

HÉMA-QUÉBEC

FINANCIAL STATEMENTS

for the year ended March 31, 2002

TABLE OF CONTENTS

Management's report	21
Auditor's report	22
Financial statements	
Operating results	23
Surplus	23
Balance sheets	24
Cash flows	25
Complementary notes	26

MANAGEMENT'S REPORT

The financial statements of HÉMA-QUÉBEC were prepared by management, which is responsible for their preparation and presentation, including some amounts that are based on best estimates and judgments of management. This responsibility includes the choice of appropriate accounting policies in conformity with Canadian generally accepted accounting principles. The financial information presented elsewhere in this annual activity report is consistent with that in the financial statements.

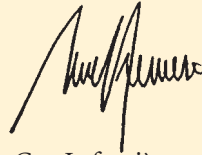
In order to discharge its responsibilities, management maintains a system of internal accounting controls that will allow it to produce reliable financial statements and that are designed to provide reasonable assurance that assets are protected and that transactions are duly approved and accounted for correctly and in the delays required.

HÉMA-QUÉBEC recognizes that it is responsible for managing its affairs in conformity with the laws and regulations governing it.

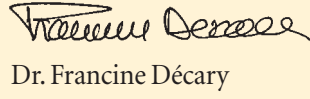
Actuaries from the firm of Morneau Sobeco have been appointed as consultants to HÉMA-QUÉBEC employees' private pension plan.

The Board of Directors must monitor the manner in which management carries out its responsibilities in relation to financial information and it has approved these financial statements.

The Auditor General of Québec has audited the financial statements of HÉMA-QUÉBEC in accordance with Canadian generally accepted auditing standards, and the auditor's report reveals the nature and extent of the audit and the statement of the auditor's opinion. The Auditor General can, without any restriction whatsoever, meet with the Board of Directors to discuss any aspect of the audit.



Guy Lafrenière
*Senior Director,
Administration and Finance*



Dr. Francine Décary
Executive Director

Saint-Laurent, June 11, 2002

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheets of HÉMA-QUÉBEC as at March 31, 2002, and the statements of operating results and surplus, as well as the statement of cash flows for the financial year ended on that date. These financial statements are the responsibility of the management of HÉMA-QUÉBEC. My responsibility is to express an opinion on these financial statements based on my audit.

My audit has been conducted in accordance with Canadian generally accepted auditing standards. Those standards require that the audit be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of HÉMA-QUÉBEC as of March 31, 2002, and the results of its operations and its cash flows for the financial year ended on that date, in accordance with Canadian generally accepted accounting principles. In compliance with the requirements of the *Auditor General Act* (R.S.Q., Chapter V-5.01), I declare that, in my opinion, these principles have been applied in the same manner as during the preceding financial year.



Doris Paradis, CA

Acting Auditor General of Québec

Québec City, June 11, 2002

OPERATING RESULTS*for the year ended March 31***Revenue**

	2002	2001
Grant from the Government of Québec	\$ 204,383,869	\$ 173,778,863
Blood products sold outside Québec	38,907	106,339
Interest on bank deposits and other	268,234	261,446
Other income	658,908	311,004
	\$ 205,349,918	\$ 174,457,652

Expenses (Note 3)	\$ 205,349,918	\$ 174,457,652
--------------------------	-----------------------	-----------------------

SURPLUS*for the year ended March 31*

	2002	2001
Surplus at Beginning	\$ 845,204	\$ 845,204
Net asset transferred from the Centre de conservation de tissus humains du Québec (Note 4)	105,314	—
Surplus at End	\$ 950,518	\$ 845,204

BALANCE SHEETS*as at March 31***Assets**

	2002	2001
Short-term		
Cash	\$ 679,093	\$ —
Term deposits	—	519,486
Receivables (Note 5)	3,116,304	1,898,042
Grant forthcoming from the Government of Québec	990,970	12,058,363
Inventory (Note 6)	9,242,705	7,105,503
Prepaid expenses (Note 7)	2,036,498	1,373,775
	16,065,570	22,955,169
Fixed assets (Note 8)	40,946,461	27,486,723
	\$ 57,012,031	\$ 50,441,892

Liabilities**Short-term**


Bank overdraft (Note 9)	\$ —	\$ 8,540,434
Accounts payable and accrued expenses (Note 10)	17,159,377	13,344,649
Payment on long-term debt (Note 11)	4,388,808	3,806,290
	21,548,185	25,691,373
Long-term debt (Note 11)	31,624,760	22,213,071
Liabilities under the provisions of accrued benefits (Note 12)	2,888,568	1,692,244
Surplus	950,518	845,204
	\$ 57,012,031	\$ 50,441,892

