Consolidated Financial Statements of

Canadian Blood Services
Société canadienne du sang

for the year ended March 31, 2007

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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, 2007 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, 2007 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 on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Ottawa, Canada

June 1, 2007

Canadian Blood Services
Société canadienne du sang

Consolidated Statement of Financial Position

As at March 31, 2007 with comparative figures for 2006
(In thousands of dollars)

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents (note 3)	$ 142,961	$ 151,132
Members' contributions receivable	1,826	2,991
Other amounts receivable	10,385	12,259
Inventory	90,831	71,768
Prepaid expenses	7,455	12,615
	253,458	250,765
Investments, captive insurance operations (note 4)	250,953	239,393
Capital assets (note 5):		
Land, buildings, software and equipment	148,787	152,713
Right to the blood supply system	27,723	28,603
	176,510	181,316
	$ 680,921	**$ 671,474**
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 101,158	$ 109,418
Current portion of obligation under capital lease (note 6)	184	346
Current portion of long-term debt (note 7)	1,000	1,000
	102,342	110,764
Provision for future insurance claims (note 13)	200,225	198,214
Long-term liabilities:		
Obligation under capital lease (note 6)	-	183
Long-term debt (note 7)	16,000	17,000
	16,000	17,183
Deferred contributions (note 8):		
Expenses of future periods	130,413	118,801
Capital assets	150,541	154,186
Captive insurance	20	7,397
	280,974	280,384
Net assets:		
Invested in capital assets	9,704	9,704
Restricted for captive insurance purposes (note 9)	54,781	43,732
Unrestricted net assets	16,895	11,493
	81,380	64,929
Guarantees and contingencies (note 15)		
Commitments (note 14 and 16)		
	$ 680,921	**$ 671,474**

See accompanying notes to consolidated financial statements

On behalf of the Board:

Verna M. Skanes
Director and Chair

W. John Dawson
Director

Canadian Blood Services
Société canadienne du sang

Consolidated Statement of Operations

Year ended March 31, 2007, with comparative figures for 2006
(In thousands of dollars)

	CBS		Captive Insurance		Consolidated	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Revenues:						
Members contributions	$ 846,990	$ 811,740	$ -	$ -	$ 846,990	$ 811,740
Less amounts deferred	(23,016)	(21,133)	-	-	(23,016)	(21,133)
	823,974	790,607	-	-	823,974	790,607
Amortization of previously deferred contributions:						
Relating to capital assets	18,870	17,708	-	-	18,870	17,708
Relating to operations	8,559	6,416	-	-	8,559	6,416
Total contributions recognized as revenue	851,403	814,731	-	-	851,403	814,731
Net premiums earned (note 13)	-	-	1,951	3,343	1,951	3,343
UBMDR international revenue	7,700	6,119	-	-	7,700	6,119
Investment income (note 10)	6,569	4,176	11,328	25,997	17,897	30,173
Other income	2,093	382	197	322	2,290	704
Total revenues	867,765	825,408	13,476	29,662	**881,241**	**855,070**
Expenses:						
Increase in provision for future insurance claims	-	-	2,011	24,126	2,011	24,126
Cost of plasma protein products	395,502	379,931	-	-	395,502	379,931
Staff costs	256,565	243,768	-	-	256,565	243,768
General and administrative	107,504	96,089	809	877	108,313	96,966
Medical supplies	84,548	85,778	-	-	84,548	85,778
Amortization	18,244	17,631	-	-	18,244	17,631
Total expenses	**862,363**	**823,197**	**2,820**	**25,003**	**865,183**	**848,200**
Excess of revenues over expenses	**$ 5,402**	**$ 2,211**	**$ 10,656**	**$ 4,659**	**$ 16,058**	**$ 6,870**

See accompanying notes to consolidated financial statements.

