

Consolidated Financial Statements of



Canadian Blood Services
Soci t  canadienne du sang

for the year ended March 31, 2011



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INDEPENDENT AUDITORS' REPORT

To the Members of Canadian Blood Services

We have audited the accompanying consolidated financial statements of Canadian Blood Services, which comprise the consolidated statement of financial position as at March 31, 2011, the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Canadian Blood Services as at March 31, 2011, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slanted style. Below the signature is a long, horizontal, slightly curved line that extends to the right.

Chartered Accountants, Licensed Public Accountants
June 23, 2011
Ottawa, Canada


Consolidated Statement of Financial Position


As at March 31, 2011, with comparative figures for 2010
(In thousands of dollars)

| | 2011 | 2010 |
|---|-------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents (note 3) | \$ 188,551 | \$ 167,485 |
| Members' contributions receivable | 3,700 | 13,485 |
| Other amounts receivable | 12,843 | 11,896 |
| Inventory (note 4) | 115,429 | 127,388 |
| Prepaid expenses | 6,838 | 6,130 |
| | <u>327,361</u> | <u>326,384</u> |
| Investments, captive insurance operations (note 5) | 333,332 | 307,955 |
| Property, plant and equipment (note 6): | | |
| Land, buildings, software and equipment | 182,445 | 157,331 |
| Right to the blood supply system | 24,203 | 25,083 |
| | <u>206,648</u> | <u>182,414</u> |
| | \$ 867,341 | \$ 816,753 |
| Liabilities, Deferred Contributions and Net Assets | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 103,844 | \$ 113,376 |
| Current portion of long-term debt (note 8) | - | 1,000 |
| Current portion of obligation under capital leases (note 7) | 550 | 521 |
| | <u>104,394</u> | <u>114,897</u> |
| Provision for future insurance claims (note 15) | 249,886 | 249,261 |
| Long-term debt: | | |
| Long-term debt (note 8) | - | 13,000 |
| Obligation under capital leases (note 7) | 1,097 | 1,647 |
| | <u>1,097</u> | <u>14,647</u> |
| Deferred contributions (note 9): | | |
| Expenses of future periods | 191,104 | 187,096 |
| Property, plant and equipment | 189,700 | 151,096 |
| | <u>380,804</u> | <u>338,192</u> |
| Net assets: | | |
| Invested in property, plant and equipment | 15,417 | 15,265 |
| Restricted for captive insurance purposes | 84,403 | 59,672 |
| Unrestricted net assets | 31,340 | 24,819 |
| | <u>131,160</u> | <u>99,756</u> |
| Guarantees and contingencies (note 16) | | |
| Commitments (note 17) | | |
| | \$ 867,341 | \$ 816,753 |

See accompanying notes to the consolidated financial statements.

On behalf of the Board:


Leah Hollins
Director and Chair


R. Wayne Gladstone
Director



Canadian Blood Services
Société canadienne du sang

Consolidated Statement of Operations

Year ended March 31, 2011, with comparative figures for 2010

(In thousands of dollars)

| | Canadian Blood Services (note 13) | | Captive Insurance (note 15) | | Consolidated | |
|---|--------------------------------------|-----------------|--------------------------------|-------------------|------------------|-------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Revenue: | | | | | | |
| Members' contributions | \$ 995,739 | \$ 990,808 | \$ - | \$ - | \$ 995,739 | \$ 990,808 |
| Federal contributions | 8,615 | 8,580 | - | - | 8,615 | 8,580 |
| Less amounts deferred | (74,509) | (45,209) | - | - | (74,509) | (45,209) |
| | 929,845 | 954,179 | - | - | 929,845 | 954,179 |
| Amortization of previously deferred contributions: | | | | | | |
| Relating to property, plant and equipment | 18,111 | 18,490 | - | - | 18,111 | 18,490 |
| Relating to operations | 24,075 | 13,360 | - | - | 24,075 | 13,360 |
| Total contributions recognized as revenue | 972,031 | 986,029 | - | - | 972,031 | 986,029 |
| Stem Cells revenue | 10,028 | 10,860 | - | - | 10,028 | 10,860 |
| Investment income (note 11) | 1,948 | 773 | 18,377 | 14,302 | 20,325 | 15,075 |
| Other income | 2,586 | 2,115 | - | - | 2,586 | 2,115 |
| Total revenue | 986,593 | 999,777 | 18,377 | 14,302 | 1,004,970 | 1,014,079 |
| Expenses: | | | | | | |
| Increase in provision for future insurance claims | - | - | 625 | 16,860 | 625 | 16,860 |
| Cost of plasma protein products | 454,279 | 464,263 | - | - | 454,279 | 464,263 |
| Staff costs | 310,885 | 297,128 | - | - | 310,885 | 297,128 |
| General and administrative (note 14) | 112,464 | 133,661 | 470 | 481 | 112,934 | 134,142 |
| Medical supplies | 85,996 | 84,531 | - | - | 85,996 | 84,531 |
| Depreciation and amortization | 17,892 | 18,340 | - | - | 17,892 | 18,340 |
| Total expenses | 981,516 | 997,923 | 1,095 | 17,341 | 982,611 | 1,015,264 |
| Excess (deficiency) of revenue over expenses | \$ 5,077 | \$ 1,854 | \$ 17,282 | \$ (3,039) | \$ 22,359 | \$ (1,185) |

See accompanying notes to the consolidated financial statements.



Canadian Blood Services
Soci t  canadienne du sang

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2011, with comparative figures for 2010

(In thousands of dollars)

| | Invested in property, plant and equipment | Restricted for captive insurance | Unrestricted | March 2011 | March 2010 |
|---|--|--|--------------|------------|------------|
| Balance, beginning of year | \$ 15,265 | \$ 59,672 | \$ 24,819 | \$ 99,756 | \$ 75,745 |
| Excess (deficiency) of revenue over expenses | - | 17,282 | 5,077 | 22,359 | (1,185) |
| Net change of investments | - | 7,449 | - | 7,449 | 18,690 |
| Net change of interest rate swap | - | - | 1,444 | 1,444 | 945 |
| Change in investment in property, plant and equipment | 152 | - | - | 152 | 5,561 |
| Balance, as at March 31, 2011 (note 10) | \$ 15,417 | \$ 84,403 | \$ 31,340 | \$ 131,160 | \$ 99,756 |

See accompanying notes to the consolidated financial statements.



