Consolidated Financial Statements of

Canadian Blood Services
Société canadienne du sang

for the year ended March 31, 2008

KPMG LLP
Chartered Accountants
Suite 2000
160 Elgin Street
Ottawa, ON K2P 2P8
Canada

Telephone (613) 212-KPMG (5764)
Fax (613) 212-2896
Internet www.kpmg.ca

AUDITORS' REPORT TO THE MEMBERS

We have audited the consolidated statement of financial position of Canadian Blood Services as at March 31, 2008 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Canada Corporations Act, we report that, in our opinion, except for the change in the method of accounting for financial instruments as explained in note 2(b) to the financial statements, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Ottawa, Canada

May 30, 2008

Canadian Blood Services
Société canadienne du sang

Consolidated Statement of Financial Position

As at March 31, 2008 with comparative figures for 2007
(In thousands of dollars)

		2008		2007
Assets				
Current assets:				
Cash and cash equivalents (note 3)	$	184,154	$	142,961
Members' contributions receivable		954		1,826
Other amounts receivable		9,928		10,385
Inventory		99,030		90,831
Prepaid expenses		6,060		7,455
		300,126		253,458
Investments, captive insurance operations (note 4)		281,620		250,953
Capital assets (note 5):				
Land, buildings, software and equipment		144,897		148,787
Right to the blood supply system		26,843		27,723
		171,740		176,510
	$	**753,486**	**$**	**680,921**
Liabilities, Deferred Contributions and Net Assets				
Current liabilities:				
Accounts payable and accrued liabilities	$	102,169	$	101,158
Obligation under capital lease		-		184
Current portion of long-term debt (note 6)		1,000		1,000
		103,169		102,342
Provision for future insurance claims (note 12)		223,454		200,225
Long-term debt (note 6)		15,000		16,000
Deferred contributions (note 7):				
Expenses of future periods		174,328		131,322
Capital assets		146,098		149,632
Captive insurance		-		20
		320,426		280,974
Net assets:				
Invested in capital assets		9,704		9,704
Restricted for captive insurance purposes		61,386		54,781
Unrestricted net assets		20,347		16,895
		91,437		81,380
Guarantees and contingencies (note 14)				
Commitments (note 15)				
	$	**753,486**	**$**	**680,921**

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Verna M. Skanes
Director and Chair

W. John Dawson
Director

Canadian Blood Services
Société canadienne du sang

Consolidated Statement of Operations

Year ended March 31, 2008, with comparative figures for 2007
(In thousands of dollars)

	Canadian Blood Services (note 11)		Captive Insurance (note 12)		Consolidated	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Revenue:						
Members' contributions	$ 858,670	$ 851,989	$ -	$ -	$ 858,670	$ 851,989
Less amounts deferred	(20,758)	(28,015)	-	-	(20,758)	(28,015)
	837,912	823,974	-	-	837,912	823,974
Amortization of previously deferred contributions:						
Relating to capital assets	17,756	18,870	-	-	17,756	18,870
Relating to operations	9,016	8,559	-	-	9,016	8,559
Total contributions recognized as revenue	864,684	851,403	-	-	864,684	851,403
Net premiums earned	-	-	20	1,951	20	1,951
One Match Stem Cell and Marrow Network international	7,512	7,700	-	-	7,512	7,700
Investment income (note 9)	6,422	6,569	14,774	11,328	21,196	17,897
Other income	1,458	2,093	-	197	1,458	2,290
Total revenue	**880,076**	**867,765**	**14,794**	**13,476**	**894,870**	**881,241**
Expenses:						
Increase in provision for future insurance claims	-	-	23,229	2,011	23,229	2,011
Cost of plasma protein products	390,431	395,502	-	-	390,431	395,502
Staff costs	274,300	256,565	-	-	274,300	256,565
General and administrative	108,927	107,504	442	809	109,369	108,313
Medical supplies	84,361	84,548	-	-	84,361	84,548
Amortization	17,389	18,244	-	-	17,389	18,244
Total expenses	**875,408**	**862,363**	**23,671**	**2,820**	**899,079**	**865,183**
Excess (deficiency) of revenue over expenses	**$ 4,668**	**$ 5,402**	**$ (8,877)**	**$ 10,656**	**$ (4,209)**	**$ 16,058**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2008, with comparative figures for 2007
(In thousands of dollars)

