Consolidated Financial Statements of

CANADIAN BLOOD SERVICES
SOCIÉTÉ CANADIENNE DU SANG

for the year ended March 31, 2005

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AUDITORS' REPORT TO THE MEMBERS

We have audited the consolidated statement of financial position of Canadian Blood Services as at March 31, 2005 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Canada Corporations Act, we report that, in our opinion, these principles have been applied, except for the change explained in note 2(l) to the financial statements, on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants

Ottawa, Canada

May 27, 2005

CANADIAN BLOOD SERVICES SOCIÉTÉ CANADIENNE DU SANG

Consolidated Statement of Financial Position

As at March 31, 2005 with comparative figures for 2004
(In thousands of dollars)

		2005		2004
Assets				
Current assets:				
Cash and cash equivalents (note 3)	$	136,324	$	119,444
Members' contributions receivable		3,981		3,888
Other amounts receivable		9,935		8,613
Inventory		77,075		88,227
Prepaid expenses		14,455		12,808
		241,770		232,980
Investments, captive insurance operations (note 4)		207,873		186,895
Capital assets (note 5):				
Land, buildings, software and equipment		148,626		151,226
Right to the blood supply system		29,483		30,363
		178,109		181,589
	$	627,752	$	601,464
Liabilities, Deferred Contributions and Net Assets				
Current liabilities:				
Accounts payable and accrued liabilities	$	93,324	$	100,575
Current portion of obligations under capital lease (note 6)		316		283
Current portion of long-term debt (note 7)		1,000		1,267
		94,640		102,125
Provision for future insurance claims (note 13)		174,088		163,092
Long-term liabilities:				
Obligations under capital lease (note 6)		520		812
Long-term debt (note 7)		18,000		22,222
		18,520		23,034
Deferred contributions (note 8):				
Expenses of future periods		125,380		104,443
Capital assets		149,668		148,387
Captive insurance		7,397		7,377
		282,445		260,207
Net assets:				
Invested in capital assets (note 9a)		9,704		9,704
Restricted for captive insurance purposes (note 9b)		39,073		36,846
Unrestricted net assets		9,282		6,456
		58,059		53,006
Guarantees and contingencies (note 15)				
Commitments (notes 14 and 16)				
	$	627,752	$	601,464

See accompanying notes to consolidated financial statements.

Verna M. Skanes
Director and Chair

W. John Dawson
Director

CANADIAN BLOOD SERVICES SOCIÉTÉ CANADIENNE DU SANG

Consolidated Statement of Operations

As at March 31, 2005 with comparative figures for 2004

(In thousands of dollars)

	2005	2004
Revenues:		
Member contributions - blood operations	$ 382,549	$ 361,618
Member contributions - plasma protein product program	387,081	375,193
	769,630	736,811
Amortization of deferred contributions:		
Relating to capital assets	18,617	17,300
Relating to capital asset disposals	295	205
Relating to operations	5,530	30,671
Total contributions recognized as revenue	**794,072**	**784,987**
Other revenues:		
UBMDR revenue	6,868	5,375
Investment income (note 10)	2,416	2,371
Other income	2,584	4,561
Total revenues	**805,940**	**797,294**
Expenses:		
Blood centres	269,911	255,082
Field support	30,850	30,484
Head office	61,749	52,238
Research and development	5,102	4,173
UBMDR	13,572	11,838
Projects - CBS funded	10,534	33,869
	391,718	387,684
Plasma protein product program	387,081	375,193
Total operating expenses (note 12)	**778,799**	**762,877**
Other expenses:		
Amortization of capital assets	18,617	17,300
Projects - transition	-	10,339
Projects - externally funded	5,387	5,951
Miscellaneous	311	325
Total expenses	**803,114**	**796,792**
Excess of revenues over expenses before insurance income	**2,826**	**502**
Net insurance income of CBSI (note 13)	**2,227**	**3,250**
Excess of revenues over expenses	**$ 5,053**	**$ 3,752**

See accompanying notes to consolidated financial statements.

CANADIAN BLOOD SERVICES SOCIÉTÉ CANADIENNE DU SANG

Consolidated Statement of Changes in Net Assets

As at March 31, 2005 with comparative figures for 2004
(In thousands of dollars)

	Invested in capital assets	Restricted for captive insurance	Unrestricted	2005	2004
Balance, beginning of year	$ 9,704	$ 36,846	$ 6,456	$ 53,006	$ 49,254
Excess of revenues over expenses	-	2,227	2,826	5,053	3,752
Balance, end of year	$ 9,704	$ 39,073	$ 9,282	$ 58,059	$ 53,006

See accompanying notes to consolidated financial statements.