Canadian Blood Services
Soci t  canadienne du sang
Consolidated Statement of Cash Flows

Year ended March 31, 2011, with comparative figures for 2010

(In thousands of dollars)

| | 2011 | 2010 |
|---|-------------------|-------------------|
| Cash and cash equivalents provided by (used for): | | |
| Operating activities: | | |
| Excess (deficiency) of revenue over expenses | \$ 22,359 | \$ (1,185) |
| Items not involving cash and cash equivalents: | | |
| Depreciation and amortization of property, plant and equipment | 17,892 | 18,340 |
| Amortization of deferred contributions | (42,186) | (31,850) |
| Loss on sale of property, plant and equipment | 106 | 55 |
| Realized gain on sale of investments, captive insurance operations | (6,592) | (1,670) |
| Accretion of (discounts on) premiums on bonds, captive insurance operations | (287) | 226 |
| Provision for future insurance claims | 625 | 16,860 |
| | <u>(8,083)</u> | <u>776</u> |
| Decrease (increase) in Members' contributions receivable | 9,785 | (557) |
| Decrease (increase) in other amounts receivable | (947) | 3,975 |
| Decrease in inventory | 11,959 | 16,628 |
| Decrease (increase) in prepaid expenses | (708) | 509 |
| Decrease in accounts payable and accrued liabilities | (9,448) | (14,212) |
| Increase in deferred contributions of future periods | 28,083 | 11,237 |
| Total Operating activities | 30,641 | 18,356 |
| Investing activities: | | |
| Proceeds on sale of investments, captive insurance operations | 220,124 | 168,069 |
| Purchase of investments, captive insurance operations | (231,173) | (182,657) |
| Increase in investments in property, plant and equipment | 152 | 5,561 |
| Increase in deferred contributions related to property, plant and equipment | 56,715 | 24,550 |
| Proceeds on sale of property, plant and equipment | 113 | 95 |
| Purchase of property, plant and equipment | (40,985) | (27,729) |
| Total Investing activities | 4,946 | (12,111) |
| Financing activities: | | |
| Repayment of obligations under capital leases | (521) | (477) |
| Repayment of long-term debt | (14,000) | (1,000) |
| Total Financing activities | (14,521) | (1,477) |
| Increase in cash and cash equivalents | 21,066 | 4,768 |
| Cash and cash equivalents, beginning of year | 167,485 | 162,717 |
| Cash and cash equivalents, end of year | \$ 188,551 | \$ 167,485 |
| <i>Cash and cash equivalents are comprised of:</i> | | |
| Cash on deposit | \$ 187,840 | \$ 167,235 |
| Butterfield Asset Management Money Market Fund | 288 | 44 |
| HSBC Money Market Pooled Fund | 423 | 206 |
| | <u>\$ 188,551</u> | <u>\$ 167,485</u> |

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Year ended March 31, 2011
(In thousands of dollars)

1. Nature of the organization and operations:

Canadian Blood Services/Société canadienne du sang (Canadian Blood Services) owns and operates the national blood supply system for Canada, except Québec, and is responsible for the collection, testing, processing and distribution of blood and blood products as well as the recruitment and management of blood donors. Canadian Blood Services also recruits volunteer donors for both Canadian and international patients requiring stem cell transplants and delivers an array of diagnostic services throughout Canada. Since 2008, the Corporation assumed a new mandate for organ and tissue donation and transplantation in Canada. This mandate includes the development of a set of recommendations for an integrated national donation and transplantation system and the development of national registries to facilitate organ transplantation.

Canadian Blood Services was incorporated on February 16, 1998, under Part II of the Canada Corporations Act. It is a corporation without share capital and qualifies for tax-exempt status as a registered charity under the Income Tax Act (Canada). The Members of Canadian Blood Services, the Ministers of Health of the Provinces and Territories of Canada, except Québec, as well as the Federal government provide contributions to fund the operations of Canadian Blood Services. Canadian Blood Services operates in a regulated environment, pursuant to the requirements of Health Canada.

Canadian Blood Services has established two wholly-owned captive insurance corporations; CBS Insurance Company Limited (CBSI) and Canadian Blood Services Captive Insurance Company Limited/Compagnie d'assurance captive de la société canadienne du sang limitée (CBSE). CBSI was incorporated under the laws of Bermuda on September 15, 1998, and is licensed as a Class 3 reinsurer under the Insurance Act, 1978 of Bermuda and related regulations. CBSE was incorporated under the laws of British Columbia on May 4, 2006, and is registered under the Insurance (Captive Company) Act of British Columbia.

2. Significant accounting policies:

(a) Financial statement presentation:

The consolidated financial statements include the results of the operations of Canadian Blood Services and the accounts of its wholly-owned captive insurance subsidiaries (the Corporation). Significant inter-company transactions have been eliminated.

2. Significant accounting policies (continued):

(b) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses in the financial statements. Estimates and assumptions may also affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates. Significant estimates include assumptions used in calculating the current year expenses for pension, other post-employment benefits and the provision for future insurance claims, which are described in more detail in notes 12 and 15, respectively.

(c) Revenue recognition:

The Corporation follows the deferral method of accounting for contributions.

Members' and Federal contributions are recorded as revenue in the period to which they relate. Amounts approved but not received at the end of an accounting period are accrued. Where a portion of a contribution relates to a future period, it is deferred and recognized in the subsequent period.

Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of property, plant and equipment other than land are initially deferred and then amortized to revenue on a straight-line basis, at a rate corresponding with the depreciation rate for the related property, plant and equipment. Contributions restricted for the purchase of land are recognized as direct increases in net assets invested in property, plant and equipment.

Unrestricted funding is recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted investment income is recognized as revenue in the year in which the related expenses are recognized. Unrestricted investment income is recognized as revenue when earned.

2. Significant accounting policies (continued):

(c) Revenue recognition (continued):

Revenue from fees and contracts is recognized when the services are provided or the goods are distributed.

Restricted donations are recognized as revenue in the year in which the related expenses are recognized. Unrestricted donations are recognized as revenue in the year received.

(d) Donated goods and services:

Donors are not paid in Canada. Additionally, a substantial number of volunteers contribute a significant amount of time each year in support of the activities of the Corporation. The value of such contributed goods and services is not quantified in the financial statements.

(e) Investments:

Investments have been designated as available-for-sale financial assets. Available-for-sale financial assets are measured on the statement of financial position at fair value with changes in fair value initially recorded directly in the statement of changes in net assets until the financial asset is sold or impaired at which time the amounts are recognized in the statement of operations.

Trade date accounting is used to account for the purchases and sales of investments traded on a public market.

Interest income is recognized on the accrual basis and includes the amortization of premiums or discounts on fixed interest securities purchased at amounts different from their par value. Dividends are recorded as income when declared.

(f) Inventory:

Inventory of the Corporation consists of plasma protein products, fresh blood products and supplies related to the collection, production and testing of fresh blood products. Plasma protein products and collection supplies inventories are recorded at average cost and are charged to the statement of operations upon distribution to hospitals and usage, respectively. Fresh blood products inventory includes an appropriate portion of direct costs and overhead incurred in the collection, production and testing processes. Fresh blood products are charged to the statement of operations upon distribution to hospitals.

2. Significant accounting policies (continued):

(g) Property, plant and equipment:

Purchased property, plant and equipment is recorded at cost. Contributed property, plant and equipment is recorded at fair value at the date of contribution. Repairs and maintenance costs are expensed. Betterments, which extend the estimated life of an asset, are capitalized. When property, plant and equipment no longer contribute to the Corporation's ability to provide services, their carrying amount is written down to its residual value.

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In this event, recoverability of assets held and used is measured by reviewing the estimated fair market value of the asset. If the carrying amount of an asset exceeds its estimated fair market value, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets at the rates indicated below:

| Asset | Useful life |
|--------------------------------|---------------|
| Buildings | 40 years |
| Machinery and equipment | 8 years |
| Furniture and office equipment | 5 to 10 years |
| Motor vehicles | 8 years |
| Computer equipment | 3 years |
| Computer software | 2 to 5 years |

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term or their estimated useful lives. Assets under construction are not depreciated until they are available for use by the Corporation.