	Invested in capital assets	Restricted for captive insurance (note 8c)	Unrestricted	March 2008	March 2007
Balance, beginning of year	$ 9,704	$ 54,781	$ 16,895	$ 81,380	$ 64,929
Adjustment to opening balance, Section 3855 (note 8a and 8b)	-	22,617	(985)	21,632	-
Excess (deficiency) of revenue over expenses	-	(8,877)	4,668	(4,209)	16,058
Restricted capital contributions	-	-	-	-	393
Change in unrealized gains on investments held (note 8a)	-	(7,135)	-	(7,135)	-
Change in unrealized loss on revaluation of interest rate swap (note 8b)	-	-	(231)	(231)	-
Balance, as at March 31, 2008	**$ 9,704**	**$ 61,386**	**$ 20,347**	**$ 91,437**	**$ 81,380**

See accompanying notes to consolidated financial statements.

Canadian Blood Services
Société canadienne du sang

Consolidated Statement of Cash Flows

Year ended March 31, 2008, with comparative figures for 2007
(In thousands of dollars)

	2008	2007
Cash and cash equivalents provided by (used for):		
Operating activities:		
Excess (deficiency) of revenue over expenses	$ (4,209)	$ 16,058
Items not involving cash and cash equivalents:		
Amortization of capital assets	17,389	18,244
Amortization of deferred contributions	(26,772)	(27,429)
Loss on sale of capital assets	145	404
Provision for future insurance claims	23,229	2,011
	9,782	9,288
Decrease in Members' contributions receivable	872	1,165
Decrease in other amounts receivable	457	1,874
Increase in inventory	(8,199)	(19,063)
Decrease in prepaid expenses	1,395	5,160
Decrease in accounts payable and accrued liabilities	(205)	(8,232)
Increase in deferred contributions of future periods	52,931	20,172
Decrease in deferred contributions related to captive insurance	(20)	(7,377)
	57,013	2,987
Investing activities:		
Increase in investments, net	(15,185)	(11,560)
Insurance captive capital contributions	-	393
Increase in deferred contributions related to capital assets	13,313	15,226
Proceeds on sale of capital assets	180	125
Purchase of capital assets	(12,944)	(13,992)
Total Investing activities	(14,636)	(9,808)
Financing activities:		
Repayment of obligation under capital lease	(184)	(350)
Repayment of long-term debt	(1,000)	(1,000)
Total Financing activities	(1,184)	(1,350)
Increase (decrease) in cash and cash equivalents	41,193	(8,171)
Cash and cash equivalents, beginning of year	142,961	151,132
Cash and cash equivalents, end of year	**$ 184,154**	**$ 142,961**
Cash and cash equivalents are comprised of:		
Cash on deposit	182,812	141,720
Butterfield Asset Management Money Market Fund	1,067	1,241
HSBC Money Market Pooled Fund	276	-
	$ 184,154	**$ 142,961**

See accompanying notes to consolidated financial statements.

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 is also responsible for securing volunteer donors for both Canadian and international patients requiring stem cell transplants. In addition, Canadian Blood Services delivers an array of patient services throughout Canada.

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 paragraph 149(1)(f) of the Income Tax Act (Canada). The Members of Canadian Blood Services, the Ministers of Health of the Provinces and Territories of Canada, except Québec, provide contributions to fund operations. Canadian Blood Services operates in a regulated environment, pursuant to the requirements of the Federal Food and Drugs Act, with licensing required from the Biologics and Genetic Therapies Directorate 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 insurance subsidiaries (hereinafter referred to as the "Corporation"). Significant inter-company transactions have been eliminated.

(b) Changes in accounting policies:

The following new accounting standards were adopted effective April 1, 2007 retrospectively, without restatement of prior periods.

