BRITISH COLUMBIA BUILDINGS CORPORATION
Victoria, British Columbia
Financial Statements
March 31, 2004

MANAGEMENT'S REPORT

The financial statements of British Columbia Buildings Corporation have been prepared by the management of the Corporation, which is responsible for their consistency, integrity and objectivity. The statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgments based on currently available information. Financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

Management maintains and relies on a system of internal controls designed to provide reasonable assurance that the Corporation's assets are safeguarded, transactions are properly authorized and recorded, and that reliable and relevant financial information is produced. The Corporation's internal auditors independently review and evaluate these controls.

The Audit Committee comprises members of the Corporation's Board of Directors and oversees management's discharge of its financial reporting responsibilities. The Committee meets regularly with management, the internal auditors and representatives of the external auditors to review financial information prepared by management and discuss relevant matters. Both the internal and external auditors have full and free access to the Committee.

The external auditors, who are appointed by the Lieutenant-Governor-in-Council, have audited the financial statements which have been approved by the Board of Directors on recommendation of the Audit Committee.

John Beales,
President and
Chief Executive Officer

Lak Parmar, CMA
Vice President, Corporate Services and
Chief Financial Officer

May 7, 2004

BALANCE SHEET
$ 000s

	March 31 2004	2003
ASSETS		
Real estate investments		
Income-producing properties (note 3)	677,446	720,195
Income-producing properties under construction (note 4)	14,023	19,031
Properties held for sale or development (note 5)	20,123	27,754
	711,592	766,980
Corporate properties and equipment (note 6)	10,545	12,597
Unamortized debt discount and issue expenses	7,624	8,008
Other assets (note 7)	96,595	130,468
	826,356	918,053
LIABILITIES		
Long-term debt (note 8)	320,652	463,062
Short-term debt (note 9)	7,000	-
Other liabilities (note 10)	138,121	122,930
	465,773	585,992
EQUITY		
Contributed surplus	52,832	52,832
Retained earnings	307,751	279,229
	826,356	918,053

Commitments (note 11)

See accompanying notes to the financial statements.

On Behalf of the Board:

Lucie Gosselin, CA
Chair

Taryn Brodie, CPA
Director

STATEMENT OF INCOME AND RETAINED EARNINGS

$ 000s

	Year Ended March 31 2004	2003
REVENUES		
Rentals	377,246	396,567
Other income	87,311	64,605
	464,557	461,172
EXPENSES		
Lease costs	140,451	141,273
Operations and maintenance	97,843	99,161
Amortization	33,658	37,960
Client requested projects	74,168	52,458
Property taxes and grants	18,890	18,794
Energy	22,334	21,967
General and administrative	9,975	10,733
Environment	7,560	5,057
	404,879	387,403
INCOME FROM OPERATIONS	59,678	73,769
Interest expense (note 12)	(29,268)	(36,902)
Gains on sale of properties	42,605	10,535
INCOME BEFORE OTHER ITEMS	73,015	47,402
One-time debt retirement costs (note 13)	(29,626)	-
Property Management Outsourcing (note 14)	(4,926)	-
Cost Recoveries--Early Terminations (note 15)	8,050	13,119
Government Accommodation Restructuring	-	(1,945)
Early Retirement Incentive Plan	-	(1,183)
One-time lease charges	-	(5,270)
NET INCOME	46,513	52,123
Retained earnings, beginning of year	279,229	241,226
Dividend	(17,991)	(14,120)
RETAINED EARNINGS, END OF YEAR	307,751	279,229

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS

$ 000s

	Year Ended March 31 2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	46,513	52,123
Non-cash items		
Amortization of capital assets and other amounts	34,029	38,412
Writedown of vacated properties	14,946	43,244
Gains on sale of properties	(42,605)	(10,535)
Other assets and liabilities, net change	17,886	(49,459)
	70,769	73,785
CASH FLOWS FROM INVESTING ACTIVITIES		
Real estate investments	(8,342)	(14,304)
Corporate properties and equipment	(1,878)	(3,659)
Net proceeds from sale of properties	60,598	97,969
	50,378	80,006
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt repayments	(168,000)	(1,061)
Decrease/(Increase) in sinking funds	25,590	(21,100)
Increase/(Decrease) in short-term debt	7,000	(116,530)
Dividends paid	-	(14,120)
	(135,410)	(152,811)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(14,263)	980
Cash and cash equivalents, beginning of year	29,642	28,662
CASH AND CASH EQUIVALENTS, END OF YEAR (note 17)	15,379	29,642

