Consolidated Financial Statements of

Canadian Blood Services
Société canadienne du sang

for the year ended March 31, 2012

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INDEPENDENT AUDITORS' REPORT

To the Members of Canadian Blood Services

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Canadian Blood Services, which comprise the consolidated statement of financial position as at March 31, 2012, 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, 2012, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal Requirements

As required by the Canada Corporations Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 21, 2012

Ottawa, Canada

Canadian Blood Services
Société canadienne du sang

Consolidated Statement of Financial Position
As at March 31, 2012, with comparative figures for 2011
(In thousands of dollars)

		2012		2011
Assets				
Current assets:				
Cash and cash equivalents (note 3)	$	199,540	$	188,551
Members' contributions receivable		3,384		3,700
Other amounts receivable		16,608		12,843
Inventory (note 4)		114,881		115,429
Prepaid expenses		7,573		6,838
		341,986		327,361
Investments, captive insurance operations (note 5)		348,508		333,332
Property, plant and equipment (note 6):				
Land, buildings, software and equipment		212,151		182,445
Right to the blood supply system		23,322		24,203
		235,473		206,648
	$	**925,967**	**$**	**867,341**
Liabilities, Deferred Contributions and Net Assets				
Current liabilities:				
Accounts payable and accrued liabilities	$	109,298	$	103,844
Current portion of obligations under capital leases (note 7)		581		550
		109,879		104,394
Provision for future claims (note 15)		249,886		249,886
Long-term debt:				
Obligations under capital leases (note 7)		516		1,097
		516		1,097
Deferred contributions (note 9):				
Expenses of future periods		194,304		191,104
Property, plant and equipment		218,912		189,700
		413,216		380,804
Net assets:				
Invested in property, plant and equipment		15,579		15,417
Restricted for captive insurance purposes		98,760		84,403
Unrestricted net assets		38,131		31,340
		152,470		131,160
Guarantees and contingencies (note 16)				
Commitments (note 17)				
	$	**925,967**	**$**	**867,341**

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, 2012, with comparative figures for 2011
(In thousands of dollars)

	Canadian Blood Services (note 13)		Captive Insurance (note 15)		Consolidated	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Revenue:						
Members' contributions	$ 997,379	$ 995,739	$ -	$ -	$ 997,379	$ 995,739
Federal contributions	8,457	8,615	-	-	8,457	8,615
Less amounts deferred	(62,544)	(74,509)	-	-	(62,544)	(74,509)
	943,292	929,845	-	-	943,292	929,845
Amortization of previously deferred contributions:						
Relating to property, plant and equipment	19,907	18,111	-	-	19,907	18,111
Relating to operations	22,585	24,075	-	-	22,585	24,075
Total contributions recognized as revenue	985,784	972,031	-	-	985,784	972,031
Stem Cells revenue	12,964	10,028	-	-	12,964	10,028
Net investment income (note 11)	2,320	1,948	11,536	18,377	13,856	20,325
Other income	2,123	2,586	-	-	2,123	2,586
Total revenue	**1,003,191**	**986,593**	**11,536**	**18,377**	**1,014,727**	**1,004,970**
Expenses:						
Increase in provision for future claims	-	-	-	625	-	625
Cost of plasma protein products	458,061	454,279	-	-	458,061	454,279
Staff costs	316,716	310,885	-	-	316,716	310,885
General and administrative (note 14)	113,680	112,464	395	470	114,075	112,934
Medical supplies	88,857	85,996	-	-	88,857	85,996
Depreciation and amortization	18,924	17,892	-	-	18,924	17,892
Total expenses	**996,238**	**981,516**	**395**	**1,095**	**996,633**	**982,611**
Excess of revenue over expenses	**$ 6,953**	**$ 5,077**	**$ 11,141**	**$ 17,282**	**$ 18,094**	**$ 22,359**

See accompanying notes to the consolidated financial statements.