<u>Section 3855, *Financial Instruments – Recognition and Measurement*</u>

Under this standard, all financial instruments are classified as 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 required to be measured at their fair value. The related accounting treatment for financial instruments subsequent to initial recognition depends on the classification.

2. Significant accounting policies (continued):

(b) Changes in accounting policies (continued):

Section 3855, *Financial Instruments – Recognition and Measurement (continued)*

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 would be recorded in the statement of operations. In addition, the derivatives embedded in financial instruments or other contracts may be required to be accounted for separately.

The Corporation has implemented the following classifications:

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

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

Captive Insurance investments have been designated as available-for-sale. For comparative periods, investments in marketable fixed interest securities are carried at amortized cost and investments in marketable equity securities are carried at cost.

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

Foreign exchange contracts held by the Corporation 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.

The effect of adopting this standard was an increase of $22,617 to Captive Insurance investments and opening net assets restricted for captive insurance purposes.

Non-financial and embedded derivatives

The Corporation reviewed 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. The Corporation has chosen April 1, 2003 as its transition date for identifying embedded derivatives, as permitted by the standard. This standard, as it relates to non-financial and embedded derivatives, had no impact on the financial statements of the Corporation.

2. Significant accounting policies (continued):

(b) Changes in accounting policies (continued):

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. This standard had no impact on the financial statements of the Corporation.

Section 3865, *Hedges*

This section describes when and how hedge accounting can be applied, as well as the disclosure requirements. This standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in the statement of changes in net assets. The ineffective portion will be recognized in the statement of operations. The amounts recognized in the statement of changes in net assets will be reclassified to the statement of operations in the periods in which the net income is affected by the variability in the cash flows of the hedged item.

The Corporation is party to derivative financial instruments to manage the exposure to market risks from changing interest and foreign exchange rates. The Corporation's policy is not to utilize derivative financial instruments for speculative purposes.

When the Corporation utilizes derivatives in hedge accounting relationships, such as for its interest rate swap contract (note 6), the Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the statement of financial position. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. Any derivative instrument that does not qualify for hedge accounting is marked-to-market at each reporting date with changes in fair value included in the statement of operations.

The Corporation's interest rate swap contract, which is a cash flow hedge that has the effect of converting the floating rates of interest to a fixed rate on its long-term debt, is recorded at fair value with changes in fair value initially recorded directly in the statement of changes in net assets. Upon adoption of the new accounting standards, the interest rate swap derivative contract was recorded at fair value, resulting in an increase of $985 to current liabilities and a corresponding decrease to opening unrestricted net assets.

As at March 31, 2008, all outstanding foreign exchange contracts were reported on a mark-to-market basis, with changes in fair value included in the statement of operations.

2. Significant accounting policies (continued):

(b) Changes in accounting policies (continued):

Section 3861, *Financial Instruments – Disclosure and Presentation*

This section establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the disclosure information required. This implementation of this section did not have an effect on the Corporation's financial statements.

Section 1506, *Accounting Changes*

This section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure required when there is a change in accounting policies, estimates and correction of errors. The adoption of this section had no impact on the financial statements.

(c) 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 also may 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 estimating the current year's expense for pension, other post-employment benefits and the provision for future insurance claims, which are described in more detail in notes 10 and 12, respectively.

(d) Revenue recognition:

The Corporation follows the deferral method of accounting for contributions.

Members' 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 capital assets other than land are initially deferred and then amortized to revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets. Contributions restricted for the purchase of land are recognized as direct increases in net assets invested in capital assets.

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.

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.

2. Significant accounting policies (continued):

(d) Revenue recognition (continued):

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

(e) Donated goods and services:

Donors are not paid for the blood or plasma collected 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.

(f) Investments:

Commencing April 1, 2007, investments have been designated as available-for-sale financial assets. 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 would be recorded in the statement of operations. Fair value for available-for-sale financial assets are based on quoted market prices.

For comparative periods, investments in marketable fixed interest securities are carried at amortized cost and investments in marketable equity securities are carried at cost

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

Short-term investments, consisting of certificates of deposit and commercial paper, are classified as available-for-sale and carried at fair value.

