Consolidated Financial Statements of

Canadian Blood Services
Société canadienne du sang

Years ended March 31, 2013 and 2012

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

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

INDEPENDENT AUDITORS' REPORT

To the Members of Canadian Blood Services

We have audited the accompanying consolidated financial statements of Canadian Blood Services, which comprise the consolidated statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, the consolidated statements of operations, changes in net assets and cash flows for the years ended March 31, 2013 and March 31, 2012, 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 accounting standards for not-for-profit organizations, 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 audits. We conducted our audits 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, 2013, March 31, 2012 and April 1, 2011 and its consolidated results of operations, changes in net assets and its cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

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 27, 2013

Ottawa, Canada

Canadian Blood Services
Société canadienne du sang

Consolidated Statements of Financial Position
As at March 31, 2013, March 31, 2012 and April 1, 2011
(In thousands of dollars)

	March 31, 2013	March 31, 2012	April 1, 2011
Assets			
Current assets:			
Cash and cash equivalents (note 4)	$ 190,676	$ 199,540	$ 188,551
Members' contributions receivable	3,364	3,384	3,700
Other amounts receivable	20,343	16,608	12,843
Inventory (note 5)	131,133	114,881	115,429
Prepaid expenses	7,793	6,890	6,838
	353,309	341,303	327,361
Investments, captive insurance operations (note 6)	354,174	334,676	328,006
Capital assets and intangible assets (note 7):			
Land, buildings, software and equipment	211,760	212,151	182,445
Right to the blood supply system	22,442	23,322	24,203
	234,202	235,473	206,648
	$ 941,685	$ 911,452	$ 862,015
Liabilities, Deferred Contributions and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities (note 8)	$ 88,091	$ 87,354	$ 82,983
Current portion of obligations under capital leases (note 9)	316	581	550
	88,407	87,935	83,533
Provision for future claims (note 17)	249,886	249,886	249,886
Employee future benefit liability (note 10)	28,109	25,546	26,119
Obligations under capital leases (note 9)	680	516	1,097
Deferred contributions (note 12):			
Expenses of future periods	202,285	194,304	191,104
Capital assets	217,699	218,912	189,700
	419,984	413,216	380,804
Net assets:			
Invested in capital assets	15,579	15,579	15,417
Restricted for captive insurance purposes	102,829	84,928	79,077
Unrestricted net assets	36,211	33,846	26,082
	154,619	134,353	120,576
Guarantees and contingencies (note 18)			
Commitments (note 19)			
	$ 941,685	$ 911,452	$ 862,015

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 Statements of Operations

Years ended March 31, 2013 and 2012

(In thousands of dollars)

	Canadian Blood Services (note 15)		Captive Insurance (note 17)		Consolidated	
	2013	2012	2013	2012	2013	2012
Revenue:						
Members' contributions	$ 980,278	$ 997,379	$ –	$ –	$ 980,278	$ 997,379
Federal contributions	8,580	8,457	–	–	8,580	8,457
Less amounts deferred	(42,776)	(62,544)	–	–	(42,776)	(62,544)
	946,082	943,292	–	–	946,082	943,292
Amortization of previously deferred contributions:						
Relating to capital assets	21,510	19,907	–	–	21,510	19,907
Relating to operations	26,486	22,585	–	–	26,486	22,585
Total contributions recognized as revenue	994,078	985,784	–	–	994,078	985,784
Stem cells revenue	15,462	12,964	–	–	15,462	12,964
Net investment income (note 14)	2,089	2,320	16,977	15,699	19,066	18,019
Other income	5,264	2,123	–	–	5,264	2,123
Total revenue	**1,016,893**	**1,003,191**	**16,977**	**15,699**	**1,033,870**	**1,018,890**
Expenses:						
Cost of plasma protein products	464,274	458,061	–	–	464,274	458,061
Staff costs	316,141	315,743	–	–	316,141	315,743
General and administrative (note 16)	126,034	113,680	487	395	126,521	114,075
Medical supplies	86,963	88,857	–	–	86,963	88,857
Depreciation and amortization	21,116	18,924	–	–	21,116	18,924
Total expenses	**1,014,528**	**995,265**	**487**	**395**	**1,015,015**	**995,660**
Excess of revenue over expenses before the undernoted	**2,365**	**7,926**	**16,490**	**15,304**	**18,855**	**23,230**
Change in fair value of investments measured at fair value	–	–	1,411	(9,453)	1,411	(9,453)
Excess of revenue over expenses	**$ 2,365**	**$ 7,926**	**$ 17,901**	**$ 5,851**	**$ 20,266**	**$ 13,777**