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS
March 31, 2004 (Tabular amounts in $ 000s)

1. Statement of Purpose

British Columbia Buildings Corporation (the Corporation), established in 1977 as a Crown Corporation of the Province of British Columbia through the enactment of the British Columbia Buildings Corporation Act, has a mandate to serve as an agency of the Crown in providing real property and accommodation infrastructure services to the provincial government and the broader public sector. Corporate and customer accountability is achieved by charging market based prices for services rendered, and using private sector management principles. During the year the Corporation received 75% (2003 - 74%) of its revenues from provincial government ministries, 13% (2003 – 10%) from other provincial government entities, with the balance from other sources.

2. Accounting Policies

The financial statements of the Corporation are prepared in accordance with Canadian generally accepted accounting principles. The Corporation's significant accounting policies are as follows:

(a) Real Estate Investments and Corporate Properties and Equipment

Real estate investments and corporate properties and equipment are recorded at cost less accumulated amortization. In addition to land and direct costs, amounts capitalized to real estate investments during development and construction include property taxes and the applicable portion of both interest on general borrowings and general and administrative expenses. Capitalized costs do not exceed estimated future recoveries for income-producing properties and estimated realizable value for properties held for development.

(b) Temporary Investments

Temporary investments represent short-term funds administered by the Province of British Columbia. These investments are recorded at cost, which approximates market.

(c) Amortization

Real estate investments and corporate properties and equipment are amortized on an individual basis by the straight-line method over their estimated useful lives or lease terms. Amortization is prorated by month in the year of acquisition or disposal.

The estimated useful lives or lease terms of income-producing and corporate properties are from five to fifty years. The estimated useful lives of all other assets are from three to ten years.

(d) Income Taxes

The Corporation is exempt from federal and provincial income taxes.

(e) Amortization of Debt Discount and Issue Expenses

Debt discount and issue expenses are amortized on a straight-line basis, both over the terms of the applicable debt.

(f) Related Party Transactions

The Corporation is related through common ownership to all Province of British Columbia departments, agencies and Crown corporations. Transactions with these entities, as well as other transactions in which provincial government intervention is a component, are generally considered to be in the normal course of operations and are recorded at the exchange amount. Unless disclosed separately in these financial statements, this exchange amount approximates market.

(g) Environmental Expenditures and Liabilities

Under the current environmental legislation and the Corporation's standard accommodation agreement with customers, responsibility for site cleanup rests with the polluter. Environmental cleanup costs are recoverable from customers. These recoveries are included in other income.

Environmental expenditures incurred as a result of the ongoing business activities of the Corporation are expensed or capitalized as appropriate.

(h) Accounting Estimates

Financial statements, by their nature, contain estimates and are subject to measurement uncertainty. Accounts receivable are evaluated as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. The amounts recorded for amortization of capital assets and deferred charges are based on estimates of the useful life benefit of these assets. The effect on the financial statements of changes in such estimates in future periods is not anticipated to be significant.

March 31, 2004 (Tabular amounts in $ 000s)

3. Income-Producing Properties

	2004	2003
Net book value:		
Cost	1,180,585	1,236,769
Accumulated amortization	(503,139)	(516,574)
	677,446	720,195
Activity:		
Net book value, beginning of year	720,195	826,631
Properties transferred from income-producing properties under construction	12,792	26,187
Writedown of vacated properties	(14,946)	(43,244)
Disposals, net	(10,779)	(55,018)
Amortization expense	(29,816)	(34,361)
Net book value, end of year	677,446	720,195