Canadian Blood Services
Société canadienne du sang

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2007, with comparative figures for 2006
(In thousands of dollars)

	Invested in capital assets	Restricted for captive insurance	Unrestricted	2007	2006
Balance, beginning of year	$ 9,704	$ 43,732	$ 11,493	$ 64,929	$ 58,059
Excess of revenues over expenses	-	10,656	5,402	16,058	6,870
Restricted capital contributions	-	393	-	393	-
Balance, end of year	**$ 9,704**	**$ 54,781**	**$ 16,895**	**$ 81,380**	**$ 64,929**

See accompanying notes to consolidated financial statements.

Canadian Blood Services
Société canadienne du sang

Consolidated Statement of Cash Flows

Year ended March 31, 2007, with comparative figures for 2006
(In thousands of dollars)

	2007	2006
Cash and cash equivalents provided by (used for):		
Operating activities:		
Excess of revenues over expenses	$ 16,058	$ 6,870
Items not involving cash and cash equivalents:		
Amortization of capital assets	18,244	17,631
Amortization of deferred contributions	(27,429)	(24,124)
Loss on sale of capital assets	404	40
Provision for future insurance claims	2,011	24,126
	9,288	24,543
Decrease in Members' contributions receivable	1,165	990
Decrease (increase) in other amounts receivable	1,874	(2,313)
Decrease (increase) in inventory	(19,063)	5,307
Decrease in prepaid expenses	5,160	1,840
Increase (decrease) in accounts payable and accrued liabilities	(8,232)	15,424
Increase (decrease) in deferred contributions of future periods	20,172	(163)
Decrease in deferred contributions related to captive insurance	(7,377)	-
	2,987	45,628
Financing and investing activities:		
Increase in investments, net	(11,560)	(31,520)
Insurance captive capital contributions	393	-
Increase in deferred contributions related to capital assets	15,226	22,226
Proceeds on sale of capital assets	125	38
Purchase of capital assets	(13,992)	(20,242)
Repayment of obligation under capital lease	(350)	(322)
Repayment of long-term debt	(1,000)	(1,000)
	(11,158)	(30,820)
Increase (decrease) in cash and cash equivalents	(8,171)	14,808
Cash and cash equivalents, beginning of year	151,132	136,324
Cash and cash equivalents, end of year (note 3)	**$ 142,961**	**$ 151,132**

See accompanying notes to consolidated financial statements.

1. Nature of the organization and operations:

Canadian Blood Services/Société canadienne du sang (the Corporation) 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.

The Corporation 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 Québec, provide contributions to fund the operation of the blood supply system. The Corporation 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.

The Corporation 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 registered under the Insurance (Captive Company) Act of British Columbia (the Act) and commenced business on September 28, 2006 (note 13).

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 18). The Foundation ceased operations on March 31, 2007. Effective April 1, 2007 all fundraising activities carried out by the Foundation will be transferred back to the Corporation.

2. Significant accounting policies:

(a) Financial statement presentation:

The consolidated financial statements of the Corporation include the results of operations of the blood system and the accounts of the Corporation's wholly-owned insurance Corporations. Significant inter-company transactions have been eliminated.

Certain comparative figures have been reclassified to conform to the presentation adopted for 2007, including the effect of separately disclosing the components of captive insurance operations, previously included on a net basis in the consolidated statements of operations and 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.

2. Significant accounting policies (continued):

(a) Financial statement presentation (continued):

In accordance with not-for-profit accounting standards the Corporation does not consolidate the results of the Foundation, a controlled entity (note 18).

(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, 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.

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 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.

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 the Corporation. 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) Asset retirement obligations:

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

(i) Foreign currency transactions:

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

2. Significant accounting policies (continued):

(j) Employee future benefits:

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

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

- The cost of the accrued benefit obligations for pensions and other retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages and expected health care costs. The measurement date of the plan assets and accrued benefit obligation coincides with the Corporation's fiscal year. The most recent actuarial valuations for the two benefit pension plans for funding purposes were as of December 31, 2004 and January 1, 2005. The next required valuations will be as of December 31, 2007 and January 1, 2008 respectively. The most recent actuarial valuation of the other retirement and post-employment benefits was as of April 1, 2006, and the next required valuation will be as of April 1, 2009.