Canadian Blood Services
Société canadienne du sang

Consolidated Statement of Changes in Net Assets
Year ended March 31, 2012, with comparative figures for 2011
(In thousands of dollars)

	Invested in property, plant and equipment	Restricted for captive insurance	Unrestricted	2012	2011
Balance, beginning of year	$ 15,417	$ 84,403	$ 31,340	$ 131,160	$ 99,756
Excess of revenue over expenses	-	11,141	6,953	18,094	22,359
Net change of investments (note 10)	-	3,216	-	3,216	7,449
Net change of interest rate swap	-	-	-	-	1,444
Change in investment in property, plant and equipment	162	-	(162)	-	152
Balance, as at March 31, 2012	**$ 15,579**	**$ 98,760**	**$ 38,131**	**$ 152,470**	**$ 131,160**

See accompanying notes to the consolidated financial statements.

Canadian Blood Services
Société canadienne du sang

Consolidated Statement of Cash Flows

Year ended March 31, 2012, with comparative figures for 2011

(In thousands of dollars)

		2012		2011
Cash and cash equivalents provided by (used for):				
Operating activities:				
Excess of revenue over expenses	$	18,094	$	22,359
Items not involving cash and cash equivalents:				
Depreciation and amortization of property, plant and equipment		18,924		17,892
Amortization of deferred contributions		(42,492)		(42,186)
(Gain) loss on sale of property, plant and equipment		(453)		106
Net realized gains on sales of investments, captive insurance operations		(4,106)		(6,592)
Loss on impaired investments		4,163		-
Accretion of discounts on bonds, captive insurance operations		(260)		(287)
Provision for future claims		-		625
		(6,130)		(8,083)
Decrease in Members' contributions receivable		316		9,785
Increase in other amounts receivable		(3,765)		(947)
Decrease in inventory		548		11,959
Increase in prepaid expenses		(735)		(708)
Increase (decrease) in accounts payable and accrued liabilities		3,540		(9,448)
Increase in deferred contributions of future periods		25,785		28,083
Total operating activities		19,559		30,641
Investing activities:				
Proceeds on sale of investments, captive insurance operations		165,488		220,124
Purchase of investments, captive insurance operations		(177,245)		(231,173)
Increase in investments in property, plant and equipment		-		152
Increase in deferred contributions related to property, plant and equipment		49,119		56,715
Proceeds on sale of property, plant and equipment		1,728		113
Purchase of property, plant and equipment		(47,110)		(40,985)
Total investing activities		(8,020)		4,946
Financing activities:				
Repayment of obligations under capital leases		(550)		(521)
Repayment of long-term debt		-		(14,000)
Total financing activities		(550)		(14,521)
Increase in cash and cash equivalents		10,989		21,066
Cash and cash equivalents, beginning of year		188,551		167,485
Cash and cash equivalents, end of year	**$**	**199,540**	**$**	**188,551**

Cash and cash equivalents are comprised of:				
Cash on deposit	$	199,234	$	187,840
Butterfield Asset Management Money Market Fund		209		288
HSBC Money Market Pooled Fund		97		423
	$	**199,540**	**$**	**188,551**

See accompanying notes to the 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 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, Canadian Blood Services 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, national registries to facilitate organ transplantation and leading practice and system performance initiatives.

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:

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following 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 consolidated 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 measuring pension and 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 consolidated financial statements.

(e) Investments:

Investments have been designated as available-for-sale financial assets. Available-for-sale financial assets are measured on the consolidated statement of financial position at fair value with changes in fair value initially recorded directly in the consolidated 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 consolidated 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 consolidated 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 asset no longer has any long-term service potential to the Corporation. 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 to 65 years
Machinery and equipment	8 to 25 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 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 the consolidated statement of 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 consolidated statement of financial position date. Gains and losses resulting from the adjustment are included in the consolidated 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 (2011 – 9 years) and 7 years (2011 – 7 years) for the two defined benefit plans and 10 to 12 years (2011 – 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 consolidated 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 consolidated 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 consolidated statement of operations.

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 consolidated 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 consolidated 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.

(In thousands of dollars)

2. Significant accounting policies (continued):

(l) Future accounting changes:

The Canadian Institute of Chartered Accountants has issued a new accounting framework, Part III – Accounting Standards for Not-for-Profit Organizations, which will be effective for the Corporation's fiscal year beginning April 1, 2012. The Corporation is currently assessing the impact of these standards on its consolidated financial statements.