Commitments (Note 13)

For the Board of Directors



Director



Director

CASH FLOWS*for the year ended March 31*

	2002	2001
OPERATING ACTIVITIES		
Cash and cash equivalent-neutral operating result items		
Fixed assets depreciation	\$ 4,436,624	\$ 4,159,370
Loss (gain) on capital disposals	(65,499)	5,576
Liability on the account of accrued benefits	1,196,324	1,692,244
	5,567,449	5,857,190
Changes in non-cash working capital		
Reduction (increase) in receivables	(1,208,616)	1,393,499
Reduction (increase) in amount of grant forthcoming from Government of Québec	11,067,393	(6,558,363)
Increase in inventory	(2,137,202)	(1,574,982)
Increase in pre-paid expenses	(662,723)	(196,187)
Increase in payables and accrued liabilities	3,789,902	82,095
Cash flow from (used for) operating activities	16,416,203	(996,748)
INVESTING ACTIVITIES		
Capital acquisitions	(17,848,642)	(5,646,669)
Proceeds from disposal of capital property	106,997	137,918
Cash flow from investing activities	(17,741,645)	(5,508,751)
FINANCING ACTIVITIES		
Long-term debt	15,385,023	7,410,771
Settlement of long-term debt	(5,390,816)	(3,064,738)
Cash flow from financing activities	9,994,207	4,346,033
Cash transferred from Centre de conservation de tissus humains du Québec	31,276	—
Increase (reduction) in cash and cash equivalents	8,700,041	(2,159,466)
Cash and cash equivalents at beginning	(8,020,948)	(5,861,482)
Cash and cash equivalents at end	\$ 679,093	\$ (8,020,948)
Cash and cash equivalents are made up of the following items:		
Cash	\$ 679,093	\$ —
Fixed-term deposits	—	519,486
Bank overdraft	—	(8,540,434)
	\$ 679,093	\$ (8,020,948)
Interest paid	\$ 1,725,874	\$ 1,560,445

COMPLEMENTARY NOTES

March 31, 2002

1. INCORPORATION AND FUNCTIONS

HÉMA-QUÉBEC, constituted on March 26, 1998, by letters patent issued under Part III of the *Companies Act* (R.S.Q., Chapter C-38), is continued in accordance with the provisions of the *Act respecting HÉMA-QUÉBEC and the Haemovigilance Committee* (S.Q. 1998, Chapter C-41). HÉMA-QUÉBEC is a non-profit legal entity whose mission is to provide Quebeckers and their health and social services establishments with an adequate supply of blood, blood products and blood components.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of HÉMA-QUÉBEC have been prepared by management in conformity with Canadian generally accepted accounting principles. These statements include some amounts that are based on best estimates and judgments.

Inventory

The inventory of fractionation products and of collection and laboratory equipment is evaluated at the lesser of cost or replacement value, the cost being determined according to the average cost method.

Fixed Assets

Fixed assets are recorded at cost. Depreciation is calculated in terms of the economic life of these fixed assets, according to the straight-line depreciation method and at the following rates:

Building	4%
Physical improvements	5%
Leasehold improvements	length of lease
Automotive equipment	33 $\frac{1}{3}$ %
Machinery and equipment	10% and 20%
Office furniture and equipment	33 $\frac{1}{3}$ %
Computer equipment	33 $\frac{1}{3}$ %
Computer software	20%
Intangible assets	10%

2. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Employee Benefit Plans

HÉMA-QUÉBEC accounts for the obligations stemming from its employee benefit plans, as well as related costs, after deducting plan assets. To this end, HÉMA-QUÉBEC has adopted the following agreements.

Pension costs and other retirement benefits earned by employees are actuarially determined using the projected benefit method pro-rated on service and based on management's best estimates of expected plan investment performance, salary escalation, retirement ages of employees and anticipated health care costs.

For purposes of calculating the anticipated yield of benefit plan assets, such assets are evaluated at their fair value.

The experience loss on 10% of the obligations for pension benefits is amortized over the expected average remaining service period of active employees. The provisional obligation is amortized over the expected average remaining service period of active employees. The average remaining service period of employees covered by the pension plan is 17 years. The average remaining service period of active employees covered by the supplementary retirement benefit plan is 13 years.

Cash and Cash Equivalents

HÉMA-QUÉBEC's policy is to present bank balances—including bank overdrafts whose balances often fluctuate between the overdraft, the available investments and the temporary investments whose maturity dates do not exceed three months from their acquisition dates—in cash and cash equivalents.