Furniture and office equipment under capital lease is depreciated over the term of the lease.

The right to the blood supply system represents the non-amortized excess of the purchase price of the system over the fair value of the tangible net assets acquired in 1998, and is being amortized on a straight-line basis over 40 years.

2. Significant accounting policies (continued):

(h) Asset retirement obligations:

The Corporation recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Corporation concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is amortized over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

Changes in the obligation due to the passage of time are recognized in operations as an expense using the interest method. Changes in the obligation due to changes in the estimated cash flows are recognized as an adjustment of the carrying amount of the related long-lived asset that is amortized over the remaining life of the asset.

(i) Foreign currency transactions:

Foreign currency transactions of the Corporation are translated using the temporal method. Under this method, transactions are initially recorded at the rate of exchange prevailing at the date of the transaction. Thereafter, monetary assets and liabilities are adjusted to reflect the exchange rates in effect at the statement of financial position date. Gains and losses resulting from the adjustment are included in the statement of operations.

(j) Employee future benefits:

The Corporation sponsors two defined benefit plans and a defined contribution pension plan and provides other retirement and post-employment benefits to most of its employees. Benefits provided under the defined benefit pension plans are based on a member's term of service and average earnings over a member's five highest consecutive annualized earnings.

2. Significant accounting policies (continued):

(j) Employee future benefits (continued):

The Corporation accrues its obligations under employee benefit plans as the employees render the services necessary to earn pension and other retirement and post-employment benefits. The Corporation has adopted the following policies:

- The cost of the accrued benefit obligations for pensions and other retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages and expected health care costs. The measurement date of the plan assets and accrued benefit obligation coincides with the Corporation's fiscal year. The most recent actuarial valuations for the two benefit pension plans for funding purposes were as of December 31, 2010, and January 1, 2011. The next required valuations will be as of December 31, 2013, and January 1, 2014 respectively. The most recent actuarial valuation of the other retirement and post-employment benefits was as of April 1, 2009, and the next required valuation will be as of April 1, 2012.
- For the purpose of calculating expected return on plan assets, investments are valued at fair value.
- Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gains (losses) over 10 percent of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of active employees is 9 years (2010 – 9 years) and 11 years (2010 – 11 years) for the two defined benefit plans and 9 to 12 years (2010 – 9 to 12 years) for the other retirement and post-employment benefits.
- Past service costs from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment.
- On April 1, 2000, the Corporation adopted the accounting standard on employee future benefits using the prospective application method. The Corporation is amortizing the transitional pension obligation or asset on a straight-line basis over 10 and 13 years for the two defined benefit plans, and 8 to 15 years for the other retirement and post-employment benefits which represented the average remaining service periods of the active employees expected to receive benefits under the pension, other retirement and post-employment plans as of April 1, 2000.

2. Significant accounting policies (continued):

(j) Employee future benefits (continued):

- When a restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

The Corporation also has a defined contribution plan providing pension benefits. The cost of the defined contribution plan is recognized based on the contributions required to be made during each period.

(k) Financial Instruments:

The Corporation classifies all financial instruments into one of the following categories: held-for-trading, held-to-maturity investments, loans and receivables, other financial liabilities, or available-for-sale financial assets. Upon initial recognition, financial assets or financial liabilities are measured at their fair value. The related accounting treatment for financial instruments subsequent to initial recognition depends on the classification. Financial assets and liabilities categorized as held-for-trading are measured at fair value with gains and losses recognized in the statement of operations. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in the statement of changes in net assets until the financial asset is sold or impaired at which time the amounts are recognized in the statement of operations. In addition, the derivatives embedded in financial instruments or other contracts are accounted for separately.

The Corporation classifies financial instruments as follows:

Cash and cash equivalents are classified as available-for-sale.

Members' contributions receivable and other amounts receivable are classified as loans and receivables.

Investments, captive insurance operations have been designated as available-for-sale.

Accounts payable, accrued liabilities and long-term debt have been classified as other financial liabilities.

Foreign exchange contracts that are used to manage foreign exchange risk and that have not been designated as hedges for accounting purposes are classified as held-for-trading. All changes in fair value for these derivative instruments are recognized in the statement of operations.

Interest rate swaps were classified as held-for-trading and accounted for as cash flow hedges. All changes in the fair value of these financial instruments are recorded directly in the statement of changes in net assets.

2. Significant accounting policies (continued):

(k) Financial Instruments (continued):

Non-financial and embedded derivatives

The Corporation reviews contracts in place to identify non-financial derivatives and embedded derivatives. An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. If certain conditions are met, an embedded derivative is separated from the host contract and accounted for as a derivative at its fair value with subsequent changes in fair value recorded in the statement of operations.

Transaction costs

Transaction costs are comprised primarily of legal, accounting, underwriters' fees and other costs directly attributable to the acquisition, issuance or disposal of a financial asset or financial liability. Transaction costs are expensed as incurred.

Fair Value

All financial instruments measured at fair value in the statement of financial position are categorized into one of three hierarchy levels. Each level is based on the significance of the inputs used to measure the fair values of assets and liabilities:

Level 1 – Inputs are unadjusted quoted market prices of identical instruments in active markets;

Level 2 – Inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – One or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of financial instruments in the hierarchy is based upon the lowest level of input if significant to the measurement of fair value.

3. Cash and cash equivalents:

Cash and cash equivalents include deposits with financial institutions that can be withdrawn without prior notice or penalty and units held in money market funds.

Cash and cash equivalents include \$711 (2010 - \$255) that is restricted for captive insurance operations.



Year ended March 31, 2011
(In thousands of dollars)

4. Inventory:

Inventory consists of raw materials, work in process and finished goods. Raw materials inventory includes medical supplies available for use in the collection, manufacturing and testing of fresh blood products. Work in process inventory consists of plasma for fractionation. Finished goods inventory includes plasma protein products, red blood cells, platelets and plasma for transfusion that are available for distribution to hospitals. Work in process and finished goods inventories include direct costs and overhead incurred in the collection, manufacturing, testing and distribution process.