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 $306 (2011 - $711) that is restricted for captive insurance operations.

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:

	2012	2011
Raw materials	$ 9,600	$ 9,000
Work in process	6,108	5,467
Finished goods	99,173	100,962
	$ 114,881	$ 115,429

(In thousands of dollars)

5. Investments, Captive Insurance Operations:

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

		Amortized cost/cost		2012 Fair value		Amortized cost/cost		2011 Fair value
Short-term notes	$	4,570	$	4,573	$	7,667	$	7,673
Fixed income securities		220,022		233,851		199,323		204,643
Mutual funds		40,841		39,812		50,931		48,925
Equity securities		56,666		70,272		52,218		72,091
	$	322,099	$	348,508	$	310,139	$	333,332

The fixed income securities have contractual maturities from 1 year to 57 years, having effective rates ranging from approximately 1.6% to 7.1% (2011 – 2.0% to 7.1%). The maturities of the fixed interest securities are as follows:

		2012 Fair value
less than 1 year	$	1,818
1 – 10 years		176,018
11 – 20 years		6,807
20+ years		49,208
	$	233,851

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. In evaluating impairment during the year, a loss of $4,163 (2011 - $Nil) was recognized in net investment income. The impairment loss reflects impaired equity securities relating to the investments of the captive insurance operations. No other investments were noted to be impaired during the year.

(In thousands of dollars)

6. Property, plant and equipment:

		Cost		Accumulated depreciation		2012 Net Book Value
Buildings	$	142,667	$	32,231	$	110,436
Machinery and equipment		73,428		51,972		21,456
Land		15,579		-		15,579
Furniture and office equipment		23,530		14,681		8,849
Leasehold improvements		18,903		12,712		6,191
Computer equipment		41,815		34,539		7,276
Motor vehicles		16,662		7,534		9,128
Computer software		28,770		24,513		4,257
Equipment under capital lease		2,740		1,719		1,021
Assets under construction		27,958		-		27,958
		392,052		179,901		212,151
Right to the blood supply system		35,203		11,881		23,322
	$	427,255	$	191,782	$	235,473

(In thousands of dollars)

6. Property, plant and equipment (continued):

	Cost	Accumulated depreciation	2011 Net book value
Buildings	$ 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

During the current year, property, plant and equipment was acquired at an aggregate cost of $49,024 (2011 - $42,345). Cash payments of $47,110 (2011 - $40,985) 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	2012	2011
2012	$ -	$ 627
2013	627	627
2014	513	513
2015	35	35
	1,175	1,802
Less amount representing interest (at approximately 5.5%)	78	155
	1,097	1,647
Current portion of obligations under capital leases	581	550
	$ 516	$ 1,097

8. Credit facilities:

(a) 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, 2012, no amounts had been borrowed under this facility.

(b) Demand operating credit:

A line of credit in the amount of $50,000 was arranged to provide working capital for inventory. At March 31, 2012, no amounts had been borrowed under this facility.

(c) 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, 2012, no amounts had been borrowed under this facility.

(d) 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, 2012, no amounts had been borrowed under the demand instalment loan. Any amounts borrowed under the facility will be repayable on demand.

(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, 2012 $Nil (2011 - $438) has been issued under the facility.

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.

(In thousands of dollars)

9. Deferred contributions:

(a) Expenses of future periods:

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

		2012		2011
Balance, beginning of year	$	191,104	$	187,096
Increase in amounts received related to future periods		55,576		54,790
Less amounts recognized as revenue in the year		(22,585)		(24,075)
Less property, plant and equipment purchased from deferred contributions		(30,126)		(26,963)
Add income earned on resources restricted for transition		78		64
Add income earned on resources restricted for contingency		257		192
	$	194,304	$	191,104

The property, plant and equipment purchased represent purchases from contributions that were deferred at March 31, 2011, as well as contributions received and deferred in the year ended March 31, 2012.

(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 consolidated statement of operations at the same rate as property, plant and equipment is depreciated to expenses.