See accompanying notes to the consolidated financial statements

Consolidated Statements of Changes in Net Assets
Years ended March 31, 2013 and 2012
(In thousands of dollars)

March 31, 2013	Invested in capital assets	Restricted for captive insurance	Unrestricted	Total
Balance, beginning of year	$ 15,579	$ 84,928	$ 33,846	$ 134,353
Excess of revenue over expenses	–	17,901	2,365	20,266
Balance, end of year (note 13)	$ 15,579	$ 102,829	$ 36,211	$ 154,619

March 31, 2012	Invested in capital assets	Restricted for captive insurance	Unrestricted	Total
Balance, as at March 31, 2011 as reported under previous accounting framework	$ 15,417	$ 84,403	$ 31,340	$ 131,160
Adjustment on transition to *Accounting Standards for Not-for Profit Organizations* (note 3)	–	(5,326)	(5,258)	(10,584)
Balance, as at April 1, 2011 (note 3)	15,417	79,077	26,082	120,576
Excess of revenue over expenses	–	5,851	7,926	13,777
Change in investment in capital assets	162	–	(162)	–
Balance, end of year (note 13)	$ 15,579	$ 84,928	$ 33,846	$ 134,353

See accompanying notes to financial statements

Canadian Blood Services
Société canadienne du sang

Consolidated Statements of Cash Flows
As at March 31, 2013 and 2012
(In thousands of dollars)

	2013	2012
Cash and cash equivalents provided by (used for):		
Operating activities:		
Excess of revenue over expenses	$ 20,266	$ 13,777
Items not involving cash and cash equivalents:		
Depreciation and amortization of capital assets and intangible assets	21,116	18,924
Amortization of deferred contributions	(47,996)	(42,492)
Loss (gain) on sale of capital assets	94	(453)
Net realized gains on sales of investments, captive insurance operations	(5,186)	(4,106)
Change in fair value of equity investments, captive insurance operations	(1,411)	9,453
Amortization (accretion) of bonds, captive insurance operations	299	(260)
Employee future benefit expenses in excess (deficit) of cash payments	2,563	(573)
	(10,255)	(5,730)
Change in non-cash operating working capital:		
Decrease in Members' contributions receivable	20	316
Increase in other amounts receivable	(3,735)	(3,765)
Decrease (increase) in inventory	(16,252)	548
Increase in prepaid expenses	(903)	(52)
Increase in accounts payable and accrued liabilities	128	2,457
Increase in deferred contributions of future periods	34,467	25,785
Total operating activities	3,470	19,559
Investing activities:		
Proceeds on sales of investments, captive insurance operations	161,584	165,488
Purchases of investments, captive insurance operations	(174,784)	(177,245)
Increase in deferred contributions related to capital assets	20,297	49,119
Proceeds on sale of capital assets	300	1,728
Purchases of capital assets	(19,105)	(47,110)
Total investing activities	(11,708)	(8,020)
Financing activities:		
Repayment of obligations under capital leases	(626)	(550)
Total financing activities	(626)	(550)
Increase (decrease) in cash and cash equivalents	(8,864)	10,989
Cash and cash equivalents, beginning of year	199,540	188,551
Cash and cash equivalents, end of year	$ 190,676	$ 199,540
Cash and cash equivalents are comprised of:		
Cash on deposit	$ 190,181	$ 199,234
Butterfield Asset Management Money Market Fund	239	209
HSBC Money Market Pooled Fund	256	97
	$ 190,676	$ 199,540

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 system, national registries to facilitate organ transplantation and leading practice and system performance initiatives. In addition, recognizing the importance of cord blood stem cell transplantation as a treatment for Canadian patients, Canadian Blood Services has been given the mandate to establish Canada's (excluding Québec) national public cord bank.

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 the Corporation are the Ministers of Health of the Provinces and Territories of Canada, except Québec. The Members, 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. Basis of presentation and significant accounting policies:

On April 1, 2011, Canadian Blood Services adopted Canadian accounting standards for not-for-profit organizations (NPO Standards) in Part III of the CICA Handbook – Accounting. These are the first financial statements prepared in accordance with the NPO Standards. In accordance with the transitional provisions in NPO Standards, Canadian Blood Services has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is April 1, 2011 and all comparative information provided has been presented by applying NPO Standards. A summary of transitional adjustments recorded to net assets and excess of revenue over expenditures is provided in note 3.