CANADIAN BLOOD SERVICES SOCIÉTÉ CANADIENNE DU SANG

Consolidated Statement of Cash Flows

As at March 31, 2005 with comparative figures for 2004

(In thousands of dollars)

	2005	2004
Cash and cash equivalents provided by (used for):		
Operating activities:		
Excess of revenues over expenses	$ 5,053	$ 3,752
Items not involving cash and cash equivalents:		
Amortization of capital assets	18,617	17,300
Amortization of deferred contributions	(24,442)	(48,176)
Provision for permanent impairment of investment value	950	-
Loss on sale of capital assets	74	44
Provision for future insurance claims	10,996	27,984
	11,248	904
Decrease (increase) in Members' contributions receivable	(93)	15,994
Decrease (increase) in other amounts receivable	(1,322)	9,684
Decrease (increase) in inventory	11,152	(1,803)
Increase in prepaid expenses	(1,647)	(3,296)
Increase (decrease) in accounts payable and accrued liabilities	(7,251)	22,274
Increase in deferred contributions related to expenses of future periods	26,467	25,655
Increase (decrease) in deferred contributions related to captive insurance	20	(9,932)
	38,574	59,480
Financing and investing activities:		
Increase in investments, net	(21,928)	(15,626)
Increase in deferred contributions related to capital assets	20,193	25,576
Proceeds on sale of capital assets	221	161
Purchase of capital assets	(15,399)	(28,273)
Repayment of obligations under capital lease	(292)	(317)
Proceeds of long-term debt	-	4,000
Repayment of long-term debt	(4,489)	(1,511)
	(21,694)	(15,990)
Increase in cash and cash equivalents	16,880	43,490
Cash and cash equivalents, beginning of year	119,444	75,954
Cash and cash equivalents, end of year (note 3)	$ 136,324	$ 119,444

See accompanying notes to consolidated financial statements.

1. Nature of the organization and operations:

Canadian Blood Services/Société canadienne du sang (CBS or the Corporation) owns and operates the national blood supply system for Canada, except Quebec, 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.

CBS was incorporated on February 16, 1998 under Part II of the Canada Corporations Act. It is a corporation without share capital and qualifies for tax-exempt status as a registered charity under paragraph 149(1)(f) of the Income Tax Act (Canada). The Members of the Corporation, the Ministers of Health of the Provinces and Territories of Canada except Quebec, provide contributions to fund the operation of the blood supply system. CBS operates in a regulated environment, pursuant to the requirements of the Federal Food and Drugs Act, with licensing required from the Biologics and Genetic Therapies Directorate of Health Canada.

On November 7, 2002, the Canadian Blood Services Foundation/Fondation de la Société canadienne du sang (the Foundation) was created as a not-for-profit entity (note 17).

2. Significant accounting policies:

(a) Financial statement presentation:

The consolidated financial statements of CBS include the results of operations of the blood system and the accounts of the Corporation's wholly-owned insurance company, CBS Insurance Company Limited (CBSI).

Contributions received to fund premiums, together with investment income earned on these contributions and other components of the captive insurance operations, are included on a net basis as insurance income in the consolidated statement of operations and separately disclosed in the consolidated statement of changes in net assets.

The portion of contributions received that relates to future operations is included in deferred contributions on the consolidated statement of financial position.

CBS does not consolidate the results of the Foundation (note 17).

2. Significant accounting policies (continued):

(b) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses in the financial statements. Estimates and assumptions also may affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. Significant estimates include assumptions used in estimating the current year's expense for pension and other post-employment benefits and the provision for future insurance claims, which are described in more detail in notes 11 and 13 respectively.

(c) Revenue recognition:

The Corporation follows the deferral method of accounting for contributions, which include donations and government contributions.

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

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

Unrestricted funding or donations are 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.

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

(d) Donated goods and services:

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

2. Significant accounting policies (continued):

(e) Investments:

Investments in marketable fixed interest securities are carried at amortized cost. Investments in marketable equity securities are carried at cost. Where a decline in value of marketable securities is considered to be other than temporary the carrying value is reduced.

