302
Short-term investments	1,188,811	1,636,316
	\$ 23,744,693	\$ 30,452,092

Restricted cash represents contributions from the Fraser Valley Regional Hospital District for construction costs in relation to the hospital and cancer centre (see Note 1). The contributions are included in deferred capital contribution referred to in Note 9.

Short-term investments consist of liquid investments, such as the Province of British Columbia Pooled Investment Portfolios, term deposits, money market instruments, and Canadian government securities with maturities of 90 days or less from the date of purchase.

Investments totalling \$709,350 are pledged as security for one (1) (2006-two (2)) letter of credit. Investments with maturities greater than one year are disclosed as long-term investment.

Partnerships British Columbia Inc.
Notes to Consolidated Financial Statements
For the Years ended March 31, 2007 and 2006

5. Capital Assets

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value 2007</u>	<u>Net Book Value 2006</u>
Computer software	\$ 181,350	\$ 126,638	\$ 54,712	\$ 37,975
Computer hardware	268,504	167,114	101,390	76,850
Furniture and equipment	129,085	96,740	32,345	70,650
Leasehold improvements	234,819	138,525	96,294	101,706
Knowledge management	97,382	60,701	36,681	66,412
Website development	18,398	18,398	-	-
	<u>\$ 929,538</u>	<u>\$ 608,116</u>	<u>\$ 321,422</u>	<u>\$ 353,593</u>

6. Construction in Progress

Construction in progress is recorded at cost. The balance represents the percentage of construction completed as certified by an independent third party certifier.

7. Deferred Development Costs

Deferred development costs represent the accumulation of all planning costs directly attributable to the acquisition of the hospital and cancer centre (see Note 1). These costs will be amortized in future periods.

8. Loan Payable

The expenditures made towards construction in progress are recorded as a loan payable. Partial repayments are made from contributions received from the Fraser Valley Regional Hospital District. These repayments are made on a quarterly basis. The financing terms are closely bound to the public private partnership agreement and as such there is no stated interest rate. Payments to the private sector partner cover all aspects of the arrangement including financing, capital costs of the facility, its maintenance and facilities management services over the term of the contract, which is expected to be from May 2008 to April 2038 (see notes 3 and 13).

9. Deferred Capital Contribution

Deferred capital contribution represents the contributions received from the Fraser Valley Regional Hospital District and reimbursements from the Ministry of Health for the Company's monthly operating costs. During the year, ARHCC received \$18,600,000 (2006 - \$32,300,000) in contributions from the Fraser Valley Regional Hospital District and \$2,470,647 (2006 - \$2,227,781) from the Ministry of Health.

10. Contributed Surplus

Partnerships BC was incorporated on October 26, 1977 (as Duke Point Development Limited) under the *Business Corporations Act*, formerly the *Company Act*, as a Crown corporation of the Province. In March 2002, Duke Point Development Limited transferred all its 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 remains in contributed surplus of Partnerships BC.

Partnerships British Columbia Inc.
Notes to Consolidated Financial Statements
For the Years ended March 31, 2007 and 2006

In fiscal 2005, the Fraser Health Authority transferred a piece of land with a net book value of \$2,568,100 to the Company for nil consideration. The corresponding credit was made to contributed surplus.

11. Project Expenses

Project expenses represent costs, such as legal and consulting fees, incurred by Partnerships BC in connection with projects. The Company normally recovers these costs from its clients. Indirect and specific project costs ineligible for reimbursement are covered by provincial government revenue under the Public Private Partnerships Agreement between the Province and Partnerships BC, dated April 1, 2002.

Project expenses incurred during the year are as follows:

Project	2007	2006
Britannia Mine Water Treatment Plant	\$ 62,298	\$ 140,624
Children's & Women's Hospital	954,435	13,927
Gateway Program	1,070,322	789,863
Kicking Horse Canyon Phase 2 Project	52,504	212,700
Charles Jago Northern Sport Centre	21	152,500
William R. Bennett Bridge Project	-	138,673
Partenaires public-privé Québec – General	102,143	73,688
Primary Health Care Access Centres	114,533	163,848
Royal Roads University	8,507	149,565
Sea-to-Sky Highway Improvement Project	149	644,889
Vancouver Coastal Health Authority	122,742	531,834
Vancouver Island Health Authority	393,443	-
Others	502,438	381,496
	<u>\$ 3,383,535</u>	<u>\$ 3,393,607</u>

12. Commitments

Partnerships BC is committed to payments under operating leases for premises through fiscal 2010.