Inventory at March 31 comprises the following:

| | 2011 | 2010 |
|-----------------|------------------|------------------|
| Raw material | \$ 9,000 | \$ 10,819 |
| Work in process | 5,467 | 5,563 |
| Finished goods | 100,962 | 111,006 |
| | <hr/> \$ 115,429 | <hr/> \$ 127,388 |

Year ended March 31, 2011
(In thousands of dollars)

5. Investments:

All investments are restricted for captive insurance operations. The amortized cost and fair market value of marketable securities are as follows:

| | Amortized cost/cost | 2011 Fair value | Amortized cost/cost | 2010 Fair value |
|---------------------------|------------------------|-----------------------|------------------------|-----------------------|
| Short-term notes | \$ 7,667 | \$ 7,673 | \$ 3,253 | \$ 3,253 |
| Fixed interest securities | 199,323 | 204,643 | 204,658 | 210,365 |
| Mutual funds | 50,931 | 48,925 | 35,308 | 32,904 |
| Equity securities | 52,218 | 72,091 | 48,992 | 61,433 |
| | \$ 310,139 | \$ 333,332 | \$ 292,211 | \$ 307,955 |

The fixed interest securities have contractual maturities from less than 1 year to 56 years, having effective rates ranging from approximately 2.0% to 7.1% (2010 – 0.2% to 6.7%). The maturities of the fixed interest securities are as follows:

| | 2011 Fair value |
|------------------|-----------------------|
| less than 1 year | \$ 824 |
| 1 – 10 years | 140,142 |
| 11 – 20 years | 17,519 |
| 20+ years | 46,158 |
| | \$ 204,643 |

The Corporation routinely reviews each security to determine whether unrealized losses represent temporary changes in fair value or are as a result of other than temporary impairments. The consideration of whether a security is other than temporarily impaired is based on a number of factors which include, but are not limited to, the financial condition of the issuer, the length and magnitude of the unrealized loss and specific credit events. The Corporation also considers its intent and ability to hold a security for a sufficient period of time for the value of the unrealized loss to recover. Based on the evaluation as of March 31, 2011, unrealized losses are considered to be temporary.



Canadian Blood Services
Soci t  canadienne du sang

Notes to the Consolidated Financial Statements, page 11

Year ended March 31, 2011
(In thousands of dollars)

6. Property, plant and equipment:

| | Cost | Accumulated depreciation | 2011 Net Book Value |
|----------------------------------|------------|--------------------------|---------------------|
| Building | \$ 109,603 | \$ 29,812 | \$ 79,791 |
| Machinery and equipment | 67,788 | 49,466 | 18,322 |
| Land | 15,416 | - | 15,416 |
| Furniture and office equipment | 19,474 | 13,770 | 5,704 |
| Leasehold improvements | 16,416 | 11,162 | 5,254 |
| Computer equipment | 37,395 | 31,160 | 6,235 |
| Motor vehicles | 13,878 | 6,616 | 7,262 |
| Computer software | 24,439 | 22,677 | 1,762 |
| Equipment under capital lease | 2,740 | 1,171 | 1,569 |
| Assets under construction | 41,130 | - | 41,130 |
| | 348,279 | 165,834 | 182,445 |
| Right to the blood supply system | 35,203 | 11,000 | 24,203 |
| | \$ 383,482 | \$ 176,834 | \$ 206,648 |



Year ended March 31, 2011
(In thousands of dollars)

6. Property, plant and equipment (continued):

| | Cost | Accumulated depreciation | 2010 Net Book Value |
|----------------------------------|------------|--------------------------|---------------------|
| Building | \$ 108,095 | \$ 27,076 | \$ 81,019 |
| Machinery and equipment | 65,897 | 46,669 | 19,228 |
| Land | 15,264 | – | 15,264 |
| Furniture and office equipment | 18,456 | 12,479 | 5,977 |
| Leasehold improvements | 15,533 | 10,165 | 5,368 |
| Computer equipment | 36,371 | 29,890 | 6,481 |
| Motor vehicles | 12,361 | 6,017 | 6,344 |
| Computer software | 22,871 | 21,029 | 1,842 |
| Equipment under capital lease | 2,740 | 623 | 2,117 |
| Assets under construction | 13,691 | – | 13,691 |
| | 311,279 | 153,948 | 157,331 |
| Right to the blood supply system | 35,203 | 10,120 | 25,083 |
| | \$ 346,482 | \$ 164,068 | \$ 182,414 |

During the current year, property, plant and equipment was acquired at an aggregate cost of \$42,345 (2010 - \$29,610) of which \$Nil (2010 - \$1,021) was acquired by means of capital leases. Cash payments of \$40,985 (2010 - \$27,729) were made to purchase property, plant and equipment.

7. Obligations under capital leases:

The following is a schedule of minimum lease payments under fixed rate capital leases expiring between October 1, 2013, and August 1, 2014, together with the balance of the obligations:

| Year ended March 31 | 2011 | 2010 |
|---|----------|----------|
| 2011 | \$ - | \$ 627 |
| 2012 | 627 | 627 |
| 2013 | 627 | 627 |
| 2014 | 513 | 513 |
| 2015 | 35 | 35 |
| | 1,802 | 2,429 |
| Less amount representing interest (at approximately 5.5%) | 155 | 261 |
| | 1,647 | 2,168 |
| Current portion of obligations under capital leases | 550 | 521 |
| | \$ 1,097 | \$ 1,647 |

Year ended March 31, 2011
(In thousands of dollars)

8. Credit facilities:

(a) Long-term debt:

The purchase of the Winnipeg Blood Transfusion Service Centre (WBTSC) was financed by a collateral mortgage.

| | 2011 | 2010 |
|---|-------------|------------------|
| A collateral mortgage agreement bearing interest at BA plus 0.33% | \$ - | \$ 14,000 |
| Less current portion | - | 1,000 |
| | \$ - | \$ 13,000 |

The Corporation used an interest rate swap which had the effect of converting the bankers' acceptance floating rate of interest to a 5.47% fixed rate for the WBTSC collateral mortgage. The difference between the swap rate and the actual rate was recognized as an adjustment to interest expense on long-term debt. The collateral mortgage and associated interest rate swap were settled in full in the year ending March 31, 2011. The total interest expense incurred as at March 31, 2011, was \$731 (2010 - \$809).

(b) Demand instalment loan:

A demand instalment loan in the amount of \$25,000 was arranged to cover contingencies or events not anticipated in the annual budget. At March 31, 2011, no amounts had been borrowed under this facility.

(c) Demand operating credit:

A line of credit in the amount of \$50,000 was arranged to provide working capital for inventory. At March 31, 2011, no amounts had been borrowed under this facility.

(d) Demand bridge facility:

A demand revolving bridge facility of \$80,000 was arranged to finance a portion of the redevelopment of the Corporation's facilities. At March 31, 2011, no amounts had been borrowed under this facility.

(e) Standby letter of credit:

Standby letters of credit in the amount of \$2,000 were arranged to cover municipal requirements with regard to the redevelopment of the Corporation's facilities. At March 31, 2011 \$438 has been issued under the facility.

Year ended March 31, 2011
(In thousands of dollars)

8. Credit facilities (continued):

(f) Demand instalment loan (Facilities redevelopment project):

A demand instalment loan for the redevelopment of the Corporation's facilities has been arranged. The credit limit established under this loan is the lesser of \$68,000, the outstanding balance on the demand bridge facility or an amount confirmed by the borrower. The facility was arranged to refinance the demand bridge facility. At March 31, 2011, no amounts had been borrowed under the demand instalment loan. Any amounts borrowed under the facility will be repayable on demand.

Pursuant to the arrangements above, the Corporation has provided a general security agreement in favour of the bank over receivables, inventory, equipment and machinery, a floating charge debenture over all present and future assets and property and a fixed charge over the Brampton and Halifax properties. Amounts deferred for contingency purposes are excluded from the general security agreement. With respect to the demand bridge facility, the standby letter of credit facility and demand instalment loan, the Corporation has provided a first-priority security interest over funds received for the redevelopment of the Corporation's facilities.