4. Income-Producing Properties Under Construction

	2004	2003
Balance, beginning of year	19,031	32,557
Direct development and construction costs	6,109	10,754
Capitalization of:		
Interest	180	334
General and administrative expenses	1,495	1,573
Cost of properties completed and transferred to income-producing properties	(12,792)	(26,187)
Balance, end of year	14,023	19,031

5. Properties Held For Sale or Development

	2004	2003
Balance, beginning of year	27,754	31,826
Capitalization of interest and property tax	559	735
Disposals, net	(8,190)	(4,807)
Balance, end of year	20,123	27,754

NOTES TO FINANCIAL STATEMENTS
March 31, 2004 (Tabular amounts in $ 000s)

6. Corporate Properties and Equipment

	2004	2003
Cost:		
Office and data processing equipment	27,988	26,196
Corporate properties and leasehold improvements	8,009	8,773
Maintenance equipment	2,797	2,820
Vehicles	5,104	5,680
	43,898	43,469
Accumulated amortization	(33,353)	(30,872)
	10,545	12,597

7. Other Assets

	2004	2003
Cash	15,298	-
Temporary investments	81	32,500
Accounts receivable:		
Short Term - Ministry of Finance (note 16)	48,799	64,079
- Other provincial ministries and entities	17,760	20,919
- Other	4,432	5,261
Long Term - Provincial ministries and entities	1,776	904
- Other	7,713	6,657
Prepaid expenses	736	148
	96,595	130,468

March 31, 2004 (Tabular amounts in $ 000s)

8. Long-Term Debt

	2004	2003
Debentures payable to the Province of British Columbia		
Various issues at an average effective interest rate of 7.39% (2003 – 7.92%) maturing at various times to 2029 (2003 - 2029)	454,512	622,512
Sinking funds on deposit with the Province of British Columbia	(133,860)	(159,450)
	320,652	463,062

At March 31, 2004, the coupon rates on the long-term debt ranged from 5.70% to 10.60% (2003 - 5.70% to 10.75%).

Principal payments, net of projected sinking fund balances at maturity, and sinking fund payments for each of the next five years:

2004/05	9,657
2005/06	9,657
2006/07	9,657
2007/08	7,587
2008/09	32,865

9. Short-Term Debt

At March 31, 2004 short-term debt of $7,000,000 was outstanding at an interest rate of 1.95%. This debt is payable to the Province of British Columbia and matures on April 21, 2004. There was no short-term debt outstanding at March 31, 2003.

10. Other Liabilities

	2004	2003
Bank indebtedness, unsecured	-	2,858
Accounts payable and accrued liabilities	52,832	46,692
Dividend payable	17,991	-
Holdbacks	9,994	10,238
Accrued interest payable:		
Province of British Columbia	6,801	10,418
Deferred revenue	50,503	52,724
	138,121	122,930

March 31, 2004 (Tabular amounts in $ 000s)

11. Commitments

The Corporation estimates that the cost to complete projects under construction at March 31, 2004 will be $7,587,000 of which $2,865,000 has been committed.

The Corporation has entered into leases with third parties to provide space for customers and corporate operations for varying periods up to the year 2023, at a total aggregate net rental of approximately $476,655,000. Most lease terms are from five to ten years and include renewal options.

Minimum lease payments which will be charged to operations in subsequent years for leases committed at March 31, 2004:

2004/05	106,784
2005/06	82,757
2006/07	63,519
2007/08	52,426
2008/09	40,494
Thereafter	130,675

The Corporation had outstanding letters of credit totalling $492,000 at March 31, 2004 to guarantee performance on various projects.

12. Interest Expense

	2004	2003
Interest on long-term debt	40,906	48,094
Other interest	(1,604)	(750)
Amortization of debt discount and issue expenses	371	452
Sinking fund earnings	(8,542)	(9,066)
Interest capitalized	(1,863)	(1,828)
	29,268	36,902

13. Retirement of Long-Term Debt

During the year, the Corporation retired long-term debt instruments with a principal value of $168,000,000. A net one-time charge of $29,626,000 was associated with these retirements.