2. Basis of presentation and significant accounting policies (continued):

Significant accounting policies:

A summary of the significant accounting policies used in these consolidated financial statements are set out below. The accounting policies have been applied consistently to all periods presented.

(a) Consolidation:

The 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.

(b) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses in the financial statements. Estimates and assumptions may also affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates. Significant estimates include assumptions used in measuring pension and other post-employment benefits and the provision for future insurance claims, which are described in more detail in notes 10 and 17, 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 capital assets 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 capital asset. 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.

2. Basis of presentation and significant accounting policies (continued):

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:

The Corporation does not pay donors for blood donations. Additionally, a substantial number of volunteers contribute a significant amount of time each year in support of the activities of the Corporation. The value of such contributed goods and services is not quantified in the financial statements.

(e) Inventory:

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

(f) Capital assets and intangible assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Assets acquired under capital leases are amortized over the estimated life of the assets or over the lease term, as appropriate. Repairs and maintenance costs are expensed. Betterments, which extend the estimated life of an asset, are capitalized. When capital assets and intangible assets no longer contribute to the Corporation's ability to provide services, their carrying amount is written down to their residual value.

Capital assets and intangible assets are 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 residual value of the asset. If the carrying amount of an asset exceeds its estimated residual value, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the residual value of the asset. When a capital asset is written down, the corresponding amount of any unamortized deferred contributions related to the capital asset would be recognized as revenue, provided that all restrictions have been complied with.

2. Basis of presentation and significant accounting policies (continued):

Significant accounting policies (continued):

(f) Capital assets and intangible assets (continued):

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.

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.

(g) 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 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.

2. Basis or presentation and significant accounting policies (continued):

Significant accounting policies (continued):

(h) 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.

(i) Employee future benefits:

The Corporation sponsors two defined benefit plans, one for employees and the other for executives. In addition, the Corporation sponsors a defined contribution pension plan and provides other retirement and post-employment benefits to eligible 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.

The Corporation uses the deferral and amortization approach to account for its defined benefit plans. 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, 2012, and the next valuation will be as of April 1, 2015.
- For the purpose of calculating expected return on plan assets, investments are valued at fair value.

2. Basis of presentation and significant accounting policies (continued):

Significant accounting policies (continued):

(i) 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 9 years (2012 – 9 years) and 7 years (2012 – 7 years) for the two defined benefit plans and 10 to 11 years (2012 – 10 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.
- 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 defined benefit pension plan for employees is jointly sponsored by the employer and participating unions. To reflect the risk-sharing nature of this plan, the Corporation recognizes the 50 percent of the accrued benefit liability or asset that accrues to the employer.

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.

(j) Financial Instruments:

Upon initial recognition, financial instruments are measured at their fair value. Financial assets and financial liabilities are recognized initially on the trade date, which is the date that the Corporation becomes a party to the contractual provisions of the instrument.

Fixed income securities and short-term notes are measured on the statement of financial position at amortized cost. 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.

Equity securities and mutual funds are measured at fair value with changes in fair value recorded directly in the statement of operations. Dividends are recorded as income when declared.

2. Basis of presentation and significant accounting policies (continued):

Significant accounting policies (continued):

(j) Financial Instruments (continued):

Foreign exchange contracts not in a qualifying hedging relationship are measured at fair value with changes in fair value recorded directly in the statement of operations.

All other financial instruments are measured at cost or amortized cost.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the effective interest rate method. 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.

Financial assets measured at cost or amortized cost are assessed for indicators of impairment on an annual basis at the end of the fiscal year. If there is an indicator of impairment, the Corporation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Corporation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(k) Future accounting changes:

The Canadian Institute of Chartered Accountants has proposed a new accounting standard for Employee Future Benefits. It is expected that an Exposure Draft will be issued in 2013 for the new standard which is expected to be effective for years beginning on or after January 1, 2014. The Corporation will assess the impact of the new accounting standards once issued.

3. Explanation of transition to NPO standards:

These are the Corporation's first annual financial statements prepared in accordance with NPO standards. The accounting policies set out in note 2 have been applied in preparing the financial statements for the years ended March 31, 2013 and 2012 and the preparation of the opening statement of financial position at April 1, 2011. In preparing its opening statement of financial position, the Corporation has adjusted amounts reported previously in financial statements prepared in accordance with former Canadian GAAP.

In accordance with Section 1501, *First-time Adoption by Not-for-Profit Organizations*, the Corporation has elected to recognize unamortized actuarial gains and losses and past service costs of its defined benefit employee future benefit plans in opening net assets. Thereafter, the Corporation has elected to apply the corridor approach for net actuarial gains (losses) whereby 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.