9. Deferred contributions:

(a) Expenses of future periods:

Deferred contributions represent externally restricted contributions to fund expenses of future periods.

| | 2011 | 2010 |
|--|-------------------|-------------------|
| Balance, beginning of year | \$ 187,096 | \$ 189,219 |
| Increase in amounts received related to future periods | 54,790 | 28,952 |
| Less amounts recognized as revenue in the year | (24,075) | (13,360) |
| Less property, plant and equipment purchased from deferred contributions | (26,963) | (17,746) |
| Add income earned on resources restricted for transition | 64 | 31 |
| Add income earned on resources restricted for contingency | 192 | - |
| | \$ 191,104 | \$ 187,096 |

The property, plant and equipment purchased represent purchases from contributions that were deferred at March 31, 2010, as well as contributions received and deferred in the year ended March 31, 2011.

Year ended March 31, 2011
(In thousands of dollars)

9. Deferred contributions (continued):

(b) Property, plant and equipment:

Funds received to purchase property, plant and equipment are recorded as deferred contributions – property, plant and equipment on the statement of financial position. They are amortized to revenue in the statement of operations at the same rate as property, plant and equipment is depreciated to expenses.

| | 2011 | 2010 |
|--|------------|------------|
| Balance, beginning of year | \$ 151,096 | \$ 145,036 |
| Property, plant and equipment purchased | 42,345 | 29,610 |
| Capital funding received for repayment of WBTSC loan | 14,000 | 1,000 |
| Capital funding received for leased assets | 522 | 522 |
| Less property, plant and equipment sold | (219) | (150) |
| Less investment in property, plant & equipment | (152) | (5,561) |
| Less amounts amortized to revenue | (17,892) | (18,340) |
| Less amounts acquired under capital lease | - | (1,021) |
| | \$ 189,700 | \$ 151,096 |

Included in property, plant and equipment purchased of \$42,345 (2010 - \$29,610) is \$26,963 (2010 - \$17,746) of property, plant and equipment that was purchased using contributions deferred for expenses of future periods.

10. Net assets:

(a) Cumulative net unrealized gains on available-for-sale investments, captive insurance operations:

| | 2011 | 2010 |
|---|-----------|------------|
| Balance, beginning of year | \$ 15,744 | \$ (2,946) |
| Change in unrealized gains during the year | 14,041 | 20,360 |
| Reclassification of net realized gains to statement of operations | (6,592) | (1,670) |
| | \$ 23,193 | \$ 15,744 |



Canadian Blood Services
Soci t  canadienne du sang

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Year ended March 31, 2011
(In thousands of dollars)

10. Net assets (continued):

(b) Cumulative change in fair value of interest rate swap:

| | 2011 | 2010 |
|---|------------|------------|
| Balance, beginning of year | \$ (1,444) | \$ (2,389) |
| Change in unrealized losses during the year | 77 | 945 |
| Reclassification of net realized gains to statement of operations | 1,367 | - |
| | \$ - | \$ (1,444) |

(c) Restricted for captive insurance purposes:

All net assets restricted for captive insurance purposes are subject to externally imposed restrictions stipulating that they be used to provide insurance coverage with respect to risks associated with the operations of the Corporation.

11. Investment income:

| | 2011 | 2010 |
|--|-----------|-----------|
| Income on unrestricted funds | \$ 1,948 | \$ 773 |
| Interest and realized gains and losses on resources restricted for captive insurance | 18,377 | 14,302 |
| Income on resources restricted for transition | 64 | 31 |
| Income on resources restricted for contingency | 192 | - |
| | 20,581 | 15,106 |
| Less amounts deferred | (256) | (31) |
| | \$ 20,325 | \$ 15,075 |

Year ended March 31, 2011
(In thousands of dollars)

12. Employee benefits:

The Corporation sponsors two defined benefit pension plans and a defined contribution pension plan and provides other retirement and post-employment benefits to most of its employees.

(a) Defined benefit plans:

Information about the Corporation's defined benefit plans are combined and summarized as follows:

| | 2011 | 2010 |
|--------------------------------|------------|------------|
| Accrued benefit obligation | \$ 207,787 | \$ 173,958 |
| Fair value of plan assets | 195,747 | 164,864 |
| Funded status – deficit | (12,040) | (9,094) |
| Balance of unamortized amounts | 11,131 | 8,147 |
| Accrued benefit liability | \$ (909) | \$ (947) |

The accrued pension benefit liability is included in accounts payable and accrued liabilities in the Corporation's statement of financial position.

The percentage of the fair value of the two plans assets by major category are as follows: equity securities 62% and 64% (2010 – 61% and 63%); debt securities 38% and 33% (2010 - 39% and 34%); and other Nil% and 3% (2010 - Nil% and 3%).

The difference between the accrued benefit liability of \$909 (2010 - \$947) recorded on the Corporation's statement of financial position and the actuarially determined fund deficit of \$12,040 (2010 - \$9,094) principally comprises experience losses. These losses represent differences between actual asset and accrued benefit values and expected values determined based on the actuarial assumptions used for accounting purposes.

Experience gains and losses are amortized to pension expense over the average expected remaining service lives of employees when the aggregate gain or loss exceeds 10% of the greater of the accrued benefit obligation or the fair value of assets at the beginning of the year. Accordingly, no amortization was recorded in 2011 or 2010.

Year ended March 31, 2011
(In thousands of dollars)

12. Employee benefits (continued):

(a) Defined benefit plans (continued):

The significant actuarial assumptions adopted in measuring the Corporation's defined benefit plans accrued benefit obligation and benefit cost are summarized as follows:

| | 2011 | 2010 |
|--|---------------|-------|
| Accrued benefit obligation: | | |
| Discount rate | 5.75% | 6.25% |
| Rate of compensation increase | 4.00% | 4.25% |
| Benefit cost: | | |
| Discount rate | 6.25% | 8.75% |
| Expected long-term rate of return on plan assets | 6.00% - 6.50% | 6.50% |
| Rate on compensation increases | 4.25% | 4.25% |

Other information about the Corporation's defined benefit plans is combined and summarized as follows:

| | 2011 | 2010 |
|------------------------|-----------|----------|
| Employer contributions | \$ 10,612 | \$ 9,675 |
| Employee contributions | 6,985 | 6,419 |
| Benefits paid | 5,392 | 4,296 |

(b) Pension plan expense:

The net expense for the Corporation's pension plans is combined and summarized as follows:

| | 2011 | 2010 |
|----------------------------|-----------|-----------|
| Defined benefit plans | \$ 9,981 | \$ 9,405 |
| Defined contribution plans | 5,115 | 5,071 |
| | \$ 15,096 | \$ 14,476 |

Year ended March 31, 2011
(In thousands of dollars)

12. Employee benefits (continued):

(c) Other retirement and post-employment benefits:

Information about the Corporation's other retirement and post-employment benefits is as follows:

| | 2011 | 2010 |
|----------------------------|-----------|-----------|
| Accrued benefit obligation | \$ 18,442 | \$ 16,055 |
| Accrued benefit liability | (19,952) | (18,268) |
| Benefits paid | 635 | 564 |
| Net expense | 2,319 | 1,569 |

Included in the above-noted benefit obligation is \$1,415 (2010 - \$1,884), which represents the unamortized transitional obligation. This amount is being amortized over the average remaining service periods of the active employees expected to receive benefits under the other retirement and post-employment benefit plans as of April 1, 2000.