- For the purpose of calculating expected return on plan assets, 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 active employees is 10 years (2006 – 10 years) and 11 years (2006 – 11 years) for the two defined benefit plans and 8 to 14 years (2006 – 12 - 16 years) for the other retirement and post-employment benefits.

2. Significant accounting policies (continued):

(j) Employee future benefits (continued):

- Past service costs from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment.
- On April 1, 2000, the Corporation adopted the accounting standard on employee future benefits using the prospective application method. The Corporation is amortizing the transitional pension obligation or asset on a straight-line basis over 10 and 13 years for the two defined benefit plans, and 8 to 15 years for the other retirement and post-employment benefits which represent the average remaining service periods of the active employees expected to receive benefits under the pension benefit plans as of April 1, 2000.
- When a restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

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

(k) Derivative financial instruments:

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

When the Corporation utilizes derivatives in hedge accounting relationships, such as for its interest rate swap contract (note 7), 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. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. Any derivative instrument that does not qualify for hedge accounting is marked-to-market at each reporting date and the gains or losses are included in earnings. As at March 31, 2007, all outstanding forward foreign exchange contracts were reported on a mark-to-market basis, and the gains or losses were included in earnings. The Corporation elected not to follow hedge accounting for these derivatives (note 14).

(In thousands of dollars)

2. Significant accounting policies (continued):

(l) Future accounting changes:

The Canadian Institute of Chartered Accountants has issued accounting recommendations related to financial instruments that will come into effect for the Corporation's fiscal 2008 financial statements. In particular, Section 3855, *Financial Instruments – Recognition and Measurement*, sets out criteria for the recognition, measurement and classification of financial instruments. The Corporation will be required to categorize its financial assets as held for trading, held-to-maturity, available-for-sale, or as loans and receivables. The related accounting treatment will be dependent on the classification. Financial assets categorized as held for trading or available-for-sale are to be measured at fair value while financial assets held-to-maturity, loans and receivables are measured at amortized cost.

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 (BA) and commercial paper) with an original maturity of 90 days or less.

Cash and cash equivalents include $1,627 (2006 - $916) that is restricted for captive insurance operations.

4. Investments:

All of the investments are restricted for captive insurance operations.

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

	2007 Amortized cost	2007 Fair value	2006 Amortized cost	2006 Fair value
Short-term notes	$ 5,492	$ 5,509	$ 3,973	$ 3,977
Fixed interest securities	210,916	215,217	198,778	199,578
Equity securities	34,545	52,739	36,642	52,723
	$ 250,953	$ 273,465	$ 239,393	$ 256,278

The fixed interest securities have contractual maturities from 5 to 10 years at rates ranging from approximately 3.4% to 11% (2006 - 3.6% to 11%).

(In thousands of dollars)

5. Capital assets:

	Cost	Accumulated amortization	2007 Net book value	2006 Net book value
Building	$ 105,433	$ 19,037	$ 86,396	$ 87,306
Machinery and equipment	57,323	31,716	25,607	25,927
Land	9,704	-	9,704	9,704
Furniture and office equipment	15,606	8,280	7,326	6,856
Leasehold improvements	13,474	7,344	6,130	6,651
Computer equipment	29,229	23,625	5,604	5,986
Motor vehicles	9,782	5,499	4,283	4,794
Computer software	19,174	16,381	2,793	3,993
Furniture and office equipment under capital lease	1,535	1,345	190	507
Assets under construction	754	-	754	989
	262,014	113,227	148,787	152,713
Right to the blood supply system	35,203	7,480	27,723	28,603
	$ 297,217	$ 120,707	$ 176,510	$ 181,316

During the year, capital assets were acquired at an aggregate cost of $14,067 (2006 - $20,916) of which $5 (2006 - $15) were acquired by means of capital lease. Cash payments of $13,992 (2006 - $20,242) were made to purchase capital assets.

Cost and accumulated amortization at March 31, 2006 amounted to $285,110 and $103,794 respectively.