		2012		2011
Balance, beginning of year	$	189,700	$	151,096
Property, plant and equipment purchased		49,024		42,345
Capital funding received for repayment of Winnipeg Blood Transfusion Service Centre loan		-		14,000
Capital funding received for leased assets		550		522
Less property, plant and equipment sold		(983)		(219)
Less investment in property, plant and equipment		(455)		(152)
Less amounts amortized to revenue		(18,924)		(17,892)
	$	218,912	$	189,700

Included in property, plant and equipment purchased of $49,024 (2011 - $42,345) is $30,126 (2011 - $26,963) of property, plant and equipment that was purchased using contributions deferred for expenses of future periods.

(In thousands of dollars)

10. Net assets:

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

	2012	2011
Balance, beginning of year	$ 23,193	$ 15,744
Change in unrealized gains during the year	3,159	14,041
Reclassifications to net income:		
Net realized gains on sales of investments	(4,106)	(6,592)
Impairment losses	4,163	-
	$ 26,409	$ 23,193

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

	2012	2011
Balance, beginning of year	$ -	$ (1,444)
Change in unrealized losses during the year	-	77
Reclassification of net realized gains to consolidated statement of operations	-	1,367
	$ -	$ -

(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.

(In thousands of dollars)

11. Net investment income:

		2012		2011
Income on unrestricted funds	$	2,320	$	1,948
Net investment income earned on investments restricted for captive insurance		11,536		18,377
Income on resources restricted for transition		78		64
Income on resources restricted for contingency		257		192
		14,191		20,581
Less amounts deferred		(335)		(256)
	$	13,856	$	20,325

Included in net investment income earned on investments restricted for captive insurance is $4,163 in impairment losses (2011 - $nil).

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 pension plans:

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

		2012		2011
Accrued benefit obligation	$	258,688	$	207,787
Fair value of plan assets		212,905		195,747
Funded status – deficit		(45,783)		(12,040)
Balance of unamortized amounts		46,466		11,131
Accrued benefit asset (liability)	$	683	$	(909)

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

The percentage of the fair value of the two plans assets by major category are as follows: equity securities 56% and 65% (2011 – 62% and 64%); debt securities 43% and 33% (2011 - 38% and 33%); and other 1% and 2% (2011 - Nil% and 3%).

(In thousands of dollars)

12. Employee benefits (continued):

(a) Defined benefit plans (continued):

The difference between the accrued benefit asset of $683 (2011 – $909 accrued benefit liability) recorded on the Corporation's consolidated statement of financial position and the actuarially determined fund deficit of $45,783 (2011 - $12,040) 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 2012 or 2011.

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

	2012	2011
Accrued benefit obligation:		
Discount rate	5.00%	5.75%
Rate of compensation increase	3.75%-4.00%	4.00%
Benefit cost:		
Discount rate	5.75%	6.25%
Expected long-term rate of return on plan assets	4.75%-6.00%	6.00% - 6.50%
Rate on compensation increases	4.00%	4.25%

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

	2012	2011
Employer contributions	$ 13,066	$ 10,612
Employee contributions	7,608	6,985
Benefits paid	7,135	5,392

(In thousands of dollars)

12. Employee benefits (continued):

(b) Pension plan expense:

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

	2012	2011
Defined benefit plans	$ 10,554	$ 9,981
Defined contribution plans	5,157	5,115
	$ 15,711	$ 15,096

(c) Other retirement and post-employment benefits:

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

	2012	2011
Accrued benefit obligation	$ 20,933	$ 18,442
Accrued benefit liability	(21,942)	(19,952)
Benefits paid	695	635
Net expense	2,685	2,319

Included in the above-noted benefit obligation is $946 (2011 - $1,415), 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 accrued benefit liability is included in accounts payable and accrued liabilities in the Corporation's consolidated statement of financial position.

(In thousands of dollars)

12. Employee benefits (continued):

(c) Other retirement and post-employment benefits (continued):

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

	2012	2011
Accrued benefit obligation:		
Discount rate	4.70%-5.10%	4.75%-5.25%
Rate of compensation increase	4.50%	4.50%
Benefit cost:		
Discount rate	4.75%-5.25%	5.25%-5.75%
Rate on compensation increases	4.50%	4.50%

Hospital costs – 4.50% per annum;

Drug costs – 8.29% per annum, with an ultimate rate of 4.50% reached in 2029, starting in 2012;

Other health costs – 4.50% per annum.