The significant actuarial assumptions adopted in measuring the Corporation's other retirement and post-employment accrued benefit obligation and benefit cost are as follows:

| | 2011 | 2010 |
|--------------------------------|-------------|-------------|
| Accrued benefit obligation: | | |
| Discount rate | 4.75%-5.25% | 5.25%-5.75% |
| Rate of compensation increase | 4.50% | 4.50% |
| Benefit cost: | | |
| Discount rate | 5.25%-5.75% | 7.75%-8.75% |
| Rate on compensation increases | 4.50% | 4.25% |

Hospital costs – 5.50% per annum, with an ultimate rate of 4.50% reached in 2013, starting in 2008;

Drug costs – 6.13% per annum, with an ultimate rate of 5.00% reached in 2013, starting in 2008;

Other health costs – 4.00% per annum.

As a result of the redevelopment program related to the Corporation's facilities, contractual termination benefits in the amount of \$6.9 million have been recognized in the financial statements. This amount is included in accounts payable and accrued liabilities on the statement of financial position and in staff costs in the statement of operations. The amount reflects management's best estimate of the Corporation's obligation at March 31, 2011. No amounts were paid in the year ended March 31, 2011.



Year ended March 31, 2011, with comparative figures for 2010

(In thousands of dollars)

13. Canadian Blood Services revenue and expenditures detail:

| | Transfusable Products | | Plasma Protein Products | | Diagnostic Services | | Stem Cells | | Organs and Tissues | | Total | |
|---|-----------------------|-----------------|-------------------------|----------------|---------------------|---------------|-------------------|-----------------|--------------------|--------------|-----------------|-----------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Revenue: | | | | | | | | | | | | |
| Members' contributions | \$ 495,424 | 468,019 | \$ 468,108 | \$ 493,026 | \$ 17,899 | \$ 17,544 | \$ 10,728 | \$ 8,639 | \$ 3,580 | \$ 3,580 | \$ 995,739 | \$ 990,808 |
| Federal contributions | 5,000 | 5,000 | - | - | - | - | - | - | 3,615 | 3,580 | 8,615 | 8,580 |
| Less deferred amounts | (61,368) | (34,399) | (5,000) | (5,000) | (1,467) | (1,930) | (2,028) | (300) | (4,646) | (3,580) | (74,509) | (45,209) |
| | 439,056 | 438,620 | 463,108 | 488,026 | 16,432 | 15,614 | 8,700 | 8,339 | 2,549 | 3,580 | 929,845 | 954,179 |
| Amortization of previously deferred contributions: | | | | | | | | | | | | |
| Relating to property, plant and equipment | 18,111 | 18,490 | - | - | - | - | - | - | - | - | 18,111 | 18,490 |
| Relating to operations | 16,902 | 8,593 | - | - | 996 | 856 | 1,051 | 96 | 5,126 | 3,815 | 24,075 | 13,360 |
| Total contributions recognized as revenue | 474,069 | 465,703 | 463,108 | 488,026 | 17,428 | 16,470 | 9,751 | 8,435 | 7,675 | 7,395 | 972,031 | 986,029 |
| Stem Cells revenue | - | - | - | - | - | - | 10,028 | 10,860 | - | - | 10,028 | 10,860 |
| Investment income | 1,948 | 773 | - | - | - | - | - | - | - | - | 1,948 | 773 |
| Other income | 948 | 712 | 267 | 1,092 | 305 | 311 | - | - | 1,066 | - | 2,586 | 2,115 |
| Total revenue | 476,965 | 467,188 | 463,375 | 489,118 | 17,733 | 16,781 | 19,779 | 19,295 | 8,741 | 7,395 | 986,593 | 999,777 |
| Expenses: | | | | | | | | | | | | |
| Cost of plasma protein products | - | - | 454,279 | 464,263 | - | - | - | - | - | - | 454,279 | 464,263 |
| Staff costs | 286,678 | 276,350 | 2,108 | 2,176 | 11,584 | 10,834 | 5,130 | 4,228 | 5,385 | 3,540 | 310,885 | 297,128 |
| General and administrative (note 14) | 87,468 | 91,614 | 5,904 | 21,498 | 3,320 | 3,374 | 12,416 | 13,320 | 3,356 | 3,855 | 112,464 | 133,661 |
| Medical supplies | 78,601 | 78,601 | 1,084 | 1,181 | 2,829 | 2,573 | 3,482 | 2,176 | - | - | 85,996 | 84,531 |
| Depreciation and amortization | 17,892 | 18,340 | - | - | - | - | - | - | - | - | 17,892 | 18,340 |
| Total expenses | 470,639 | 464,905 | 463,375 | 489,118 | 17,733 | 16,781 | 21,028 | 19,724 | 8,741 | 7,395 | 981,516 | 997,923 |
| Excess (deficiency) of revenue over expenses | \$ 6,326 | \$ 2,283 | \$ - | \$ - | \$ - | \$ - | \$ (1,249) | \$ (429) | \$ - | \$ - | \$ 5,077 | \$ 1,854 |



Year ended March 31, 2011
(In thousands of dollars)

14. Financial instruments:

(a) Summary of financial instruments:

At March 31, 2011, the classifications of the Corporation's financial instruments, as well as their carrying amounts, are as follows:

| Financial Assets (Liabilities) | Classification | 2011 | 2010 |
|---|-----------------------------|------------|------------|
| Cash and cash equivalents | Available-for-sale | \$ 188,551 | \$ 167,485 |
| Members' contributions receivable | Loans and receivables | 3,700 | 13,485 |
| Other amounts receivable | Loans and receivables | 12,843 | 11,896 |
| Investments, captive insurance operations | Available for sale | 333,332 | 307,955 |
| Accounts payable and accrued liabilities | Other financial liabilities | (103,844) | (111,932) |
| Long term debt | Other financial liabilities | - | (14,000) |
| Interest rate swap | Held-for-trading | - | (1,444) |

Fair values:

The carrying values of cash and cash equivalents, Members' contributions receivable, other amounts receivable and accounts payable and accrued liabilities approximate their fair value because of the relatively short period to maturity of these financial instruments.

The carrying value for obligations under capital lease approximates its fair value as the current rate of interest available to the Corporation for a similar debt instrument has not changed significantly.

Foreign exchange contracts are used to manage foreign exchange risk and have not been designated as hedges for accounting purposes. The fair value of foreign exchange contracts is disclosed at amounts quoted by a financial institution to realize favourable contracts or settle unfavourable contracts. All changes in fair value for these derivative instruments are recognized in the statement of operations. At March 31, 2011, the Corporation had no foreign exchange contracts outstanding.