For the defined benefit pension plans, unamortized losses on transition of $6,050 were charged to net assets increasing the previously reported accrued benefit liability from $909 to $6,959 at April 1, 2011. For the other retirement and post-employment defined benefit plan, net unamortized past service costs, transition obligation and actuarial gains totalling $792 were recognized in net assets on transition, reducing the previously reported accrued benefit liability from $19,952 to $19,160 at April 1, 2011. Overall, the resulting adjustment was a $5,258 decrease to net assets and increase to employee future benefit liability as at April 1, 2011 and a $973 increase to the statement of operations for the year ended March 31, 2012.

In accordance with NPO Standards, the Corporation measures its investments in fixed income securities at amortized cost in the statement of financial position. Under former Canadian GAAP, fixed income securities were measured at fair value with change in fair value recognized directly in net assets and with impairments recognized in the statement of operations. In addition, the Corporation measures its investments in equity securities and mutual funds at fair value with changes in fair value recognized in the statement of operations. Under former Canadian GAAP, equity securities were also measured at fair value, but with changes in fair value recognized directly in net assets and with impairments recognized in the statement of operations.

The resulting adjustments at April 1, 2011 from the above policies was a $5,326 decrease to investments and a decrease to net assets restricted for captive insurance operations. The resulting adjustments to the statement of operations was a decrease in excess of revenue over expenses of $5,290 to reflect the net change in fair value of equity securities and mutual funds no longer being recorded directly to net assets. In addition, an impairment loss of $4,163 previously reported in net investment income is now presented as part of the change in fair value of investments measured at fair value. Under these new policies, there are no changes in investments being recognized directly to net assets.

In addition to the elections described above, presentation adjustments were made to the statement of financial position to separately disclose balances related to employee future benefits.

3. **Explanation of transition to NPO standards (continued):**

The impact of the elections on the Corporation's net assets as of April 1, 2011 and excess of revenue over expenses for the year ended March 31, 2012 is as follows:

(a) Reconciliation of financial position as at April 1, 2011:

	Canadian GAAP	Reclassification	Effect of transition to NPO GAAP	Opening NPO GAAP
Assets				
Current assets:				
Cash and cash equivalents	$ 188,551	$ –	$ –	$ 188,551
Members' Contributions receivable	3,700	–	–	3,700
Other amounts receivable	12,843	–	–	12,843
Inventory	115,429	–	–	115,429
Prepaid expenses	6,838	–	–	6,838
	327,361	–	–	327,361
Investments, captive insurance operations	333,332	–	(5,326)	328,006
Capital assets and intangible assets:				
Land, buildings, software and equipment	182,445	–	–	182,445
Right to the blood supply system	24,203	–	–	24,203
	206,648	–	–	206,648
	$ 867,341	$ –	$ (5,326)	$ 862,015
Liabilities, Deferred Contributions and Net Assets				
Current liabilities:				
Accounts payable and accrued liabilities	$ 103,844	$ (20,861)	$ –	$ 82,983
Current portion of obligations under capital leases	550	–	–	550
	104,394	(20,861)	–	83,533
Provision for future claims	249,886	–	–	249,886
Employee future benefit liability	–	20,861	5,258	26,119
Obligations under capital leases	1,097	–	–	1,097
Deferred contributions:				
Expenses of future periods	191,104	–	–	191,104
Capital assets	189,700	–	–	189,700
	380,804	–	–	380,804
Net assets:				
Invested in capital assets	15,417	–	–	15,417
Restricted for captive insurance purposes	84,403	–	(5,326)	79,077
Unrestricted net assets	31,340	–	(5,258)	26,082
	131,160		(10,584)	120,576
	$ 867,341	$ –	$ (5,326)	$ 862,015

3. Explanation of transition to NPO standards (continued):

(b) Reconciliation of statement of operations for the year ended March 31, 2012:

	Canadian GAAP	Effect of transition to NPO GAAP	NPO GAAP
Revenue:			
Members' contributions	$ 997,379	$ –	$ 997,379
Federal contributions	8,457	–	8,457
Less amounts deferred	(62,544)	–	(62,544)
	943,292	–	943,292
Amortization of previously deferred contributions:			
Relating to capital assets	19,907	–	19,907
Relating to operations	22,585	–	22,585
Total contributions recognized as revenue	985,784	–	985,784
Stem Cells revenue	12,964	–	12,964
Net investment income	13,856	4,163	18,019
Other income	2,123	–	2,123
Total revenue	1,014,727	4,163	1,018,890
Expenses:			
Cost of plasma protein products	458,061	–	458,061
Staff costs	316,716	(973)	315,743
General and administrative	114,075	–	114,075
Medical supplies	88,857	–	88,857
Depreciation and amortization	18,924	–	18,924
Total expenses	996,633	(973)	995,660
Excess of revenue over expenses before the undernoted	18,094	5,136	23,230
Change in fair value of investments measured at fair value	–	(9,453)	(9,453)
Excess of revenue over expenses	$ 18,094	$ (4,317)	$ 13,777

The above decrease in staff costs of $973 relates to Canadian Blood Services and results in a corresponding increase in unrestricted net assets at March 31, 2012. The loss from investments measured at fair value of $9,453 relates to the captive insurance companies and is due to the election to measure equity securities at fair value with changes in fair value recognized in the statement of operations. In addition, the impairment loss of $4,163 recognized previously in net investment income is now recognized in the change in fair value of investments measured at fair value.

3. Explanation of transition to NPO standards (continued):

(c) Statement of cash flows for the year ended March 31, 2012:

The above transitional adjustment to the excess of revenue over expenses for the year ended March 31, 2012 results in a change to previously reported amounts in the statement of cash flows. Offsetting the decrease in excess of revenue over expenses is an increase in the change in fair value of investments of $5,290, a decrease in the change in prepaid expenses of $683, a decrease in the change in accounts payable and accrued liabilities of $1,083 and a decrease in the change in the employee future benefits expenses in deficit of cash of $573 under NPO Standards.

4. 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 $495 (March 31, 2012 - $306; April 1, 2011 - $711) that is restricted for captive insurance operations.

5. 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 comprises the following:

	March 31, 2013	March 31, 2012	April 1, 2011
Raw materials	$ 8,831	$ 9,600	$ 9,000
Work in process	4,863	6,108	5,467
Finished goods	117,439	99,173	100,962
	$ 131,133	$ 114,881	$ 115,429

6. Investments, Captive Insurance Operations:

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

	March 31, 2013	March 31, 2012	April 1 2011
Measured at amortized cost:			
Short-term notes	$ 6,929	$ 4,570	$ 7,667
Fixed income securities	223,861	220,022	199,323
Measured at fair value:			
Mutual funds	44,588	39,812	48,925
Equity securities	78,796	70,272	72,091
	$ 354,174	$ 334,676	$ 328,006

7. Capital assets and intangible assets:

March 31, 2013	**Cost**	**Accumulated depreciation**	**Net book value**
Buildings	$ 162,320	$ 35,622	$ 126,698
Machinery and equipment	80,656	53,785	26,871
Land	15,579	-	15,579
Furniture and office equipment	27,823	15,579	12,244
Leasehold improvements	19,749	13,458	6,291
Computer equipment	41,063	34,970	6,093
Motor vehicles	17,438	6,846	10,592
Computer software	30,028	26,868	3,160
Equipment under capital leases	3,259	2,263	996
Assets under construction	3,236	-	3,236
	401,151	189,391	211,760
Right to the blood supply system	35,203	12,761	22,442
	$ 436,354	$ 202,152	$ 234,202

7. Capital assets and intangible assets (continued):

March 31, 2012	Cost	Accumulated depreciation	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 leases	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

April 1, 2011	Cost	Accumulated depreciation	Net book value
Building	$ 109,603	$ 29,812	$ 79,791
Machinery and equipment	67,788	49,466	18,322
Land	15,417	-	15,417
Furniture and office equipment	19,473	13,770	5,703
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 leases	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, capital assets were acquired at an aggregate cost of $20,239 (2012 - $49,024) of which $523 (2012 - $Nil) was acquired by means of capital lease. Cash payments of $19,105 (2011 - $47,110) were made to capital assets.

8. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of $3,670 (March 31, 2012 - $4,133; April 1, 2011 - $355) which include amounts payable for sales and payroll taxes.

9. Obligations under capital leases:

The following is a schedule of minimum lease payments under fixed rate capital leases expiring March 31, 2016, together with the balance of the obligations:

	March 31, 2013	March 31, 2012	April 1, 2011
2012	$ -	$ -	$ 627
2013	-	627	627
2014	358	513	513
2015	358	35	35
2016	358	-	-
	1,074	1,175	1,802
Less amount representing interest (ranging from 5.0%-5.5%)	78	78	155
	996	1,097	1,647
Current portion of obligations under capital leases	316	581	550
	$ 680	$ 516	$ 1,097

10. Employee future benefits:

The Corporation sponsors two defined benefit pension plans, one for employees and the other for executives. In addition, the Corporation sponsors a defined contribution pension plan and provides other retirement and post-employment benefits to eligible employees.