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:

	2007	2006
Year ended March 31:		
2007	$ -	$ 376
2008	189	188
	189	564
Less amount representing interest	5	35
	184	529
Current portion of obligations under capital lease	184	346
	$ -	$ 183

(In thousands of dollars)

7. Credit facilities:

(a) Long-term debt:

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

	2007	2006
A collateral mortgage agreement bearing interest at BA plus 0.33%, requiring minimum annual principal repayments of $1,000 with the balance due in 2010, secured by the WBTSC.	$ 17,000	$ 18,000
Less current portion	1,000	1,000
	$ 16,000	$ 17,000

As at March 31, 2007, 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. The difference between the swap rate and the actual rate is recognized as an adjustment to interest expense on long-term debt.

(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, 2007, no amounts had been borrowed under these facilities.

(c) Letter of credit:

During the year, the Corporation retired a stand-by letter of credit facility which was previously established to meet certain regulatory capital requirements related to one of its captive insurance subsidiaries (2006 - $50,000).

(In thousands of dollars)

8. Deferred contributions:

(a) Expenses of future periods:`

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

		2007		2006
Balance, beginning of year	$	118,801	$	125,380
Increase (decrease) in amounts received related to future periods		20,190		(128)
Less amounts recognized as revenue in the year		(8,559)		(6,416)
Less capital assets purchased from deferred contributions		(251)		(203)
Add income earned on resources restricted for transition		232		168
	$	130,413	$	118,801

The capital assets purchased represent capital assets purchased with contributions that were deferred at March 31, 2006.

(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.

		2007		2006
Balance, beginning of year	$	154,186	$	149,668
Capital assets purchased		13,901		20,916
Capital funding received for repayment of WBTSC loan		1,000		1,000
Capital funding received for leased assets		324		310
Less capital assets sold		(626)		(77)
Less amounts amortized to revenue		(18,244)		(17,631)
	$	150,541	$	154,186

Included in capital assets purchased of $13,901 (2006 - $20,916) is $251 (2006 - $203) of capital assets that were purchased using contributions deferred for expenses of future periods at March 31, 2006. Also included in the balance is $909 (2006 - $1,069) restricted for future capital asset purchases related to the WBTSC.

(In thousands of dollars)

8. Deferred contributions (continued):

(c) Captive insurance:

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

	2007	2006
Balance, beginning of year	$ 7,397	$ 7,397
Comprehensive Blood Risk contributions	90	15,000
Other insurance risk contributions	474	490
Less amounts amortized to revenue (note 13)	(7,941)	(15,490)
	$ 20	$ 7,397

9. Net assets:

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:

	2007	2006
Income earned on unrestricted funds	$ 6,569	$ 4,176
Income earned on resources restricted for captive insurance	11,328	25,997
Income earned on resources restricted for transition	232	168
	18,129	30,341
Less amounts deferred	(232)	(168)
	$ 17,897	$ 30,173

(In thousands of dollars)

11. Employee benefits:

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

(a) Defined benefit plans:

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

	2007	2006
Accrued benefit obligation	$ 139,987	$ 123,556
Fair value of plan assets	134,003	112,565
Funded status - deficit	(5,984)	(10,991)
Balance of unamortized amounts	5,117	8,959
Accrued benefit liability	$ (867)	$ (2,032)

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

The percentage of the fair value of the two plans assets by major category are as follows: equity securities 62% and 60% (2006 - 64% and 65%); debt securities 38% and 33% (2006 - 36% and 34%); and other 0% and 7% (2006 - 0% and 2%).

The difference between the accrued benefit liability of $867 (2006 - $2,032) recorded on the Corporation's consolidated statement of financial position and the actuarially determined fund deficit of $5,984 (2006 - $10,991) 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.

(In thousands of dollars)

11. Employee benefits (continued):

(a) Defined benefit plans (continued):

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.