3. EXPENSES BY RESPONSIBILITY CENTRE

	Recruiting, marketing and promotion	Procurement	Production	Distribution	Medical services	Medical affairs	Quality and standards
Wages	\$ 591,661	\$ 16,188,922	\$ 7,321,753	\$ 3,822,372	\$ 1,354,595	\$ 2,006,073	\$ 903,479
Fringe benefits	103,607	2,841,042	1,267,738	682,520	244,066	358,520	159,409
Travel expenses	58,426	1,574,540	60,721	1,158,396	29,797	82,012	87,398
Medical and laboratory supplies	(4,658)	13,630,556	9,509,764	183,781	760,858	14,239	1,982
Blood products purchased outside Québec	—	—	22,714	—	—	—	—
Bought-in services	352,894	144,283	399,539	6,514	19,766	99,170	106,314
Communications	3,050,028	711,009	4,302	66,329	5,000	10,849	4,121
Automotive equipment purchases	146	31,117	55,437	1,500,048	712	165	127
Equipment rentals	1,954	89,514	63,698	726,940	3,667	14,633	4,470
Rent	—	—	—	—	—	138,320	—
Taxes	—	—	—	—	—	—	—
Office expenses	335,733	400,958	478,231	151,830	89,055	120,200	25,301
Professional liability insurance	—	—	22,003	—	—	—	—
Property, director and senior management insurance	—	—	—	—	—	—	—
Fixed assets depreciation	58,092	387,163	365,564	116,041	86,313	72,918	35,440
Interest on advances and bank charges	—	—	—	—	—	—	—
Interest on long-term debt	—	—	—	—	—	—	—
Subtotal	\$ 4,547,883	\$ 35,999,104	\$ 19,571,464	\$ 8,414,771	\$ 2,593,829	\$ 2,917,099	\$ 1,328,041
Plasma for fractionation*	—	—	—	—	—	—	—
Total	\$ 4,547,883	\$ 35,999,104	\$ 19,571,464	\$ 8,414,771	\$ 2,593,829	\$ 2,917,099	\$ 1,328,041

*HÉMA-QUÉBEC has two major areas of activity: labile products and fractionation products.

Some expenses related to collecting plasma for fractionation are incurred for labile products and reallocated to fractionation products on the basis of costs incurred. Costs are allocated according to the number of units delivered.

						2002	2001
Research and development	Information technology	Administration	Operation of physical plant	Labile subtotal	Fractionation products	Total	Total
\$ 1,909,320	\$ 1,833,995	\$ 3,797,579	\$ 385,668	\$ 40,115,417	\$ 47,677	\$ 40,163,094	\$ 37,451,870
311,593	307,579	1,870,336	70,433	8,216,843	8,960	8,225,803	6,443,632
101,100	110,603	279,415	43,079	3,585,487	19,631	3,605,118	3,607,689
503,778	(2,379)	(11,482)	200,488	24,786,927	102,140,445	126,927,372	102,964,791
—	—	—	—	22,714	—	22,714	240,806
157,358	208,357	1,520,935	1,369,978	4,385,108	138,468	4,523,576	5,080,949
2,735	504,562	21,696	15,174	4,395,805	1,445	4,397,250	3,852,514
477	382	205	282	1,589,098	72,124	1,661,222	1,103,535
8,355	16,179	10,768	42,386	982,564	—	982,564	1,034,090
—	—	—	1,896,913	2,035,233	—	2,035,233	1,698,291
—	—	—	57,400	57,400	—	57,400	(43,642)
104,447	902,060	413,345	873,962	3,895,122	6,946	3,902,068	3,266,297
—	—	2,597,666	—	2,619,669	—	2,619,669	1,912,506
—	—	54,727	—	54,727	—	54,727	76,618
149,291	1,510,619	1,053,180	601,262	4,435,883	741	4,436,624	4,159,370
—	—	324,446	—	324,446	—	324,446	155,606
—	—	1,411,038	—	1,411,038	—	1,411,038	1,452,730
\$ 3,248,454	\$ 5,391,957	\$ 13,343,854	\$ 5,557,025	\$ 102,913,481	\$ 102,436,437	\$ 205,349,918	\$ 174,457,652
—	—	—	—	(8,057,989)	8,057,989	—	—
\$ 3,248,454	\$ 5,391,957	\$ 13,343,854	\$ 5,557,025	\$ 94,855,492	\$ 110,494,426	\$ 205,349,918	\$ 174,457,652