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

Short-term investments, consisting of certificates of deposit and commercial paper, are carried at fair value. Any appreciation in value is recorded as interest income. Dividends are recorded as income when declared.

(f) Inventory:

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

(g) Capital assets:

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

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

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

2. Significant accounting policies (continued):

(g) Capital assets (continued):

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

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

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

(h) Impairment of long-lived assets:

Long-lived assets, including buildings, software and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(i) Foreign currency transactions:

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

(j) Employee future benefits:

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

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 plans for funding purposes were as of June 30, 2002 and January 1, 2005, and the next required valuations will be as of December 31, 2004 and January 1, 2008. The most recent actuarial valuation of the other retirement and post-employment benefits was as of December 31, 2003, and the next required valuation will be as of December 31, 2006.
- For the purpose of calculating expected return on plan assets, those assets 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 the active employees covered by the defined benefit pension plans is 10 to 13 years (2004 – 10 to 13 years) and 9 to 19 years (2004 – 9 to 19 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 new accounting standard on employee future benefits using the prospective application method. The Corporation is amortizing the transitional pension obligations on a straight-line basis over 10 to 13 years, which were the average remaining service periods of the active employees expected to receive benefits under the pension benefit 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 to its employees. The cost of the defined contribution plan is recognized based on the contributions required to be made during each period.

(k) Derivative financial instruments:

The Corporation is party to certain derivative financial instruments, principally an interest rate swap contract (used to manage the exposure to market risks from changing interest rates) and forward foreign exchange contracts (used to manage foreign currency exposures). The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the consolidated statement of financial position or to specific firm commitments or anticipated transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

For the interest rate swap contract, the difference between the swap rate and the actual rate is recognized as an adjustment to interest expense on long-term debt. For forward foreign exchange contracts, gains and losses that are both designated and effective as hedges are deferred and subsequently recognized in the consolidated statement of operations in the same period as the corresponding hedged position.

Changes in the fair value of derivatives that are not considered to be effective hedges for accounting purposes are immediately recognized in the consolidated statement of operations.

2. Significant accounting policies (continued):

(l) Change in accounting policies:

(i) Asset retirement obligations:

Effective April 1, 2004, the Corporation adopted CICA Section 3110, Asset Retirement Obligations. This standard requires the recognition of liabilities for the legal obligations related to the retirement of tangible long-lived assets such as capital and leased assets. The effect on the Corporation's consolidated financial statements of adopting this standard was not significant.

(ii) Hedging relationships:

On April 1, 2004, the Corporation prospectively adopted Accounting Guideline 13 – Hedging Relationships (AcG-13) and Emerging Issues Committee Abstract 128 – Accounting for Trading, Speculative or Non-hedging Derivative Financial Instruments (EIC-128). AcG-13 establishes certain qualifying conditions for the use of hedge accounting that are more stringent and formalized than under prior standards. The hedging relationships established by the Corporation related to foreign purchases of medical supplies meet these new requirements that specify the conditions under which hedge accounting can be used.

Under EIC-128, unrealized gains or losses on derivative financial instruments that do not qualify for hedge accounting must be charged or credited to the consolidated statement of operations and not deferred. This standard applies to hedging transactions used by the Corporation related to foreign purchases of plasma protein products.

Adoption of this standard had no significant effect on the Corporation's consolidated financial statements.

3. Cash and cash equivalents:

Cash equivalents include deposits with financial institutions that can be withdrawn without prior notice or penalty and short-term deposits (i.e., bankers' acceptances and commercial paper) with an original maturity of 90 days or less.

Cash and cash equivalents include $4,860 (2004 - $13,563) that is restricted for captive insurance operations.

(In thousands of dollars)

4. Investments:

All of the investments are restricted for captive insurance operations.

The amortized cost and fair market value of marketable securities are as follows:

	2005 Amortized cost	2005 Fair value	2004 Amortized cost	2004 Fair value
Short-term notes	$ 15,410	$ 15,410	$ 2,485	$ 2,485
Fixed interest securities	163,978	172,018	150,922	156,563
Equity securities	28,485	37,641	33,488	39,973
	$ 207,873	$ 225,069	$ 186,895	$ 199,021

The fixed interest securities have contractual maturities from 5 to 10 years at rates ranging from approximately 3.5% to 5.0% (2004 – 2.2% to 4.9%).