(g) Inventory:

Inventory consists of plasma protein products, blood products and supplies related to the collection of blood. Plasma protein products inventory is recorded at average cost and is charged to the statement of operations upon distribution to hospitals; supplies are recorded at average cost and expensed on usage.

(h) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are 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 a capital asset no longer contributes to the Corporation's ability to provide services, its carrying amount is written down to its residual value.

2. Significant accounting policies (continued):

(h) Capital assets (continued):

Capital assets are 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.

Amortization 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	10 years
Motor vehicles	8 years
Computer equipment	3 years
Computer software	2 to 5 years

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

Furniture and office equipment under capital lease is amortized 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

(i) 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-adjustment 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.

2. Significant accounting policies (continued):

(i) Asset retirement obligations (continued):

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.

(j) 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.

(k) Employee future benefits:

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

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, 2007 and January 1, 2008. The next required valuations will be as of December 31, 2010 and January 1, 2011 respectively. The most recent actuarial valuation of the other retirement and post-employment benefits was as of April 1, 2006, and the next required valuation will be as of April 1, 2009.
- For the purpose of calculating expected return on plan assets, investments are valued at fair value.

2. Significant accounting policies (continued):

(k) Employee future benefits (continued):

- 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 10 years (2007 – 10 years) and 11 years (2007 – 11 years) for the two defined benefit plans and 8 to 14 years (2007 – 8 to 14 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 represent the average remaining service periods of the active employees expected to receive benefits under the pension benefit plans as of April 1, 2000.
- 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.

(l) Future accounting changes:

The Canadian Institute of Chartered Accountants has issued accounting recommendations that will come into effect for the Corporation's fiscal year beginning April 1, 2008, except as otherwise indicated. The Corporation is currently assessing the impact of these standards on its financial statements. The following is an overview of these recommendations:

<u>Section 1535, *Capital Disclosure*</u>

This section establishes standards for disclosing information about an entity's capital and how it is managed. The purpose will be to enable users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital.

2. Significant accounting policies (continued):

(l) Future accounting changes (continued):

Section 3862, *Financial Instruments – Disclosures*

This section describes the required disclosures related to the significance of financial instruments on the Corporation's financial position and performance and the nature and extent of risks arising from financial instruments to which the Corporation is exposed and how the Corporation manages those risks. This section complements the principles of recognition, measurement, and presentation of financial instruments in Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3863, *Financial Instruments – Presentation* and Section 3865, *Hedges.*

Section 3863, *Financial Instruments – Presentation*

This section establishes standards for presentation of financial instruments and non-financial derivatives. It replaces Section 3861, *Financial Instruments – Disclosure and Presentation*.

Section 3031, *Inventories*

This section replaces the Handbook Section 3030, *Inventories*. Section 3031 aligns accounting for inventories under Canadian GAAP with International Financial Reporting Standards (IFRS) and provides additional guidance on the measurement and disclosure requirements for inventories. Specifically, Section 3031 requires inventories to be measured at the lower of cost and net realizable value.

Section 3064, *Goodwill and Intangible Assets*

This section replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. The changes to the existing standards address when an internally developed intangible asset meets the criteria for recognition as an asset. In conjunction with the issuance of the new section, the CICA made amendments to Section 1000, *Financial Statement Concepts* to clarify the relationship between incurring expenses and creating assets. These standards come into effect for fiscal years beginning on or after October 1, 2008, with early adoption permitted.

International Financial Reporting Standards

The Accounting Standards Board of Canada ("AcSB") has announced that accounting standards in Canada, as used by publicly accountable enterprises, will be converged to International Financial Reporting Standards ("IFRS") over a transition period that is expected to be complete by 2011. The April 2008 IFRS exposure draft issued by the AcSB stated that not-for-profit organizations are excluded from the scope of IFRS. The AcSB continues to deliberate the appropriate financial reporting models for not-for-profit organizations, and later in 2008 expects to be in a position to indicate the direction its discussions are taking.