As a result of the redevelopment program related to the Corporation's facilities, contractual termination benefits have been recognized in accounts payable and accrued liabilities on the consolidated statement of financial position and in staff costs in the consolidated statement of operations. At March 31, 2012 $6,306 is accrued on the consolidated statement of financial position (2011 - $6,978). The change in this accrual reflects additional amounts accrued in 2012 of $1,843 less amounts paid out during the period of $2,515.

Year ended March 31, 2012, with comparative figures for 2011

(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	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Revenue:												
Members' contributions	$ 490,745	495,424	$ 467,158	$ 468,108	$ 16,594	$ 17,899	$ 19,302	$ 10,728	$ 3,580	$ 3,580	$ 997,379	995,739
Federal contributions	5,000	5,000	-	-	-	-	-	-	3,457	3,615	8,457	8,615
Less deferred amounts	(44,512)	(61,368)	(5,000)	(5,000)	(1,292)	(1,467)	(8,160)	(2,028)	(3,580)	(4,646)	(62,544)	(74,509)
	451,233	439,056	462,158	463,108	15,302	16,432	11,142	8,700	3,457	2,549	943,292	929,845
Amortization of previously deferred contributions:												
Relating to property, plant and equipment	19,907	18,111	-	-	-	-	-	-	-	-	19,907	18,111
Relating to operations	14,011	16,902	-	-	1,052	996	3,650	1,051	3,872	5,126	22,585	24,075
Total contributions recognized as revenue	485,151	474,069	462,158	463,108	16,354	17,428	14,792	9,751	7,329	7,675	985,784	972,031
Stem Cells revenue	-	-	-	-	-	-	12,964	10,028	-	-	12,964	10,028
Net investment income (note 11)	2,320	1,948	-	-	-	-	-	-	-	-	2,320	1,948
Other income	1,307	948	236	267	261	305	-	-	319	1,066	2,123	2,586
Total revenue	**488,778**	**476,965**	**462,394**	**463,375**	**16,615**	**17,733**	**27,756**	**19,779**	**7,648**	**8,741**	**1,003,191**	**986,593**
Expenses:												
Cost of plasma protein products	-	-	458,061	454,279	-	-	-	-	-	-	458,061	454,279
Staff costs	289,870	286,678	2,222	2,108	12,136	11,584	7,098	5,130	5,390	5,385	316,716	310,885
General and administrative (note 14)	90,964	87,468	1,123	5,904	1,665	3,320	17,676	12,416	2,252	3,356	113,680	112,464
Medical supplies	81,213	78,601	988	1,084	2,814	2,829	3,836	3,482	6	-	88,857	85,996
Depreciation and amortization	18,924	17,892	-	-	-	-	-	-	-	-	18,924	17,892
Total expenses	**480,971**	**470,639**	**462,394**	**463,375**	**16,615**	**17,733**	**28,610**	**21,028**	**7,648**	**8,741**	**996,238**	**981,516**
Excess (deficiency) of revenue over expenses	**$ 7,807**	**$ 6,326**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (854)**	**$ (1,249)**	**$ -**	**$ -**	**$ 6,953**	**$ 5,077**

(In thousands of dollars)

14. Financial instruments:

(a) Summary of financial instruments:

At March 31, 2012, the classifications of the Corporation's financial instruments, as well as their carrying amounts, are as follows:

Financial Assets (Liabilities)	Classification		2012		2011
Cash and cash equivalents	Available-for-sale	$	199,540	$	188,551
Members' contributions receivable	Loans and receivables		3,384		3,700
Other amounts receivable	Loans and receivables		16,608		12,843
Investments, captive insurance operations	Available for sale		348,508		333,332
Accounts payable and accrued liabilities	Other financial liabilities		(109,298)		(103,844)

Fair values:

The carrying values of 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 leases 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 consolidated statement of operations. At March 31, 2012, the Corporation had no foreign exchange contracts outstanding.