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

	2007	2006
Accrued benefit obligation:		
Discount rate	5.25%	5.25%
Rate of compensation increase	4.25%	4.25%
Benefit cost:		
Discount rate	5.25%	5.75% - 6.00%
Expected long-term rate of return on plan assets	7.00%	7.00%
Rate of compensation increase	4.25%	4.25%

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

	2007	2006
Employer contributions	$ 8,415	$ 6,252
Employee contributions	4,657	4,375
Benefits paid	3,825	3,449

(b) Pension plan expense:

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

	2007	2006
Defined benefit plans	$ 7,251	$ 6,733
Defined contribution plan	4,756	4,783
	$ 12,007	$ 11,516

(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:

	2007	2006
Accrued benefit obligation	$ 15,499	$ 18,111
Accrued benefit liability	(14,104)	(12,360)
Benefits paid	329	215
Net expense	2,073	2,449

Included in the above-noted benefit obligation, is $3,291 (2006 - $3,823), which represents the unamortized transitional obligation. This amount is being amortized over the average remaining service periods of the active employees expected to receive benefits under the pension benefit plans as of April 1, 2000.

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

	2007	2006
Accrued benefit obligation:		
Discount rate	5.00% - 5.25%	5.00% - 5.50%
Rate of compensation increase	4.25%	5.70%
Benefit cost:		
Discount rate	5.00% - 5.50%	5.25% - 6.00%
Rate of compensation increase	4.25%	5.70%

Hospital costs – 7.5% per annum, with ultimate rate of 4.5% reached in 2013, starting in 2007;

Drug costs – 8.33% per annum, with ultimate rate of 5.0% reached in 2013, starting in 2007;

Other health costs – 4.0% per annum.

Year ended March 31, 2007, with comparative figures for 2006
(In thousands of dollars)

12. Canadian Blood Services revenues and expenditures detail

	Plasma Protein Product Program		Blood Operations		Patient Services		UBMDR		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Revenues:										
Members contributions	$ 404,081	$ 387,108	$ 421,237	$ 404,300	$ 14,371	$ 13,332	$ 7,300	$ 7,000	$ 846,989	$ 811,740
Less deferred amounts	-	-	(22,333)	(20,525)	(682)	(608)	-	-	(23,015)	(21,133)
	404,081	387,108	398,904	383,775	13,689	12,724	7,300	7,000	823,974	790,607
Amortization of previously deferred contributions:										
Relating to capital assets	-	-	18,870	17,708	-	-	-	-	18,870	17,708
Relating to operations	-	-	8,559	6,416	-	-	-	-	8,559	6,416
Total contributions recognized as revenue	404,081	387,108	426,333	407,899	13,689	12,724	7,300	7,000	851,403	814,731
Other revenues:										
UBMDR international revenue	-	-	-	-	-	-	7,700	6,119	7,700	6,119
Investment income (note 10)	-	-	6,569	4,176	-	-	-	-	6,569	4,176
Other income	-	-	2,093	382	-	-	-	-	2,093	382
Total revenues	**404,081**	**387,108**	**434,995**	**412,457**	**13,689**	**12,724**	**15,000**	**13,119**	**867,765**	**825,408**
Expenses:										
Cost of plasma protein products	395,502	379,931	-	-	-	-	-	-	395,502	379,931
Staff costs	1,703	1,570	241,376	229,407	10,266	9,694	3,220	3,097	256,565	243,768
General and administrative	5,876	4,608	90,837	80,811	1,177	1,535	9,614	9,135	107,504	96,089
Medical supplies	1,000	999	80,299	81,516	2,246	2,089	1,003	1,174	84,548	85,778
Amortization	-	-	18,244	17,631	-	-	-	-	18,244	17,631
Total expenses	**404,081**	**387,108**	**430,756**	**409,365**	**13,689**	**13,318**	**13,837**	**13,406**	**862,363**	**823,197**
Excess of revenues over expenses	**$ -**	**$ -**	**$ 4,239**	**$ 3,092**	**$ -**	**$ (594)**	**$ 1,163**	**$ (287)**	**$ 5,402**	**$ 2,211**

(In thousands of dollars)

13. Insurance:

The Corporation has established two wholly-owned captive insurance Corporations, CBS Insurance Corporation Limited (CBSI) and Canadian Blood Services Captive Insurance Company (CBSE). CBSI provides insurance coverage up to $250,000 with respect to risks associated with the operation of the blood system. CBSE has entered into an arrangement whereby there is a guarantee and indemnification by the Members of the Corporation in the amount of $750,000 in excess of the $250,000 provided by the insurance coverage from CBSI. No payment shall be made until the primary policy in CBSI, in the amount of $250,000, has been exhausted. As a result, the Corporation has $1,000,000 coverage through an insurance policy of $250,000 and an indemnification from the members of $750,000. Previously, the additional coverage of $750,000 had been arranged through reinsurance markets on an 84.5% quota share basis. As a result, the Corporation had retained 15.5% of the insurance risk associated with the additional coverage.