The estimated payments are as follows:

Year	Amount
2008	\$ 391,848
2009	330,729
2010	192,925
	<u>\$ 915,502</u>

Partnerships British Columbia Inc.
Notes to Consolidated Financial Statements
For the Years ended March 31, 2007 and 2006

13. Contractual Obligations

Under the public private partnership agreement referred to in Note 3, ARHCC has contracted with the private sector partner to build a hospital and cancer centre, including equipment, at a capital cost of \$355 million. The Fraser Valley Regional Hospital District is contributing a total of \$71 million to the total cost. The remainder of the cost will be advanced by the private sector partner, which will be repaid over the term of the agreement.

The agreement also provides for the private sector partner to operate and maintain the hospital and cancer centre from the time it reaches substantial completion, expected to be May 2008, until April 2038.

ARHCC will start making payments once the hospital and cancer centre reaches substantial completion, expected to be May 2008. The first year's payment will be \$40.8 million, excluding any bonuses or penalties and future payments will be adjusted for inflation.

14. Employee Benefit Plan

The employees and employers of the public service contribute to the Public Sector Pension Plan (the Plan), a jointly trusted pension plan. The Public Service Pension Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer contributory pension plan. Basic pension benefits are defined. The Plan has about 51,000 active plan members and approximately 30,000 retired plan members.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of plan funding. The latest valuation as at March 31, 2005 indicated an unfunded liability of \$767 million for basic pension benefits.

The next valuation will be as at March 31, 2008, with results available in early 2009. The actuary does not attribute portions of the unfunded liability to individual employers. The employees of Partnerships BC contributed \$273,641 (2006 - \$241,971) while Partnerships BC paid \$306,236 (2006 - \$248,092) in employer contributions to the Plan in fiscal 2007.

15. Related Parties

Partnerships BC is related through common ownership to all provincial government ministries, agencies and Crown corporations. The majority of the Company's clients are also provincial government 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 fair value.

In the normal course of operations, Partnerships BC entered into transactions with the province and certain Crown corporations, at prevailing market prices and credit terms.

Partnerships British Columbia Inc.
Notes to Consolidated Financial Statements
For the Years ended March 31, 2007 and 2006

The consolidated statements of income include the following transactions with related parties:

	<u>2007</u>	<u>2006</u>
Fees for services	\$ 5,504,559	\$ 6,010,748
Provincial government revenue	1,800,000	1,800,000
Other revenue	-	125,400
	<u>\$ 7,304,559</u>	<u>\$ 7,936,148</u>
Operating expenses:		
Information systems	\$ 67,006	\$ 134,380
Professional services	12,658	33,229
Other expenses	6,346	-
	<u>\$ 86,010</u>	<u>\$ 167,609</u>

Assets and liabilities
with related parties as at March 31, 2007 were:

	<u>2007</u>	<u>2006</u>
Accounts receivable	\$ 3,734,000	\$ 2,779,000
Accounts payable and accrued liabilities	\$ 7,000	\$ 645,000

16. Financial Instruments

a. Fair Value

As at March 31, 2007, the carrying values of financial instruments, including accounts receivable, other current assets and accounts payable and accrued liabilities, approximates their fair values because of the short-term nature of these instruments. The fair value of the loans payable is not determinable due to the complex and unique terms of the public private partnership agreement.

b. Interest Rate Risk

Interest rate risk on cash and investments is limited due to the short-term nature of the investments held.

c. Credit Risk

Partnerships BC grants credit to its clients, the majority of whom are provincial government ministries, agencies and Crown corporations. Credit risk is limited due to the financial stability of these organizations.

17. Comparative Figures

Certain comparative figures have been reclassified to conform to the 2007 presentation.