3. Cash and cash equivalents:

Cash and cash equivalents include deposits with financial institutions that can be withdrawn without prior notice or penalty, units held in money market funds and short-term deposits with an original maturity of 90 days or less.

Cash and cash equivalents include $1,273 (2007 - $1,627) that is restricted for captive insurance operations.

4. Investments:

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

	2008 Amortized cost	2008 Fair value	2007 Amortized cost	2007 Fair value
Short-term notes	$ 5,718	$ 5,720	$ 5,492	$ 5,509
Fixed interest securities	215,114	219,005	210,916	215,217
Equity securities	45,306	56,895	34,545	52,739
	$ 266,138	$ 281,620	$ 250,953	$ 273,465

The fixed interest securities have contractual maturities from less than 1 year to 39 years having effective rates ranging from approximately 3.4% to 11% (2007 - 3.4% to 11%).

As a result of the adoption of CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, the amortization method was changed to the effective interest rate method effective April 1, 2007, resulting in a $105 adjustment to the amortized cost of marketable securities. This change has been included as part of the adjustment to the opening balance, Section 3855 (note 8a) in the statement of changes in net assets.

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 temporary 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, 2008, unrealized losses are considered to be temporary.

Canadian Blood Services
Société canadienne du sang

5. Capital assets:

	Cost	Accumulated amortization	2008 Net book value	2007 Net book value
Buildings	$ 106,630	$ 21,696	$ 84,934	$ 86,396
Machinery and equipment	60,242	37,044	23,198	25,607
Land	9,704	-	9,704	9,704
Furniture and office equipment	16,553	9,610	6,943	7,326
Leasehold improvements	14,497	8,427	6,070	6,130
Computer equipment	30,891	25,594	5,297	5,604
Motor vehicles	11,637	5,894	5,743	4,283
Computer software	20,090	17,725	2,365	2,793
Furniture and office equipment under capital lease	1,461	1,461	-	190
Assets under construction	643	-	643	754
	272,348	127,451	144,897	148,787
Right to the blood supply system	35,203	8,360	26,843	27,723
	$ 307,551	$ 135,811	$ 171,740	$ 176,510

During the year, capital assets were acquired at an aggregate cost of $13,024 (2007 - $14,067) of which $Nil (2007 - $5) were acquired by means of capital lease. Cash payments of $12,944 (2007 - $13,992) were made to purchase capital assets.

Cost and accumulated amortization at March 31, 2007 amounted to $297,217 and $120,707 respectively.

6. Credit facilities:

(a) Long-term debt:

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

	2008	2007
A collateral mortgage agreement bearing interest at BA plus 0.33%, requiring minimum annual principal repayments of $1,000 with the balance due in 2010, secured by the WBTSC.	$ 16,000	$ 17,000
Less current portion	1,000	1,000
	$ 15,000	$ 16,000

6. Credit facilities (continued):

(a) Long-term debt (continued):

As at March 31, 2008, as part of the collateral mortgage agreement, the Corporation was party to an interest rate swap contract which has the effect of converting the bankers' acceptance floating rate of interest to a fixed rate of 6.8% for the WBTSC collateral mortgage. Effective April 15, 2008, the collateral mortgage agreement was extended to 2014, at a fixed rate of 5.645% over the remaining term of the loan. The difference between the interest rate swap and the actual rate is recognized as an adjustment to interest expense on long-term debt. The total interest expense incurred as at March 31, 2008 was $1,112 (2007 - $1,177).

(b) Operating line of credit:

Bank lines of credit of $25,000 and $50,000 have been arranged for blood operations and the plasma protein products program, respectively. The line of credit for blood operations was arranged for purposes of public health and safety to cover events not anticipated in the annual budget. The line of credit for plasma protein products was arranged to provide working capital. At March 31, 2008, no amounts had been borrowed under these facilities.

7. Deferred contributions:

(a) Expenses of future periods:

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

	2008	2007
Balance, beginning of year	$ 131,322	$ 119,710
Increase in amounts received related to future period	53,652	20,190
Less amounts recognized as revenue in the year	(9,016)	(8,559)
Less capital assets purchased from deferred contributions	(1,877)	(251)
Add income earned on resources restricted for transition	247	232
	$ 174,328	$ 131,322

The capital assets purchased represent purchases from contributions that were deferred at March 31, 2007, as well as contributions received and deferred in the year ending March 31, 2008.