4. NET ASSET TRANSFERRED FROM THE CENTRE DE CONSERVATION DE TISSUS HUMAINS DU QUÉBEC

Further to the approval of the Ministère de la Santé et des Services sociaux, as at December 18, 2001, responsibility for the operations of the Centre de conservation de tissus humains du Québec (Québec Human Tissue Conservation Centre) was transferred to HÉMA-QUÉBEC. Consequently, all of this organization's assets and liabilities were allocated to HÉMA-QUÉBEC at book value. They are broken down as follows:

Cash	\$ 31,276
Accounts receivable	9,646
Fixed assets	89,218
Accounts payable and accrued liabilities	(24,826)
Net asset	\$ 105,314

5. RECEIVABLES

	2002	2001
Customers	\$ 781,222	\$ 916,639
Sales taxes	2,335,082	981,403
	\$ 3,116,304	\$ 1,898,042

5. INVENTORY

	2002	2001
Fractionation products and substitutes	\$ 5,284,123	\$ 4,612,452
Collection equipment	3,669,855	2,195,019
Laboratory equipment	288,727	298,032
	\$ 9,242,705	\$ 7,105,503

7. PREPAID EXPENSES

	2002	2001
Insurance	\$ 1,664,621	\$ 962,587
Other	371,877	411,188
	\$ 2,036,498	\$ 1,373,775

8. FIXED ASSETS

	2002			2001
	Cost	Accumulated Depreciation	Net Value	Net Value
Land	\$ 2,139,500	\$ —	\$ 2,139,500	\$ 2,139,500
Building*	20,534,565	476,000	20,058,565	6,413,918
Physical improvements	3,809,289	323,370	3,485,919	3,308,576
Leasehold improvements	1,001,410	556,058	445,352	331,243
Automotive equipment	117,893	89,140	28,753	90,671
Machinery and equipment	7,238,609	1,896,649	5,341,960	3,718,326
Office furniture and equipment	1,787,836	1,298,035	489,801	678,766
Computer equipment	3,981,561	2,785,147	1,196,414	1,874,504
Computer software	3,478,759	1,568,562	1,910,197	2,181,219
Intangible assets**	9,000,000	3,150,000	5,850,000	6,750,000
	\$ 53,089,422	\$ 12,142,961	\$ 40,946,461	\$ 27,486,723

*On May 11, 2000, the Government of Québec authorized the construction of new laboratories at 4045 Côte-Vertu Boulevard in Saint-Laurent, for the purpose of transferring operations presently located at 3131 Sherbrooke Street East in Montréal. The total cost for this construction project will be \$17,832,793 including taxes. Anticipated completion date for the project is May 2002.

The accumulated project costs as at March 31, 2002, including the laboratories, stood at \$17,134,565 net of taxes, and are included under Building. Amortization of this capital asset will begin when the project is completed.

**Intangible assets include databases for blood-product management, royalties, trademarks, the unrelated bone marrow donor registry, fees linked to blood drive programs, transfer of operational and prescribed processes, as well as blood-product and tissue samples. All of these assets were acquired for a lump-sum amount of \$9,000,000 from the Canadian Red Cross Society on September 28, 1998.

9. BANK OVERDRAFT

As at March 31, 2002, HÉMA-QUÉBEC had a revolving line of credit of \$9,500,000 bearing interest at the prime rate less 0.50%.

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	2002	2001
Suppliers	\$ 13,279,360	\$ 10,395,348
Salaries and fringe benefits	3,880,017	2,949,301
	\$ 17,159,377	\$ 13,344,649

11. LONG-TERM DEBT

	2002	2001
Loan, secured by the land and the building, with a net book value of \$5,063,500, repayable by monthly installments totalling \$36,337, including capital and interest at a fixed rate of 6.19%, renewable in 2008 and falling due in 2023	\$ 5,193,992	\$ 5,305,586
Loans, repayable by monthly installments totalling \$387,098, including capital and interest at fixed rates varying from 5.62% to 6.82%, falling due between 2003 and 2008	15,482,791	19,181,760
Loans for interim financing, at rates varying from 2.16% to 5.45%, convertible into term loans at matching rates in June 2002*	15,336,785	1,532,015
	36,013,568	26,019,361
Payments falling due within one year	(4,388,808)	(3,806,290)
	\$ 31,624,760	\$ 22,213,071

* According to a service offer signed on May 16, 2002, bridging finance loans will be converted into a term loan repayable in monthly installments of \$53,783 plus interest, falling due in 2027.