Year ended March 31, 2011
(In thousands of dollars)

14. Financial instruments (continued):

(a) Summary of financial instruments (continued):

The following table provides the estimated fair values of financial instruments carried at fair value in accordance with the Corporation's accounting policies.

| March 31, 2011 | Level 1 | Level 2 | Level 3 | Total |
|----------------------------|------------|------------|---------|------------|
| Cash and cash equivalents | \$ 188,551 | \$ – | \$ – | \$ 188,551 |
| Short-term notes | 7,673 | – | – | 7,673 |
| Canadian government bonds | – | 93,501 | – | 93,501 |
| Corporate bonds | – | 101,653 | – | 101,653 |
| Mutual funds | – | 49,078 | – | 49,078 |
| Mortgage-backed securities | – | 9,336 | – | 9,336 |
| Equity securities | 72,091 | – | – | 72,091 |
| | \$ 268,315 | \$ 253,568 | \$ – | \$ 521,883 |

| March 31, 2010 | Level 1 | Level 2 | Level 3 | Total |
|----------------------------|------------|------------|---------|------------|
| Cash and cash equivalents | \$ 167,485 | \$ – | \$ – | \$ 167,485 |
| Interest rate swap | – | 1,444 | – | 1,444 |
| Short-term notes | 3,253 | – | – | 3,253 |
| Canadian government bonds | – | 104,174 | – | 104,174 |
| Corporate bonds | 135 | 80,328 | – | 80,463 |
| Mutual funds | – | 32,904 | – | 32,904 |
| Mortgage-backed securities | 145 | 25,583 | – | 25,728 |
| Equity securities | 61,433 | – | – | 61,433 |
| | \$ 232,451 | \$ 244,433 | \$ – | \$ 476,884 |

(b) Risk management:

The Board of Directors has responsibility for the review and oversight of the Corporation's risk management framework and general corporate risk profile. Through its committees, the Board oversees analysis of various risks facing the organization that evolve in response to economic conditions and industry circumstances.

The Corporation is exposed to risks as a result of holding financial instruments. The Corporation does not enter into transactions involving financial instruments, including derivative financial instruments, for speculative purposes. The following is a description of those risks and how they are managed.

Year ended March 31, 2011
(In thousands of dollars)

14. Financial instruments (continued):

(b) Risk management (continued):

(i) *Market risk:*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign exchange risk and other price risk. These risks are discussed below:

Interest rate risk:

Interest rate risk pertains to the effect of changes in market interest rates on the fair value of future cash flows related to the Corporation's existing financial assets and liabilities. To reduce its exposure to fluctuations in interest expense, the Corporation entered into an interest rate swap (note 8) that had the effect of converting the bankers' acceptance floating rate of interest to a fixed rate on its long-term debt. At March 31, 2011, the interest rate swap was settled in full.

The Corporation is exposed to interest rate risk on its cash and cash equivalents. At March 31, 2011, this exposure was minimal due to low prevailing rates of return. The Corporation is also exposed to interest rate risk on investments in debt securities included in investments, captive insurance operations. If interest rates at March 31, 2011, had increased by 25 basis points or decreased by 25 basis points, then net assets would have decreased by approximately \$3,700 (2010 - \$3,400) or increased by approximately \$3,800 (2010 - \$3,600).

Foreign exchange risk:

Foreign exchange risk is the risk that the value or future cash flows of financial instruments will fluctuate as a result of changes in foreign exchange rates. The Corporation is exposed to foreign exchange risk on purchases that are denominated in currencies other than the functional currency of the Corporation. To mitigate this risk, the Corporation has a formal foreign currency policy in place. The objective of this policy is to monitor the marketplace and, when considered appropriate, take advantage of opportunities to fix exchange rates using forward contracts to reduce the risk exposures related to purchases made in foreign currencies. Generally, forward contracts are for periods not in excess of twelve months.

At March 31 the Corporation had the following instruments denominated in \$US dollars:

| | 2011 CDN | 2010 CDN |
|--|----------|----------|
| Accounts receivable | \$ 408 | \$ 644 |
| Accounts payable and accrued liabilities | 12,301 | 34,709 |



14. Financial instruments (continued):

(b) Risk management (continued):

(i) *Market risk (continued):*

Foreign exchange risk (continued):

During the year, the Corporation entered into foreign exchange contracts to hedge its foreign currency exposure on a substantial portion of its foreign purchases of plasma protein products. The contracts are intended to match the timing of the anticipated future purchases of foreign currencies. The Corporation did not designate the foreign exchange contracts as hedges of firm commitments or anticipated transactions in accordance with Handbook Section 3865 and, accordingly, did not use hedge accounting. As a result of this, the foreign exchange contracts are recorded in the statement of financial position at fair value and changes in fair value of these contracts are recognized as gains or losses in the statement of operations.

Included in foreign exchange gains and losses, recorded in general and administrative expenses in the statement of operations at March 31, 2011, were losses of \$1,697 (2010 – \$17,749 losses). At March 31, 2011, the Corporation had no foreign exchange contracts outstanding.

If the Canadian dollar had increased or decreased by 10% in relation to the net US dollar position of financial instruments at March 31, 2011, with all other variables held constant, the excess of revenue over expenses for the year would have decreased or increased respectively by approximately \$790 with a corresponding change of \$750 in revenues and expenses of Plasma Protein Products and \$40 in the excess of revenue over expenses of Transfusable Products.



14. Financial instruments (continued):

(b) Risk management (continued):

(i) *Market risk (continued):*

Other price risk:

Other price risk is the exposure to changes in the value of mutual funds and equity securities in its investment portfolio as a result of market conditions. Other price risk comprises general price risk which refers to fluctuations in value of the mutual funds and equity securities due to changes in general economic or stock market conditions, and specific price risk which refers to equity price volatility that is determined by entity specific characteristics. These risks affect the carrying value of these securities and the level and timing of recognition of gains and losses on securities held, causing changes in realized and unrealized gains and losses. The Corporation mitigates price risk by holding a diversified portfolio. The portfolio is managed through the use of third party investment managers and their performance is monitored by management and the Board of Directors of the captive insurance operations.

At March 31, 2011, if the prices of mutual funds and equity securities had increased or decreased by 10%, with all other variables held constant, investments, captive insurance operations would have increased or decreased by \$12,100 (2010 - \$9,400) with a corresponding change in net assets.

(ii) *Credit risk:*

The Corporation is exposed to the risk of financial loss resulting from the potential inability of a counterparty to a financial instrument to meet its contractual obligations. The carrying amount of cash and cash equivalents, Members' contributions receivable, other amounts receivable, and investments, captive insurance operations represent the maximum exposure of the Corporation to credit risk.

Cash and cash equivalents are held with a Canadian financial institution rated by Standard & Poor's credit rating as A+ credit watch stable. All foreign exchange contracts must be transacted with Schedule I or Schedule II financial institutions as per the Corporation's foreign currency policy.

The Corporation is also exposed to credit risk on fixed income securities investments. The investment policy requires an average credit rating of 'A' on the credit quality of its fixed income portfolio, related to captive insurance operations.



14. Financial instruments (continued):

(b) Risk management (continued):

(ii) *Credit risk (continued):*

Members' contributions receivable are current in nature and management considers there to be minimal exposure to credit risk from Members due to funding agreements in place and third party Member credit ratings. Standard & Poor's available credit ratings for Members range from A credit watch stable to AAA credit watch stable.