5. Capital assets:

	Cost	Accumulated amortization	2005 Net book value	2004 Net book value
Land	$ 9,704	$ -	$ 9,704	$ 9,704
Buildings	103,137	13,815	89,322	90,481
Machinery and equipment	43,358	22,425	20,933	19,471
Furniture and office equipment	11,919	6,046	5,873	5,982
Motor vehicles	8,732	4,130	4,602	4,541
Computer equipment	23,115	16,897	6,218	7,714
Computer software	16,291	12,027	4,264	4,679
Leasehold improvements	11,171	5,045	6,126	6,256
Furniture and office equipment under capital lease	1,524	716	808	1,085
Assets under construction	776	-	776	1,313
	229,727	81,101	148,626	151,226
Right to the blood supply system	35,203	5,720	29,483	30,363
	$ 264,930	$ 86,821	$ 178,109	$ 181,589

During the year capital assets were acquired at an aggregate cost of $15,432 (2004 - $28,404) of which $33 (2004 - $131) were acquired by means of capital lease. Cash payments of $15,399 (2004 - $28,273) were made to purchase capital assets.

Cost and accumulated amortization at March 31, 2004 amounted to $250,253 and $68,664 respectively.

(In thousands of dollars)

6. Obligations under capital lease:

The following is a schedule of minimum lease payments under fixed rate capital leases expiring October 31, 2007, together with the balance of the obligations:

	2005	2004
Year ended March 31:		
2005	$ -	$ 361
2006	370	361
2007	370	361
2008	185	180
	925	1,263
Less amount representing interest (at approximately 8.8%)	89	168
	836	1,095
Current portion of obligations under capital lease	316	283
	$ 520	$ 812

7. Credit facilities:

(a) Long-term debt:

The purchase of the Winnipeg Blood Transfusion Service Centre (WBTSC) and the Ottawa Manufacturing Facility (OMF) were financed by collateral mortgages.

	2005	2004
A collateral mortgage agreement bearing interest at bankers acceptance plus 0.33%, requiring minimum annual principal repayments of $1,000 with the balance due in 2010, secured by the WBTSC.	$ 19,000	$ 20,000
A collateral mortgage agreement bearing interest at bankers acceptance plus 0.45%, secured by the OMF.	-	3,489
	19,000	23,489
Less current portion	1,000	1,267
	$ 18,000	$ 22,222

The collateral mortgage agreement for the OMF was repaid during 2005.

(In thousands of dollars)

7. Credit facilities (continued):

(a) Long-term debt (continued):

As at March 31, 2005, the Corporation was party to an interest rate swap contract which has the effect of converting the bankers acceptance floating rate of interest to a fixed rate of 6.8% for the WBTSC over the full term of the loan.

(b) Operating line of credit:

Bank lines of credit of $25,000 and $50,000 have been arranged for blood operations and the plasma protein products program respectively. The line of credit for blood operations was arranged for purposes of public health and safety to cover events not anticipated in the annual budget. The line of credit for plasma protein products was arranged to provide working capital. At March 31, 2005, no amounts had been borrowed under these facilities.

(c) Letter of credit:

To meet certain regulatory capital requirements related to its captive insurance subsidiary, the Corporation has established a committed, stand-by letter of credit facility of $60,000 (2004 - $67,000), of which $48,000 (2004 - $67,000) has been utilized.

8. Deferred contributions:

(a) Expenses of future periods:

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

	2005	2004
Balance, beginning of year	$ 104,443	$ 109,459
Add amount received related to future periods	26,546	34,478
Less amounts recognized as revenue in the year	(5,530)	(30,671)
Less capital assets purchased from deferred contributions	(195)	(9,158)
Add income earned on resources restricted for transition	116	335
	$ 125,380	$ 104,443

The capital assets purchased represent capital assets purchased with contributions that were deferred at March 31, 2004.

(In thousands of dollars)

8. Deferred contributions (continued):

(b) Capital assets:

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

	2005	2004
Balance, beginning of year	$ 148,387	$ 140,316
Capital assets purchased	15,399	28,273
Capital funding received for repayment of WBTSC loan	1,000	1,000
Capital funding received for repayment of OMF loan	3,489	511
Capital funding received for leased assets	305	297
Less capital assets financed by long-term debt	-	(4,000)
Less capital assets sold	(295)	(205)
Less purchase of land	-	(505)
Less amounts amortized to revenue	(18,617)	(17,300)
	$ 149,668	$ 148,387

Included in capital assets purchased of $15,399 (2004 - $28,273) is $195 (2004 - $9,158) of capital assets that were purchased using contributions deferred for expenses of future periods at March 31, 2004.