11. LONG-TERM DEBT (CONT.)

Repayments of capital on long-term debt to be made during the next five financial years are the following:

2003	\$ 4,388,808
2004	\$ 4,585,676
2005	\$ 3,934,327
2006	\$ 2,561,704
2007	\$ 1,846,712

12. FUTURE FRINGE BENEFITS

HÉMA-QUÉBEC has several defined benefit and money purchase plans that guarantee pensions, post-retirement benefits other than pensions and post-employment benefits to most employees.

HÉMA-QUÉBEC's net expenditures for the financial year for its benefit plans are as follows:

	Pension plans		Other plans	
	2002	2001	2002	2001
Defined benefit plans	\$ 910,300	\$ 748,600	\$ 1,393,482	\$ 1,160,945
Money purchase plans	\$ 574,800	\$ 455,200	\$ —	\$ —

12. FUTURE FRINGE BENEFITS (CONT.)

Information related to collective money-purchase pension plans, as at March 31, is as follows:

	Pension plans		Other plans	
	2002	2001	2002	2001
Obligations for accrued pension benefits	\$ 5,495,300	\$ 3,370,900	\$ 10,361,168	\$ 5,252,944
Fair value of assets at end of financial year	4,565,000	3,238,100	—	—
Funding situation—deficit	930,300	132,800	10,361,168	5,252,944
Non-depreciated experience loss	721,400	—	4,220,000	—
Outstanding provisional obligation	55,500	60,500	3,406,000	3,633,000
Liabilities for accrued pension benefits	\$ 153,400	\$ 72,300	\$ 2,735,168	\$ 1,619,944

Significant actuarial assumptions adopted by HÉMA-QUÉBEC to evaluate its obligations for accrued pension benefits are as follows:

	Pension plans	Other plans
Discount rate	7.00%	7.00%
Anticipated long-term rate of return for plan assets	7.75%	—
Rate of salary increase	4.00%	4.00%

For evaluation purposes, the hypothetical rate of annual increase in health-care costs covered for each participant has been fixed at 10% for the year 2002. According to the hypothesis chosen, this rate should gradually decrease, reaching 5% in 2010. The hypothetical rate of annual increase in the costs of other health-care costs, borne by participants, has been fixed at 3%.

12. FUTURE FRINGE BENEFITS (CONT.)

Other information for the financial year concerning HÉMA-QUÉBEC's defined benefit plans is as follows:

	Pension plans		Other plans	
	2002	2001	2002	2001
Contributions made by HÉMA-QUÉBEC during the financial year	\$ 829,200	\$ 676,300	\$ —	\$ —
Contributions made by employees during the financial year	\$ 916,100	\$ 733,600	\$ —	\$ —
Benefits paid	\$ 15,000	\$ 10,060	\$ 458,230	\$ 376,012

Following an agreement reached and ratified by the Court during the year 2000, the HÉMA-QUÉBEC employees' private pension plan will receive approximately an amount of \$4,824,000 from the Red Cross. This amount is to be used in accordance with the terms of the agreement ratified by the Court and will go toward, among other things, improvements to retirement benefits as well as correction of deficiencies noted during the transfer of Red Cross employees to HÉMA-QUÉBEC. The amount has been deposited in a trust account and will be paid to the pension plan as soon as the latter receives approval from tax authorities.

13. COMMITMENTS

HÉMA-QUÉBEC is committed to long-term leases, expiring on various dates until April 30, 2009, for its business and administrative premises and for automotive and other equipment. Leases for premises include, in some cases, an option to renew for five years. HÉMA-QUÉBEC has also committed itself to construction and renovation contracts.

Rental expenditures for the financial year ended March 31, 2002, were \$2,035,233 (\$1,698,291 in 2001) for premises and \$982,564 (\$1,034,090 in 2001) for automotive and other equipment. Future payments related to the construction of laboratories are of the order of \$971,320 for 2003. Minimum future payments with respect to long-term leases are as follows:

2003	\$ 1,622,042
2004	\$ 196,666
2005	\$ 174,907
2006	\$ 143,229
2007	\$ 137,280

14. TRANSACTIONS AMONG AFFILIATES

In addition to operations among affiliates already disclosed in the financial statements, HÉMA-QUÉBEC is affiliated with all government departments and special funds, as well as all organizations and enterprises controlled directly or indirectly by the Government of Québec or subjected either to joint control or to significant common influence on the part of the Government of Québec. HÉMA-QUÉBEC has not concluded any business transactions with these affiliates other than in the normal course of its activities and according to usual business terms. These operations are not disclosed separately in the financial statements.

15. COMPARATIVE FIGURES

Certain figures for 2001 have been reclassified in order to conform to the presentation adopted in 2002.