Credit risk associated with other amounts receivable is considered to be minimal based on past experience with bad debts as these accounts represent a small portion of the total amounts receivable by the Corporation. The carrying amount of amounts receivable for these parties represents the Corporation's maximum exposure.

(iii) *Liquidity risk:*

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to evaluate current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and cash equivalents. In addition, the Corporation has credit facilities described in note 8 that it can draw on as required.

At March, 31 the Corporation's capital lease obligations fall due as described in Note 7 and accounts payable and accrued liabilities are all due within one year.

The provision for future insurance claims has no contractual maturity and the timing of settlement will depend on actual claims experience in the future.



Year ended March 31, 2011
(In thousands of dollars)

15. Captive Insurance Operations:

The Corporation has established two wholly-owned captive insurance subsidiaries, CBS Insurance Company Limited (CBSI) and Canadian Blood Services Captive Insurance Company Limited/ Compagnie d'assurance captive de la société canadienne du sang limitée (CBSE). CBSI provides insurance coverage up to \$250,000 with respect to risks associated with the operation of the blood system. CBSE has entered into an arrangement whereby the Members have agreed to indemnify CBSE for all amounts payable by CBSE under the terms of the excess policy up to \$750,000, which is in excess of the \$250,000 provided by CBSI. No payment shall be made under CBSE until the limit of the liability under the primary policy in CBSI, in the amount of \$250,000, has been exhausted. As a result, the Corporation has \$1,000,000 total in coverage.

The results of operations of the two subsidiaries are as follows:

| | CBSI | | CBSE | | Total | |
|---|-----------|------------|-------|--------|-----------|------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Gross premiums written and earned | \$ 688 | \$ 676 | \$ 55 | \$ 45 | \$ 743 | \$ 721 |
| Net premiums earned | 688 | 676 | \$ 55 | 45 | 743 | 721 |
| Investment income | 18,366 | 14,295 | 11 | 7 | 18,377 | 14,302 |
| | 19,054 | 14,971 | 66 | 52 | 19,120 | 15,023 |
| Expenses | | | | | | |
| Increase in provision for future claims | 625 | 16,860 | - | - | 625 | 16,860 |
| General and administrative | 956 | 652 | 54 | 53 | 1,010 | 705 |
| | 1,581 | 17,512 | 54 | 53 | 1,635 | 17,565 |
| Net insurance income (loss) | \$ 17,473 | \$ (2,541) | \$ 12 | \$ (1) | \$ 17,485 | \$ (2,542) |

Included in net insurance income (loss) above is \$743 (2010 - \$721) of gross premiums earned and \$540 (2010 - \$224) of general and administrative expenses that have been eliminated upon consolidation. These amounts are not reflected in the consolidated statement of operations.

The provision for future claims is an actuarially based estimate of the cost to the Corporation of settling claims relating to insured events (both reported and unreported) that have occurred to March 31, 2011.

A significant proportion of both the future claims expense for the period and the related cumulative estimated liability of the Corporation for these future claims at March 31, 2011, of \$249,886 (2010 - \$249,261) covers the manifestation of blood diseases, which is inherently difficult to assess and quantify. There is a variance between these recorded amounts and other reasonably possible estimates.



16. Guarantees and contingencies:

(a) Guarantees:

In the normal course of business, the Corporation enters into lease agreements for facilities and assets acquired under capital leases. In the Corporation's standard commercial lease for facilities the Corporation, as the lessee, agrees to indemnify the lessor and other related third parties for liabilities that may arise from the use of the leased premises where the event triggering liability results from a breach of a covenant, any wrongful act, neglect or default on the part of the tenant or related third parties. However, this clause may be altered through negotiation. In the Corporation's assets acquired under capital leases both the lessee and the lessor agree to indemnify each other for death or injury to the employees or agents of either party, where the event triggering liability results from negligent acts, omissions or wilful misconduct.

The maximum amount potentially payable under any such indemnities cannot be reasonably estimated. The Corporation has liability insurance that relates to the indemnifications described above. Historically, the Corporation has not made significant payments related to the above-noted indemnities and, accordingly, no liabilities have been accrued in the financial statements.

(b) Contingencies:

The Corporation is party to legal proceedings in the ordinary course of its operations. In the opinion of management, the outcome of such proceedings will not have a material adverse effect on the Corporation's financial statements or its activities. Claims and obligations related to the operation of the blood supply system prior to September 28, 1998, and the Canadian Council for Donation and Transplantation prior to April 1, 2008, are not the responsibility of the Corporation.

Year ended March 31, 2011
(In thousands of dollars)

17. Commitments:

At March 31, 2011, the Corporation had the following contractual commitments:

- (a) Future minimum payments under operating leases of approximately \$24,340 with payments in each of the next five years of: 2012 - \$7,160; 2013 - \$5,599; 2014 - \$4,123; 2015 - \$3,574; 2016 - \$2,325; and thereafter \$1,559.
- (b) Research and development project grants of approximately \$8,735 (2010 - \$7,439) to be funded from the contributions deferred for future expenses.
- (c) Capital commitments of approximately \$25,712 (2010 - \$28,125) funded by Members' contributions.

18. Research and development:

For the year ended March 31, 2011, the Corporation incurred \$12,125 of expenses related to research and development (2010 - \$11,340). These costs are included within transfusable products in the statement of operations. At March 31, 2011, the research and development portion of contributions deferred for future expenses totalled \$17,291 (2010 - \$15,257).

19. Related party transactions:

Members of the Corporation are the Ministers of Health within the provincial and territorial governments of Canada, except Qu bec. The Members provide funding for the operating budgets of the Corporation. The Corporation enters into other transactions with these related parties in the normal course of business.

20. Capital disclosures:

The Corporation is a non-share capital corporation and plans its operations to essentially result in an annual financial breakeven position. The Corporation views capital as the sum of its net assets. This definition is used by management and may not be comparable to measures presented by other entities. The Corporation manages capital through a formal and approved budgetary process where funds are allocated following the underlying objectives below:

- (a) to ensure the funding of working capital requirements;
- (b) to provide a safe, secure, cost-effective and accessible supply of blood and blood products to all Canadians;
- (c) to meet regulatory and statutory capital requirements related to captive insurance operations; and
- (d) to support the Corporation's ability to continue as a going concern.



20. Capital disclosures (continued):

The Corporation evaluates its accomplishment against its objectives annually. The Corporation has complied with all externally imposed capital requirements and there were no changes in the approach to capital management during the period.

The Corporation's captive insurance operations are required to maintain statutory capital and surplus greater than a minimum amount determined as the greater of a percentage of outstanding losses or a given fraction of net written premiums. At March 31, 2011, the Corporation's captive insurance operations were required to maintain a minimum statutory capital and surplus of \$37,483. The actual statutory capital and surplus was \$85,763 and the minimum margin of solvency was therefore met. The Corporation's captive insurance operations were also required to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities. At March 31, 2011, the Corporation's captive insurance operations were required to maintain relevant assets of at least \$187,767. At that date, relevant assets were \$336,119 and the minimum liquidity ratio was therefore met.