(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, 2012	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 199,540	$ -	$ -	$ 199,540
Short-term notes	4,573	-	-	4,573
Canadian government bonds	-	115,937	-	115,937
Corporate bonds	-	101,298	-	101,298
Mutual funds	-	39,812	-	39,812
Mortgage-backed securities	-	16,616	-	16,616
Equity securities	70,272	-	-	70,272
	$ 274,385	$ 273,663	$ -	$ 548,048

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

There were no reclassifications of financial instruments between level 1 and level 2 during the year ended March 31, 2012

(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.

(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.

The Corporation is exposed to interest rate risk on its cash and cash equivalents. At March 31, 2012, 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, 2012, had increased by 25 basis points or decreased by 25 basis points, then net assets would have decreased by approximately $4,200 (2011 - $3,700) or increased by approximately $4,300 (2011 - $3,800).

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:

	2012 CDN	2011 CDN
Accounts receivable	$ 316	$ 408
Accounts payable and accrued liabilities	14,618	12,301

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 consolidated 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, 2012, were gains of $3,021 (2011 – $1,697 losses). At March 31, 2012, 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, 2012, with all other variables held constant, the excess of revenue over expenses for the year would have decreased or increased respectively by approximately $1,194 with a corresponding change of $974 in revenue and expenses of Plasma Protein Products and $220 in the excess of revenue over expenses of Transfusable Products.

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.

14. Financial instruments (continued):

(b) Risk management (continued):

(i) Market risk (continued):

Other price risk (continued):

At March 31, 2012, 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 $11,000 (2011 - $12,100) 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.

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.

14. Financial instruments (continued):

(b) Risk management (continued):

(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 claims has no contractual maturity and the timing of settlement will depend on actual claims experience in the future.

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, Canadian Blood Services has $1,000,000 total in coverage.

(In thousands of dollars)

15. Captive Insurance Operations (continued):

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

	CBSI		CBSE		Total	
	2012	2011	2012	2011	2012	2011
Gross premiums written and earned	$ 697	$ 688	$ 50	$ 55	$ 747	$ 743
Net premiums earned	697	688	50	55	747	743
Net investment income	11,526	18,366	10	11	11,536	18,377
	12,223	19,054	60	66	12,283	19,120
Expenses						
Increase in provision for future claims	-	625	-	-	-	625
General and administrative	851	956	59	54	910	1,010
	851	1,581	59	54	910	1,635
Net insurance income	$ 11,372	$ 17,473	$ 1	$ 12	$ 11,373	$ 17,485

Included in net insurance income above is $747 (2011 - $743) of gross premiums earned and $515 (2011 - $540) 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, 2012.

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, 2012, of $249,886 (2011 - $249,886) 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 consolidated 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.

17. Commitments:

At March 31, 2012, the Corporation had the following contractual commitments:

(a) Future minimum payments under operating leases of approximately $26,784 with payments in each of the next five years of: 2013 - $6,979; 2014 - $6,152; 2015 - $5,046; 2016 - $4,411; 2017 - $3,659 and thereafter $537.

(b) Research and development project grants of approximately $6,323 (2011 - $8,735) to be funded from the contributions deferred for future expenses.

(c) Construction commitments of approximately $1,521 (2011 – $25,712) funded by Members' contributions.

(d) Vendor commitments of approximately $215,000 funded by Members' contributions.

18. Research and development:

For the year ended March 31, 2012, the Corporation incurred $12,125 of expenses related to research and development (2011 - $12,125). These costs are included within Transfusable Products in the statement of operations. At March 31, 2012, the research and development portion of contributions deferred for future expenses totalled $17,339 (2011 - $17,291).

19. Related party transactions:

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 considers its capital to be 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 provide a safe, secure, cost-effective and accessible supply of blood and blood products to all Canadians;

(b) to support the Corporation's ability to continue as a going concern;

(c) to meet regulatory and statutory capital requirements related to captive insurance operations; and

(d) to ensure the funding of working capital requirements.

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.

20. Capital disclosures (continued):

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, 2012, 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 $100,343 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, 2012, the Corporation's captive insurance operations were required to maintain relevant assets of at least $187,934. At that date, relevant assets were $350,921 and the minimum liquidity ratio was therefore met.