7. Deferred contributions (continued):

(b) Capital assets:

Funds received to purchase capital assets are recorded as deferred contributions – capital assets on the statement of financial position. They are amortized to revenue in the statement of operations at the same rate as capital assets are amortized to expenses.

	2008	2007
Balance, beginning of year	$ 149,632	$ 153,277
Capital assets purchased	13,024	13,901
Capital funding received for repayment of WBTSC loan	1,000	1,000
Capital funding received for leased assets	191	324
Less capital assets sold	(360)	(626)
Less amounts amortized to revenue	(17,389)	(18,244)
	$ 146,098	$ 149,632

Included in capital assets purchased of $13,024 (2007 - $13,901) are $1,877 (2007 - $251) of capital assets that were purchased using contributions deferred for expenses of future periods.

(c) Captive insurance:

Deferred contributions represent externally restricted contributions to fund future operations of CBSI and CBSE.

	2008	2007
Balance, beginning of year	$ 20	$ 7,397
Comprehensive Blood Risk contributions	-	90
Other insurance risk contributions	-	474
Less amounts amortized to revenue (note 12)	(20)	(7,941)
	$ -	$ 20

8. Net assets:

(a) Cumulative unrealized gain on available-for-sale Captive Insurance investments:

Balance, beginning of year, being adjustment to opening balance upon adoption of Section 3855	$ 22,617
Change in unrealized gains arising during the year	(3,263)
Reclassification of net realized gains to statement of operations (note 9)	(3,872)
	$ 15,482

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

Balance, beginning of year, being adjustment to opening balance upon adoption of Section 3855	$ (985)
Change in unrealized gains arising during the year	(231)
	$ (1,216)

(c) Restricted for captive insurance:

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 operation of the Corporation.

9. Investment income:

	2008	2007
Income on unrestricted funds	$ 6,422	$ 6,569
Interest and realized gains and losses on resources restricted for captive insurance	14,774	11,328
Income on resources restricted for transition	247	232
	21,443	18,129
Less amounts deferred	(247)	(232)
	$ 21,196	$ 17,897

10. Employee benefits:

The Corporation sponsors two defined benefit pension plans, 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:

	2008	2007
Accrued benefit obligation	$ 143,622	$ 139,987
Fair value of plan assets	141,985	134,003
Funded status - deficit	(1,637)	(5,984)
Balance of unamortized amounts	480	5,117
Accrued benefit liability	$ (1,157)	$ (867)

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 60% and 56% (2007 - 62% and 60%); debt securities 40% and 32% (2007 - 38% and 33%); and other 0% and 12% (2007 - 0% and 7%).

The difference between the accrued benefit liability of $1,157 (2007 - $867) recorded on the Corporation's statement of financial position and the actuarially determined fund deficit of $1,637 (2007 - $5,984) principally comprises experience losses. These losses represent differences between actual results in the fund and estimated results used for accounting purposes based on actuarial assumptions.

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 and the fair value of assets at the beginning of the year.

10. 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:

	2008	2007
Accrued benefit obligation:		
Discount rate	6.00% - 6.25%	5.25%
Rate of compensation increase	4.25% - 4.50%	4.25%
Benefit cost:		
Discount rate	5.25%	5.25%
Expected long-term rate of return on plan assets	6.50%	7.00%
Rate of compensation increase	4.25%	4.25%

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

	2008	2007
Employer contributions	$ 7,310	$ 8,415
Employee contributions	4,864	4,657
Benefits paid	3,145	3,825

(b) Pension plan expense:

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

	2008	2007
Defined benefit plans	$ 7,600	$ 7,251
Defined contribution plan	4,490	4,756
	$ 12,090	$ 12,007

10. Employee benefits (continued):

(c) Other retirement and post-employment benefits:

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

	2008	2007
Accrued benefit obligation	$ 15,216	$ 15,499
Accrued benefit liability	(15,738)	(14,104)
Benefits paid	632	329
Net expense	2,277	2,073

Included in the above-noted benefit obligation, is $2,822 (2007 - $3,291), 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 pension 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:

	2008	2007
Accrued benefit obligation:		
Discount rate	6.00%	5.00% - 5.25%
Rate of compensation increase	4.25%	4.25%
Benefit cost:		
Discount rate	5.00% - 5.25%	5.00% - 5.50%
Rate of compensation increase	4.25%	4.25%

Hospital costs – 7.0% per annum, with ultimate rate of 4.5% reached in 2013, starting in 2008;

Drug costs – 7.78% per annum, with ultimate rate of 5.0% reached in 2013, starting in 2008;

Other health costs – 4.0% per annum.

Year ended March 31, 2008, with comparative figures for 2007
(In thousands of dollars)

11. Canadian Blood Services revenue and expenditures detail:

	Plasma Protein Products Program		Blood Program		Patient Services Program		One Match Stem Cell and Marrow Network		Total	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Revenue:										
Members' contributions	$ 409,013	$ 409,081	$ 427,484	421,237	$ 14,617	14,371	$ 7,556	7,300	$ 858,670	$ 851,989
Less deferred amounts	(5,000)	(5,000)	(14,446)	(22,333)	(1,312)	(682)	-	-	(20,758)	(28,015)
	404,013	404,081	413,038	398,904	13,305	13,689	7,556	7,300	837,912	823,974
Amortization of previously deferred contributions:										
Relating to capital assets	-	-	17,756	18,870	-	-	-	-	17,756	18,870
Relating to operations	-	-	8,801	8,559	215	-	-	-	9,016	8,559
Total contributions recognized as revenue	404,013	404,081	439,595	426,333	13,520	13,689	7,556	7,300	864,684	851,403
One Match Stem Cell and Marrow Network international revenue	-	-	-	-	-	-	7,512	7,700	7,512	7,700
Investment income	-	-	6,422	6,569	-	-	-	-	6,422	6,569
Other income	316	-	951	2,093	191	-	-	-	1,458	2,093
Total revenue	**404,329**	**404,081**	**446,968**	**434,995**	**13,711**	**13,689**	**15,068**	**15,000**	**880,076**	**867,765**
Expenses:										
Cost of plasma protein products	390,431	395,502	-	-	-	-	-	-	390,431	395,502
Staff costs	2,158	1,703	259,223	241,376	9,324	10,266	3,595	3,220	274,300	256,565
General and administrative	11,605	5,876	85,201	90,837	2,240	1,177	9,881	9,614	108,927	107,504
Medical supplies	135	1,000	80,720	80,299	2,147	2,246	1,359	1,003	84,361	84,548
Amortization	-	-	17,389	18,244	-	-	-	-	17,389	18,244
Total expenses	**404,329**	**404,081**	**442,533**	**430,756**	**13,711**	**13,689**	**14,835**	**13,837**	**875,408**	**862,363**
Excess of revenue over expenses	**$ -**	**$ -**	**$ 4,435**	**$ 4,239**	**$ -**	**$ -**	**$ 233**	**$ 1,163**	**$ 4,668**	**$ 5,402**

12. Insurance:

The Corporation has established two wholly-owned captive insurance Corporations, CBS Insurance Corporation 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 there is a guarantee and indemnification by the Members of the Corporation in the amount of $750,000 in excess of the $250,000 provided by the insurance coverage from CBSI. No payment shall be made until the primary policy in CBSI, in the amount of $250,000, has been exhausted. As a result, the Corporation has $1,000,000 coverage through an insurance policy of $250,000 and an indemnification from the members of $750,000.

Insurance income includes the results of operations of two subsidiaries.