To meet certain regulatory capital requirements related to CBSI, the Corporation had established a committed, stand-by letter of credit facility. During the year, the stand-by letter was retired (2006 - $50,000).

Insurance income includes the results of operations of two subsidiaries.

	2007 CBSI	2007 CBSE	2007 Total	2006 CBSI
Gross premium written and earned	$ 7,921	$ 40	$ 7,961	$ 15,490
Change in unearned premium	-	(20)	(20)	-
	7,921	20	7,941	15,490
Reinsurance premiums ceded	-	-	-	(12,147)
Change in prepaid reinsurance premium	(5,990)	-	(5,990)	-
Net premiums earned	1,931	20	1,951	3,343
Investment income	11,325	3	11,328	25,997
Other income	197	-	197	322
	13,453	23	13,476	29,662
Expenses:				
Increase in provision for future insurance claims	2,011	-	2,011	24,126
General and administrative	788	21	809	877
	2,799	21	2,820	25,003
Net insurance income	$ 10,654	$ 2	$ 10,656	$ 4,659

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, 2007.

13. Insurance (continued):

A significant proportion of both the future claims expense for the period and the related cumulative estimated liability at March 31, 2007 of $200,225 (2006 - $198,214) 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.

During the year, the Corporation 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 are matched with anticipated future purchase of foreign currencies. The Corporation did not designate its foreign exchange forward contracts as hedges of firm commitments or anticipated transactions in accordance with AcG-13 and accordingly did not use hedge accounting. As a result of this, the foreign exchange forward contracts are recorded on 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. At March 31, 2007, the Corporation had purchased contracts to buy US $56,000 over the next twelve months with an average exchange rate of 1.1546. The fair value of the foreign forward exchange contracts of $275 is reported on the statement of financial position in accounts payable and accrued liabilities.

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 $984 (2006 - unfavourable by $1,288).

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 the amounts required to realize favourable contract or settle unfavourable contracts given current foreign exchange rates.

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 the Corporation.

16. Commitments:

At March 31, 2007, the Corporation had the following contractual commitments:

(a) Future minimum payments under operating leases of approximately $19,483 with payments in each of the next five years of: 2008 - $3,982; 2009 - $3,438; 2010 - $2,711; 2011 - $1,850; 2012 - $1,521; and thereafter $5,981.

(b) Research and development project grants of approximately $9,889.

17. Research and Development:

For the year ended March 31, 2007, the Corporation incurred $9,121 of expenses related to research and development (2006 - $8,042), these cost are included within blood operations on the consolidated statement of operations.

(In thousands of dollars)

18. 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 the Corporation. The Corporation exercises control over the Foundation by virtue of its ability to influence the Foundation's strategic, operating, investing and financing policies. As of March 31, 2007, the balance owing to the Corporation by the Foundation of $1,771 was forgiven. Effective April 1, 2007, all fundraising activities carried out by the Foundation will be transferred back to the Corporation.

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

	2007	2006
Financial Position:		
Total assets	$ -	$ 314
Total liabilities	$ -	$ 1,510
Total net asset deficiency	-	(1,196)
	$ -	$ 314
Results of operations:		
Total revenue	$ 297	$ 310
Total expenses	872	777
Debt forgiveness	(1,771)	-
Surplus (deficiency) of revenue over expenses	1,196	(467)
Net asset deficiency, beginning of year	(1,196)	(729)
Net asset deficiency, end of year	$ -	$ (1,196)

19. Related party transactions:

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