14. Property Management Outsourcing

During the year, the Corporation entered into a contract with BLJC Workspace Solutions Inc. to outsource its property management services. The five year contract (with options to renew for a further maximum of ten years) for services with an approximate value of $110 million per annum took effect April 1, 2004. As part of the contract, 325 employees accepted employment with BLJC Workspace Solutions Inc.

One-time costs of $4,926,000 were incurred to implement the request for proposal, to prepare and negotiate the contract and to complete the transition. These costs included employee termination costs of $1,841,000 for those employees who elected not to transfer to BLJC Workspace Solutions Inc.

15. Cost Recoveries - Early Terminations

Special purpose properties (correctional centres, fish hatcheries, etc) are contracted to the Corporation's customers on a mortgage basis over the term of the estimated useful lives of the properties. Should a customer choose to vacate the property prior to the expiration of its useful life, the remaining balance owing by the customer is due to the Corporation as an early termination penalty.

The Corporation amortizes special purpose properties on a straight-line basis over their estimated useful lives, which results in net asset values that are lower than the outstanding principal balances owing by the customers. As part of government accommodation restructuring, a number of these properties are being vacated by ministries. These cost recoveries of $8,050,000 (2003 - $13,119,000) comprise the termination penalties of $22,996,000 (2003 - $61,142,000), net of asset writedowns of $14,946,000 (2003 - $43,244,000) and costs associated with the early retirement of long-term debt of $0 (2003 - $4,779,000).

March 31, 2004 (Tabular amounts in $ 000s)

16. Government Accommodation Restructuring

In support of its overall restructuring initiative, the provincial government established a centralized fund for certain costs associated with accommodation restructuring. During the year, the Corporation invoiced $79,569,000 (2003 - $90,185,000) to the fund for accommodation restructuring activities which are reflected in the Corporation's financial statements as follows:

	2004	2003
Other liabilities (deferred revenue)	2,400	1,099
Rental revenues	7,832	2,499
Other Income	46,336	15,324
Lease costs (expense offset)	3,837	1,147
Cost recoveries—early terminations (note 15)	19,164	53,763
Proceeds from sale of properties	-	16,353
	79,569	90,185

At March 31, 2004, $48,799,000 (2003 - $64,079,000) is included in accounts receivable (note 7).

17. Cash and Cash Equivalents

	2004	2003
Cash and bank indebtedness	15,298	(2,858)
Temporary investments	81	32,500
Total cash and cash equivalents	15,379	29,642

18. Employees' Benefit Plans

The Corporation and its employees contribute to the Public Service Pension Plan (the plan), a jointly trusteed pension plan. The 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 the plan. The plan is a multi-employer, contributory defined benefit pension plan with over 54,000 active plan members and approximately 27,000 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, 2002, indicated a $546 million surplus for funding purposes. The actuary does not attribute portions of the surplus to individual employers. Contributions to the plan by the Corporation totaled $2,818,000 (2003 - $3,033,000) during the year.

In addition, employees are entitled to specific retirement benefits as provided for under the collective agreement and terms of employment. The Corporation accrues the liability for the future obligation for these benefits as the employees render the services necessary to earn the benefit. During the year, an expenditure of $486,000 (2003 - $734,000) was recognized with respect to these retirement benefits.

19. Risk Management

(a) Interest rate risk:

In conjunction with the Ministry of Finance (the Corporation's fiscal agent), the Corporation may enter into interest rate agreements to manage its exposure on debt instruments. The terms of these instruments are disclosed in notes 8 and 9.

(b) Credit risk:

The Corporation grants credit to its customers, the majority of whom (note 1) are Province of British Columbia entities. Management feels that any risk associated with such a concentration of credit is offset by the fiscal stability of these clients.

(c) Fair value of financial instruments:

The carrying amounts of financial instruments, other than long-term debt, included in the balance sheet approximate their fair value, due to their short-term nature. The fair value of the Corporation's long-term debt, net of sinking funds, at March 31, 2004 was $389,012,000 (2003 - $561,063,000). The fair value of the long-term debt has been estimated based on current market rates for long-term debt with similar terms and conditions.

20. Comparative Figures

Certain balances of the preceeding period have been reclassified to conform with the current year's financial statement presentation.