(a) Defined benefit pension plans:

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

	March 31, 2013	March 31, 2012	April 1, 2011
Accrued benefit obligation	$ 311,885	$ 258,688	$ 207,787
Fair value of plan assets	242,679	212,905	195,747
Funded status – deficit	(69,206)	(45,783)	(12,040)
Balance of unamortized amounts	57,929	36,406	-
Adjustment for risk sharing provisions	5,424	4,580	5,081
Accrued benefit liability	$ 5,853	$ 4,797	$ 6,959

10. Employee future benefits (continued):

(a) Defined benefit plans (continued):

The accrued pension benefit liability is included in the employee future benefit liability in the Corporation's statement of financial position. The defined benefit plan for regular employees is jointly sponsored by the Corporation, as employer, and the participating unions. To reflect the risk-sharing nature of the plan, the Corporation recognizes the 50 percent of the accrued benefit liability or asset that accrues to the employer.

The percentage of the fair value of the assets of the defined benefit plan for employees and the plan for executives by major category are as follows: equity securities 56% and 57% respectively (2012 – 56% and 54%); debt securities 43% and 12% respectively (2012 - 43% and 12%); and other 1% and 31% respectively (2012 - 1% and 34%).

The difference between the accrued benefit liability recognized on the Corporation's statement of financial position and the actuarially determined funded deficit comprises experience losses and the risk sharing adjustment for the defined benefit plan for employees. Experience 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 and the fair value of assets at the beginning of the year. Accordingly, $1,192 of amortization was recorded in 2013 (2012 - $Nil).

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

	March 31, 2013	March 31, 2012
Accrued benefit obligation:		
Discount rate	4.40%	5.00%
Inflation rate	2.50%	2.50%
Rate of compensation increase	3.75%-4.00%	3.75%-4.00%
Benefit cost:		
Discount rate	5.00%	5.75%
Expected long-term rate of return on plan assets	4.50%-6.00%	4.75% - 6.00%
Rate on compensation increases	3.75%-4.00%	4.00%

10. Employee future benefits (continued):

(a) Defined benefit plans (continued):

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

		March 31, 2013		March 31, 2012
Employer contributions	$	11,678	$	13,066
Employee contributions		7,897		7,608
Benefits paid		9,222		7,135

(b) Pension plan expense:

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

		March 31, 2013		March 31, 2012
Defined benefit plans	$	12,734	$	10,904
Defined contribution plan		4,825		5,157
	$	17,559	$	16,061

(c) Other retirement and post-employment benefits:

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

		March 31, 2013		March 31, 2012		April 1, 2011
Accrued benefit obligation	$	26,429	$	20,933	$	19,160
Balance of unamortized amounts		4,173		184		-
Accrued benefit liability		22,256		20,749		19,160

	March 31, 2013	March 31, 2012
Benefits paid	886	695
Net expense	2,393	2,284

10. Employee future benefits (continued):

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

The accrued benefit liability is included in the employee future benefits liability in the Corporation's statement of financial position.

The difference between the accrued benefit liability recognized on the Corporation's statement of financial position and the accrued benefit obligation comprises experience losses. Experience losses represent differences between actual 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 accrued benefit obligation at the beginning of the year. Accordingly, $18 of amortization was recorded in 2013 (2012 - $Nil).

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

	March 31, 2013	March 31, 2012
Accrued benefit obligation:		
Discount rate	3.80%-4.40%	4.70%-5.10%
Rate of compensation increase	4.00%	4.50%
Benefit cost:		
Discount rate	4.70%-5.10%	4.75%-5.25%
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.

Termination benefits have been recognized in accounts payable and accrued liabilities on the statement of financial position and in staff costs in the statement of operations primarily as a result of the redevelopment program related to the Corporation's facilities. At March 31, 2013, $5,431 is accrued on the statement of financial position (March 31, 2012 - $9,270; April 1, 2011 - $7,639).

11. 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, 2013 and 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, 2013 and 2012, no amounts had been borrowed under this facility.