(c) Captive insurance:

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

	2005	2004
Balance, beginning of year	$ 7,377	$ 17,309
Comprehensive Blood Risk contributions	15,000	15,000
Other insurance risk contributions	521	508
Less amounts amortized to revenue (note 13c)	(15,501)	(25,440)
	$ 7,397	$ 7,377

(In thousands of dollars)

9. Net assets:

(a) The change in investment in capital assets is calculated as follows:

	2005	2004
Balance, beginning of year	$ 9,704	$ 9,199
Purchase of land	-	505
	$ 9,704	$ 9,704

(b) All of the net assets restricted for captive insurance purposes are subject to externally imposed restrictions stipulating that they be used to provide insurance coverage with respect to risks associated with the operation of the blood system.

Investment income earned on the assets restricted for insurance captive purposes is also externally restricted for these purposes (note 13).

10. Investment income:

	2005	2004
Income earned on unrestricted funds	$ 2,416	$ 2,371
Income earned on resources restricted for captive insurance	10,754	15,244
Income earned on resources restricted for transition	116	335
	13,286	17,950
Less amounts deferred	(116)	(335)
Less amounts included in net insurance income (note 13c)	(10,754)	(15,244)
	$ 2,416	$ 2,371

(In thousands of dollars)

11. Employee benefits:

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

(a) Defined benefit plans:

Information about the Corporation's defined benefit plans as at March 31, 2005 is as follows:

	2005	2004
Accrued benefit obligation	$ 102,085	$ 83,598
Fair value of plan assets	90,324	77,699
Funded status - deficit	(11,761)	(5,899)
Balance of unamortized amounts	10,210	4,676
Accrued benefit liability	$ (1,551)	$ (1,223)

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

Subsequent to year end, the Corporation updated the actuarial value prepared for funding purposes for one of the defined benefit pension plans to December 31, 2004. The updated valuation shows an unfunded liability as at December 31, 2004 of $1,083 compared to the unfunded liability of $9,550 (included in $11,761 above) which was based on an extrapolation of the June 30, 2002 actuarial valuation.

The percentage of the fair value of plan assets by major category is as follows: equity securities 60% to 63% (2004 - 61% to 64%); debt securities 34% to 36% (2004 - 37% to 35%); and other 1% to 6% (2004 - 2% to 1%).

The difference between the accrued benefit liability of $1,551 (2004 - $1,223) recorded on the Corporation's consolidated statement of financial position and the actuarially determined fund deficit of $11,761 (2004 - $5,899) principally comprises experience losses. These losses represent differences between actual results in the fund and estimated results used for accounting purposes based on actuarial assumptions. Experience gains and losses are amortized to pension expense over the average expected remaining service lives of employees when the aggregate gain or loss exceeds 10% of the greater of the accrued benefit obligation and the fair value of assets at the beginning of the year.

(In thousands of dollars)

11. Employee benefits (continued):

(a) Defined benefit plans (continued):

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

	2005	2004
Accrued benefit obligation:		
Discount rate	5.75% - 6.00%	6.25%
Rate of compensation increase	4.25%	4.25% - 5.70%
Benefit cost:		
Discount rate	6.25%	7.00% - 7.25%
Expected long-term rate of return on plan assets	7.00%	7.25%
Rate of compensation increase	4.25%	4.25% - 5.70%

Other information about the Corporation's defined benefit plans for the year ended March 31, 2005 is as follows:

	2005	2004
Employer contributions	$ 5,195	$ 4,744
Employee contributions	3,833	3,543
Benefits paid	1,352	4,338

(b) Pension plan expense:

The net expense for the Corporation's pension plans for the year ended March 31, 2005 is as follows:

	2005	2004
Defined benefit plans	$ 5,522	$ 5,029
Defined contribution plan	4,766	4,753
	$ 10,288	$ 9,782

(In thousands of dollars)

11. Employee benefits (continued):

(c) Other retirement and post-employment benefits:

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

		2005		2004
Accrued benefit obligation	$	15,005	$	12,861
Accrued benefit liability		(10,128)		(8,138)
Benefits paid		223		460
Net expense		2,213		2,029

Included in the above-noted benefit obligation, is $4,355 (2004 - $4,887), which represents the unamortized transitional obligation. This amount is being amortized over the expected remaining life of the employee group covered by the benefit plans.