	CBSI		CBSE		Total	
	2008	2007	2008	2007	2008	2007
Gross premium written and earned	$ 590	$ 7,921	$ 20	$ 40	$ 610	$ 7,961
Change in unearned premium	-	-	20	(20)	20	(20)
	590	7,921	40	20	630	7,941
Change in prepaid reinsurance premium	-	(5,990)	-	-	-	(5,990)
Net premiums earned	590	1,931	40	20	630	1,951
Investment income	14,757	11,325	17	3	14,774	11,328
Other income	-	197	-	-	-	197
	15,347	13,453	57	23	15,404	13,476
Expenses:						
Increase in provision for future claims	23,229	2,011	-	-	23,229	2,011
General and administrative	560	788	49	21	609	809
	23,789	2,799	49	21	23,838	2,820
Net insurance income (loss)	$ (8,442)	$10,654	$ 8	$ 2	$ (8,434)	$ 10,656

Included in insurance income (loss) above is $610 (2007 - $Nil) of gross premiums earned and $167 (2007 - $Nil) of general and administrative expenses that have been eliminated upon consolidation. These amounts are not reflected in the consolidated statement of operations.

The increase in provision for future claims expense is an actuarially based estimate of the cost of settling claims relating to insured events (both reported and unreported) that have occurred to March 31, 2008.

A significant proportion of both the future claims expense for the period and the related cumulative estimated liability at March 31, 2008 of $223,454 (2007 - $200,225) 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. It is reasonably possible that changes in future conditions in the near term could require a change in the amount estimated.

13. Financial instruments:

Risk management activities

The Corporation has entered into interest rate swaps as described in note 6 to reduce its exposure to fluctuations in interest expense.

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 medical supplies and plasma protein products. The contracts are matched with anticipated future purchase of foreign currencies. The Corporation did not designate for accounting purposes 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. The net impact of foreign exchange losses on the statement of operations at March 31, 2008 was $8,658 (2007 - $322). At March 31, 2008, the Corporation had purchased foreign exchange collar contracts to buy US $80,000 over the next twelve months with a minimum Canadian to US dollar exchange rate of $0.9656, and a maximum exchange rate of $1.03. The favourable fair value of the foreign exchange collar contracts of $1,585 (2007 - $275 unfavourable) is reported on the statement of financial position in other amounts receivable.

Fair values

The carrying value 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 fair value of the interest rate swap on the long-term debt, as calculated by a financial institution is unfavourable by $1,216 (2007 - $985) and is reported on the statement of financial position in accounts payable and accrued liabilities.

The fair value of the provision for future insurance claims is not provided since it is not practicable to determine fair value with appropriate reliability.

14. Guarantees and contingencies:

(a) Guarantees:

In the normal course of business, the Corporation enters into lease agreements for facilities. In the Corporation's standard commercial lease 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. The maximum amount potentially payable under any such indemnity cannot be reasonably estimated. The Corporation has liability insurance that relates to the indemnifications described above.

Historically, the Corporation has not made any 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 are not the responsibility of the Corporation.

15. Commitments:

At March 31, 2008, the Corporation had the following contractual commitments:

(a) Future minimum payments under operating leases of approximately $21,047 with payments in each of the next five years of: 2009 - $4,988; 2010 - $4,051; 2011 - $2,648; 2012 - $2,098; 2013 - $1,564 and thereafter $5,698;

(b) Research and development project grants of approximately $8,077 to be funded from the contributions deferred for future expenses.

16. Research and development:

For the year ended March 31, 2008, the Corporation incurred $10,851 of expenses related to research and development (2007- $9,121), these cost are included within the blood program in the statement of operations. As at March 31, 2008, the research and development portion of contributions deferred for future expenses totaled $10,752 (2007 - $11,695).

---

17. Related party transactions:

Members of the Corporation are the Ministers of Health within the provincial and territorial governments of Canada, except Québec. 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.

18. Subsequent events:

Effective April 1, 2008, the Canadian Council for Donation and Transplantation (CCDT) will be operating as a subsidiary of the Corporation. CCDT is a national, registered not-for-profit organization dedicated exclusively to the interests and issues of the organ and tissue donation and transplantation system in Canada.

During the course of the fiscal year ending March 31, 2009, the operations of CCDT will be assumed by the Corporation.

19. Comparative figures:

Certain comparative figures have been reclassified to conform to the presentation adopted for 2008.