(c) Demand bridge facility:

A demand revolving bridge facility of $15,000 (2012 - $80,000) was arranged to finance a portion of the redevelopment of the Corporation's facilities. At March 31, 2013 and 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 $15,000 (2012 - $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, 2013 and 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, 2013 and 2012, no amounts had 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 Dartmouth 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.

12. Deferred contributions:

(a) Expenses of future periods:

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

		March 31, 2013		March 31, 2012
Balance, beginning of year	$	194,304	$	191,104
Increase in amounts received related to future periods		39,902		55,576
Less amounts recognized as revenue in the year		(26,486)		(22,585)
Less capital assets purchased from deferred contributions		(5,718)		(30,126)
Add interest income earned on resources restricted for transition		58		78
Add interest income earned on resources restricted for contingency		225		257
	$	202,285	$	194,304

The capital assets purchased represent purchases from contributions that were deferred at March 31, 2012 and April 1, 2011, as well as contributions received and deferred in the year ended March 31, 2013 and March 31, 2012, respectively.

(b) Capital assets:

Funds received to 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 depreciated to expenses.

		March 31, 2013		March 31, 2012
Balance, beginning of year	$	218,912	$	189,700
Capital assets purchased		19,716		49,024
Capital funding received for leased assets		581		550
Less capital assets sold		(394)		(983)
Less investment in land		-		(455)
Less amounts amortized to revenue		(21,116)		(18,924)
	$	217,699	$	218,912

Included in capital assets purchased of $19,716 (2012 - $49,024) is $5,718 (2012 - $30,126) of capital assets that were purchased using contributions deferred for expenses of future periods.

13. Net assets:

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.

14. Net investment income:

	2013	2012
Interest income on unrestricted funds	$ 2,089	$ 2,320
Net investment income earned on investments restricted for captive insurance	16,977	15,699
Interest income on resources restricted for transition	58	78
Interest income on resources restricted for contingency	225	257
	19,349	18,354
Less amounts deferred	(283)	(335)
	$ 19,066	$ 18,019

Included in net investment income earned on investments restricted for captive insurance is $2,251 (2012 - $2,239) of dividend income, $10,343 (2012 - $9,557) of interest income, $5,186 (2012 - $4,106) of realized gains on sales of investments, $299 amortization of bonds related to captive insurance operations (2012 - $260 accretion) net of $504 (2012 - $463) of investment management fees.

15. Canadian Blood Services revenue and expenditures detail:

	Transfusable Products		Plasma Protein Products		Diagnostic Services		Stem Cells		Organs and Tissues		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Revenue:												
Members' contributions	$ 470,376	$ 490,745	$ 469,262	$ 467,158	$ 17,022	$ 16,594	$ 20,038	$ 19,302	$ 3,580	$ 3,580	$ 980,278	$ 997,379
Federal contributions	5,000	5,000	–	–	–	–	–	–	3,580	3,457	8,580	8,457
Less amounts deferred	(30,587)	(44,512)	–	(5,000)	(1,273)	(1,292)	(7,336)	(8,160)	(3,580)	(3,580)	(42,776)	(62,544)
	444,789	451,233	469,262	462,158	15,749	15,302	12,702	11,142	3,580	3,457	946,082	943,292
Amortization of previously deferred contributions:												
Relating to capital assets	21,510	19,907	–	–	–	–	–	–	–	–	21,510	19,907
Relating to operations	17,573	14,011	–	–	893	1,052	6,248	3,650	1,772	3,872	26,486	22,585
Total contributions recognized as revenue	483,872	485,151	469,262	462,158	16,642	16,354	18,950	14,792	5,352	7,329	994,078	985,784
Stem cells revenue	–	–	–	–	–	–	15,462	12,964	–	–	15,462	12,964
Investment income	2,089	2,320	–	–	–	–	–	–	–	–	2,089	2,320
Other income	1,455	1,307	251	236	305	261	316	–	2,937	319	5,264	2,123
Total revenue	**487,416**	**488,778**	**469,513**	**462,394**	**16,947**	**16,615**	**34,728**	**27,756**	**8,289**	**7,648**	**1,016,893**	**1,003,191**
Expenses:												
Cost of plasma protein products	–	–	464,274	458,061	–	–	–	–	–	–	464,274	458,061
Staff costs	286,228	288,897	2,158	2,222	12,553	12,136	9,688	7,098	5,514	5,390	316,141	315,743
General and administrative	98,482	90,964	2,107	1,123	1,834	1,665	20,836	17,676	2,775	2,252	126,034	113,680
Medical supplies	79,225	81,213	974	988	2,560	2,814	4,204	3,836	–	6	86,963	88,857
Depreciation and amortization	21,116	18,924	–	–	–	–	–	–	–	–	21,116	18,924
Total expenses	**485,051**	**479,998**	**469,513**	**462,394**	**16,947**	**16,615**	**34,728**	**28,610**	**8,289**	**7,648**	**1,014,528**	**995,265**
Excess (deficiency) of revenue over expenses	**$ 2,365**	**$ 8,780**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**	**$ (854)**	**$ –**	**$ –**	**$ 2,365**	**$ 7,926**

16. Financial instruments:

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.