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

	2005	2004
Accrued benefit obligation:		
Discount rate	5.25% - 6.00%	5.50% - 6.25%
Rate of compensation increase	5.70%	5.70%
Benefit cost:		
Discount rate	5.50% - 6.25%	7.25% - 7.50%
Rate of compensation increase	5.70%	5.70%

Hospital costs – 8.5% per annum, with ultimate rate of 4.5% reached in 2013, starting in 2006;

Drug costs – 9.4% per annum, with ultimate rate of 5.0% reached in 2013, starting in 2006;

Other health costs – 4.0% per annum.

Year ended March 31, 2005
(In thousands of dollars)

12. Operating Expense Summary:

	Blood centres	Field support	Corporate services (Head Office)	R & D	UBMDR	Projects (CBS Funded)	Plasma protein product program	2005 Total operating expenses	% of Subtotal
Cost of goods sold	$ -	$ -	$ -	$ -	$ -	$ -	$ 379,740	$ 379,740	48.7%
Staff costs	154,140	25,563	33,421	3,771	3,152	3,623	2,722	226,392	29.0%
Medical supplies	79,092	1,161	6	253	1,342	700	739	83,293	10.6%
Clinic costs	6,139	1	662	5	1	29	34	6,871	0.9%
Travel	1,471	914	2,140	348	148	694	181	5,896	0.8%
Administrative services	9,364	450	10,905	51	203	445	2,741	24,159	3.1%
Professional fees	1,940	1,994	6,413	468	76	4,715	390	15,996	2.1%
Other purchased services	5,398	672	5,192	182	392	138	221	12,195	1.6%
Property expenses	11,675	7	2,756	13	2	37	435	14,925	1.9%
Equipment	691	88	399	24	16	153	9	1,380	0.2%
Miscellaneous expenses (income)	1	-	(145)	(13)	-	-	(131)	(288)	0.0%
UBMDR search and transplant costs	-	-	-	-	8,240	-	-	8,240	1.1%
	$ 269,911	**$ 30,850**	**$ 61,749**	**$ 5,102**	**$ 13,572**	**$ 10,534**	**$ 387,081**	**$ 778,799**	**100.0%**

Year ended March 31, 2005
(in thousands of dollars)

12. Operating Expense Summary: Prior year

	Blood centres	Field support	Corporate services (Head Office)	R & D	UBMDR	Projects (CBS Funded)	Plasma protein product program	2004 Total operating expenses	% of Subtotal
Cost of goods sold	$ -	$ -	$ -	$ -	$ -	$ 97	$ 362,031	$ 362,128	47.5%
Staff costs	145,673	25,206	28,793	3,138	3,489	10,108	2,441	218,848	28.7%
Medical supplies	72,958	993	-	216	708	7,565	321	82,761	10.8%
Clinic costs	5,821	1	311	2	2	140	25	6,302	0.8%
Travel	1,267	976	2,349	181	189	453	94	5,509	0.7%
Administrative services	9,175	531	8,907	50	249	4,407	9,926	33,245	4.4%
Professional fees	3,545	1,806	5,119	449	79	8,514	250	19,762	2.6%
Other purchased services	4,809	586	4,474	111	230	1,247	311	11,768	1.5%
Property expenses	11,143	255	2,122	-	132	1,059	430	15,141	2.0%
Equipment	691	138	316	31	8	329	10	1,523	0.2%
Miscellaneous expenses (income)	-	(8)	(153)	(5)	-	(86)	(646)	(898)	(0.1%)
UBMDR search and transplant costs	-	-	-	-	6,752	-	-	6,752	0.9%
Royalties	-	-	-	-	-	36	-	36	0.0%
	$ 255,082	**$ 30,484**	**$ 52,238**	**$ 4,173**	**$ 11,838**	**$ 33,869**	**$ 375,193**	**$ 762,877**	**100.0%**

(In thousands of dollars)

13. Insurance:

(a) The Corporation has established a wholly-owned captive insurance company, CBS Insurance Company Limited (CBSI), to provide insurance coverage up to $250,000 with respect to risks associated with the operation of the blood system. Additional coverage of $750,000 has been arranged through reinsurance markets on an 84.5% quota share basis for a period of three years, with a two year renewal option. As a result, the Corporation retains 15.5% of the insurance risk associated with this additional coverage.