(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 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, 2013, this exposure was minimal due to low prevailing rates of return.

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.

16. Financial instruments (continued):

Risk management (continued):

(i) Market risk (continued):

Foreign exchange risk (continued):

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

	March 31, 2013 CDN	March 31, 2012 CDN	April 1, 2011 CDN
Accounts receivable	$ 58	$ 316	$ 408
Accounts payable and accrued liabilities	17,432	14,618	12,301

During 2013 and 2012, 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 3856 – *Financial Instruments* and, accordingly, did not use hedge accounting. As a result of this, the foreign exchange contracts are recorded in the statement of financial position at fair value and changes in fair value of these contracts are recognized as gains or losses in the statement of operations.

Included in foreign exchange gains and losses, recorded in general and administrative expenses in the statement of operations at March 31, 2013, were gains of $1,034 (2012 – $3,021). At March 31, 2013 and 2012, the Corporation had no foreign exchange contracts outstanding.

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.

16. Financial instruments (continued):

Risk management (continued):

(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.

(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 11 that it can draw on as required.

At March, 31 the Corporation's capital lease obligations fall due as described in Note 9 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.

The liabilities for employee future benefits are generally long term in nature falls due as eligible employees in the Corporation's defined benefit pension plans retire or terminate employment with the Corporation.

17. 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.

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

	CBSI		CBSE		Total	
	2013	2012	2013	2012	2013	2012
Gross premiums written and earned	$ 685	$ 697	$ 60	$ 50	$ 745	$ 747
Net premiums earned	685	697	60	50	745	747
Net investment income	16,966	15,689	11	10	16,977	15,699
	17,651	16,386	71	60	17,722	16,446
Expenses						
General and administrative	803	851	64	59	867	910
Net insurance income before undernoted	16,848	15,535	7	1	16,855	15,536
Change in fair value of investments measured at fair value	1,411	(9,453)	-	-	1,411	(9,453)
Net insurance income	$ 18,259	$6,082	$ 7	$ 1	$ 18,266	$ 6,083

Included in net insurance income above is $745 (2012 - $747) of gross premiums earned and $380 (2012 - $515) of general and administrative expenses that have been eliminated upon consolidation. These amounts are not reflected in the 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, 2013, March 31, 2012 and April 1, 2011.

A significant proportion of both the future claims expense for the period and the related cumulative estimated liability of the Corporation for these future claims at March 31, 2013, of $249,886 (2012 - $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.

18. Guarantees and contingencies:

(a) Guarantees:

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

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

(b) Contingencies:

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

19. Commitments:

At March 31, 2013, the Corporation had the following contractual commitments:

(a) Future minimum payments under operating leases of approximately $20,393 with payments in each of the next five years of: 2014 - $5,490; 2015 - $5,632; 2016 - $3,758; 2017 - $2,360; 2018 $1,127 and thereafter $2,027.

(b) Research and development project grants of approximately $3,990 (2012 - $6,323) to be funded from the contributions deferred for future expenses.

(c) Construction commitments of approximately $231 (2012 – $1,521) funded by Members' contributions.

(d) Vendor commitments of approximately $172,000 (2012 - $215,000) funded by Members' contributions.

20. Research and development:

For the year ended March 31, 2013, the Corporation incurred $11,764 of expenses related to research and development (2012 - $12,125). These costs are included within Transfusable Products expense in the statement of operations. At March 31, 2013, the research and development portion of deferred contributions for expenses of future periods in the statement of financial position totalled $18,115 (2012 - $17,339).

21. 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.

22. 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.

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, 2013, the Corporation's captive insurance operations were required to maintain a minimum statutory capital and surplus of $37,483 (2012 - $37,483). The actual statutory capital and surplus was $120,248 (2012 - $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, 2013, the Corporation's captive insurance operations were required to maintain relevant assets of at least $189,154 (2012 - $187,934). At that date, relevant assets were $372,453 (2012 - $350,921) and the minimum liquidity ratio was therefore met.