(b) The Members of CBS have agreed to provide a contribution of $15,000 in September 2005. To meet certain regulatory capital requirements related to its captive insurance subsidiary, the Corporation has established a committed stand-by letter of credit facility of $60,000, of which $48,000 has been utilized.

(c) Insurance income includes the results of operations of CBSI on a net basis which are summarized as follows:

	2005	2004
Contribution received	$ 8,124	$ 15,508
Change in deferred contribution	7,377	9,932
	15,501	25,440
Investment income	10,754	15,244
	26,255	40,684
Expenses:		
Increase in provision for future insurance claims	10,996	28,012
Net reinsurance costs	11,748	8,270
General and administrative	653	462
Claims and administration	54	50
Letter of credit fees	577	640
	24,028	37,434
Net insurance income	$ 2,227	$ 3,250

The increase in provision for future claims expense is an actuarially based estimate of the cost of settling claims relating to insured events (both reported and unreported) that have occurred to March 31, 2005. A significant proportion of both the future claims expense for the period and the related cumulative estimated liability at March 31, 2005 of $174,088 (2004 - $163,092) covers the manifestation of blood diseases, which is inherently difficult to assess and quantify. There is a variance between these recorded amounts and other reasonably possible estimates. It is reasonably possible that changes in future conditions in the near term could require a change in the amount estimated.

14. Financial instruments:

Risk management activities

The Corporation has entered into interest rate swaps as described in note 7 to reduce its exposure to fluctuations in interest expense.

The Corporation has entered into forward foreign exchange contracts to hedge its foreign currency exposure on a substantial portion of its foreign purchases of medical supplies and plasma protein products. The contracts oblige the Corporation to buy US Dollars in the future at predetermined exchange rates over a period ending June 30, 2005. The amount of future purchases is forecasted in light of expected blood collections and past experience. At March 31, 2005, the Corporation had purchased contracts to buy US $6,000 over the next 3 months at an average rate of 1.2042.

Fair values

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

The fair value of the long-term debt, as calculated by a financial institution is unfavourable by $2,013 (2004 - unfavourable by $2,821).

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

The fair value of off-balance sheet derivative instruments is provided by a financial institution and represents amounts required to realize favourable contracts or settle unfavourable contracts given current foreign exchange rates. The fair value of the Corporation's foreign exchange contracts at March 31, 2005 was favorable by $23.

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

15. Guarantees and contingencies:

(a) Guarantees:

In the normal course of business, the Corporation enters into lease agreements for facilities. In the Corporation's standard commercial lease the Corporation as the lessee agrees to indemnify the lessor and other related third parties for liabilities that may arise from the use of the leased premises where the event triggering liability results from a breach of a covenant, any wrongful act, neglect or default on the part of the tenant or related third parties. However, this clause may be altered through negotiation. The maximum amount potentially payable under any such indemnity cannot be reasonably estimated. The Corporation has liability insurance that relates to the indemnifications described above.

Historically, the Corporation has not made any significant payments related to the above-noted indemnities and accordingly, no liabilities have been accrued in the financial statements.

(b) Contingencies:

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

16. Commitments:

At March 31, 2005, the Corporation had the following contractual commitments:

(a) Future minimum payments under operating leases of approximately $18,558, with payments in each of the next five years of: 2006 - $4,199; 2007 - $2,774; 2008 - $2,389; 2009 - $2,110; 2010 - $1,504; and thereafter $5,582.

(b) Research and development project grants of approximately $6,713.

(In thousands of dollars)

17. CBS Foundation:

The Foundation was established to raise, receive, maintain and manage funds to be distributed towards research and development and special projects to address priority needs of CBS. The Foundation obtained it's designation as a charitable organization on October 24, 2003 and is a registered charity under the Canadian Income Tax Act. CBS exercises control over the Foundation by virtue of its ability to influence the Foundation's strategic, operating, investing and financing policies.

The assets, liabilities, and results of operation of the Foundation for the year ended March 31, 2005 are as follows:

	2005	2004
Financial Position:		
Total assets	$ 83	$ 25
Total liabilities	$ 812	$ 302
Total net asset deficiency	(729)	(277)
	$ 83	$ 25
Results of operations:		
Total revenue	$ 138	$ -
Total expenses	590	277
Deficiency of revenue over expenses	$ (452)	$ (277)

18. Related party transactions:

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

19. Comparative figures:

Certain comparative figures have been reclassified to conform to the presentation adopted for 2005.