

Financial Statements of

**CANADIAN HEALTH
SERVICES RESEARCH
FOUNDATION**

Year ended December 31, 2005



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

Telephone (613) 212-KPMG (5764)
Fax (613) 212-2896
Internet www.kpmg.ca

AUDITORS' REPORT TO THE MEMBERS

We have audited the balance sheet of the Canadian Health Services Research Foundation as at December 31, 2005 and the statements of operations, changes in deferred contributions and cash flows for the year then ended. These financial statements are the responsibility of the Foundation'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 financial statements present fairly, in all material respects, the financial position of the Foundation as at December 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 on a basis consistent with that of the preceding year.

A handwritten signature in black ink that reads 'KPMG LLP'. The letters are written in a cursive, flowing style.

Chartered Accountants

Ottawa, Canada

February 17, 2006

CANADIAN HEALTH SERVICES RESEARCH FOUNDATION

Balance Sheet

December 31, 2005, with comparative figures for 2004

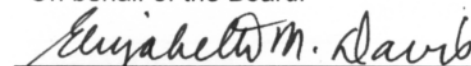
| | 2005 | 2004 |
|-------------------------|-----------------------|-----------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 2,622,257 | \$ 2,554,395 |
| Accounts receivable | 1,406,461 | 597,678 |
| Prepaid expenses | 126,083 | 242,759 |
| | <u>4,154,801</u> | <u>3,394,832</u> |
| Investments (note 2) | 109,479,592 | 117,048,061 |
| Capital assets (note 3) | 804,845 | 921,252 |
| Pension asset (note 4) | 4,866 | 28,884 |
| | <u>\$ 114,444,104</u> | <u>\$ 121,393,029</u> |

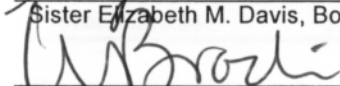
Liabilities and Deferred Contributions

| | | |
|---|-----------------------|-----------------------|
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 3,526,921 | \$ 4,356,625 |
| Deferred revenue (note 5) | 850,583 | 785,360 |
| Current portion of obligations under capital lease (note 6) | 34,557 | 33,209 |
| | <u>4,412,061</u> | <u>5,175,194</u> |
| Obligations under capital lease (note 6) | 64,514 | 99,071 |
| Deferred lease inducement | 188,173 | 210,754 |
| Deferred contributions (note 7): | | |
| Invested in capital assets | 705,774 | 788,972 |
| Core Fund | 77,916,526 | 80,952,731 |
| Nursing Research Fund | 9,585,502 | 11,174,498 |
| EXTRA Fund | 21,571,554 | 22,991,809 |
| | <u>109,779,356</u> | <u>115,908,010</u> |
| Commitments (note 11) | | |
| | <u>\$ 114,444,104</u> | <u>\$ 121,393,029</u> |

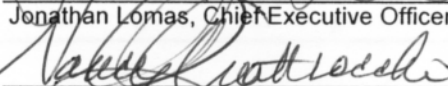
See accompanying notes to financial statements.

On behalf of the Board:


Sister Elizabeth M. Davis, Board Chair


Wendy Brodtkin, Board Member


Jonathan Lomas, Chief Executive Officer


Nancy Quattrocchi, Chief Administrative Officer

CANADIAN HEALTH SERVICES RESEARCH FOUNDATION

Statement of Operations

Year ended December 31, 2005, with comparative figures for 2004

| | Core Fund | Nursing Research Fund | EXTRA Fund | Total 2005 | Total 2004 |
|---|------------------|-----------------------------|------------------|-------------------|-------------------|
| Revenue: | | | | | |
| Revenue from co-sponsors | \$ 1,905,371 | \$ 1,513,368 | \$ 174,845 | \$ 3,593,584 | \$ 3,979,494 |
| Other revenue | 168,022 | 12,148 | 103,333 | 283,503 | – |
| Amortization of deferred contributions relating to operations of current year | 7,349,990 | 2,129,547 | 2,510,760 | 11,990,297 | 13,559,492 |
| Amortization of deferred contributions relating to capital assets | 191,293 | – | – | 191,293 | 177,896 |
| | <u>9,614,676</u> | <u>3,655,063</u> | <u>2,788,938</u> | <u>16,058,677</u> | <u>17,716,882</u> |
| Expenses: | | | | | |
| Strategic Objective 1.1 – Creating New Knowledge | 1,227,603 | 1,062,419 | – | 2,290,022 | 3,672,880 |
| Strategic Objective 1.2 – Capacity Development | 1,471,509 | 756,654 | – | 2,228,163 | 2,839,313 |
| Strategic Objective 2.0 – Dissemination | 568,357 | – | – | 568,357 | 587,946 |
| Strategic Objective 3.0 – Research Use | 683,929 | – | 2,079,291 | 2,763,220 | 2,493,916 |
| Strategic Objective 4.0 – Linkage and Exchange | 651,901 | – | – | 651,901 | 386,937 |
| Program support | 1,511,701 | – | – | 1,511,701 | 1,433,925 |
| Administration | 1,992,169 | 584 | – | 1,992,753 | 1,870,686 |
| | <u>8,107,169</u> | <u>1,819,657</u> | <u>2,079,291</u> | <u>12,006,117</u> | <u>13,285,603</u> |
| Amortization of capital assets | 191,293 | – | – | 191,293 | 177,896 |
| Investment management fees | 217,159 | 26,547 | 55,732 | 299,438 | 302,550 |
| Share of indirect costs | (774,561) | 295,491 | 479,070 | – | – |
| Total expenses of the Foundation | <u>7,741,060</u> | <u>2,141,695</u> | <u>2,614,093</u> | <u>12,496,848</u> | <u>13,766,049</u> |
| Co-sponsors' programs expenses | 1,873,616 | 1,513,368 | 174,845 | 3,561,829 | 3,950,833 |
| | <u>9,614,676</u> | <u>3,655,063</u> | <u>2,788,938</u> | <u>16,058,677</u> | <u>17,716,882</u> |
| Excess of revenue over expenses | \$ – | \$ – | \$ – | \$ – | \$ – |

See accompanying notes to financial statements.

CANADIAN HEALTH SERVICES RESEARCH FOUNDATION

Statement of Changes in Deferred Contributions

Year ended December 31, 2005, with comparative figures for 2004

| | Invested in Capital Assets | Core Fund | Nursing Research Fund | EXTRA Fund | Total 2005 | Total 2004 |
|--|----------------------------------|---------------|-----------------------------|---------------|----------------|----------------|
| Balance, beginning of year | \$ 788,972 | \$ 80,952,731 | \$ 11,174,498 | \$ 22,991,809 | \$ 115,908,010 | \$ 120,890,726 |
| Excess of revenue over expenses | – | – | – | – | – | – |
| Amortization of capital assets | (191,293) | – | – | – | (191,293) | (177,896) |
| Additions to capital assets | 79,905 | (79,905) | – | – | – | – |
| Loss on disposal of capital assets | (5,019) | 5,019 | – | – | – | – |
| Repayment of obligations under capital lease | 33,209 | (33,209) | – | – | – | – |
| Transfer of Open Grants Competition to CIHR | – | – | – | – | – | (2,938,866) |
| Amortization of deferred contributions | – | (7,349,990) | (2,129,547) | (2,510,760) | (11,990,297) | (13,559,492) |
| Investment income (note 8) | – | 4,421,880 | 540,551 | 1,090,505 | 6,052,936 | 11,693,538 |
| Balance, end of year | \$ 705,774 | \$ 77,916,526 | \$ 9,585,502 | \$ 21,571,554 | \$ 109,779,356 | \$ 115,908,010 |

See accompanying notes to financial statements.

CANADIAN HEALTH SERVICES RESEARCH FOUNDATION

Statement of Cash Flows

Year ended December 31, 2005, with comparative figures for 2004

| | 2005 | 2004 |
|---|--------------|--------------|
| Cash provided by (used in): | | |
| Operating: | | |
| Excess of revenues over expenses | \$ - | \$ - |
| Items not involving cash: | | |
| Amortization of capital assets | 191,293 | 177,896 |
| Amortization of deferred contributions relating to operations of current year | (11,990,297) | (13,559,492) |
| Amortization of deferred contributions relating to capital assets | (191,293) | (177,896) |
| Amortization of deferred lease inducement | (22,581) | (19,670) |
| Loss on disposal of capital assets | 5,019 | - |
| Decrease in pension asset | 24,018 | 25,918 |
| Increase in deferred lease inducement | - | 112,696 |
| Transfer of Open Grants Competition to CIHR | - | (2,938,866) |
| Change in non-cash operating working capital: | | |
| Decrease (increase) in accounts receivable | (808,783) | 849,574 |
| Decrease (increase) in prepaid expenses | 116,676 | (132,954) |
| Increase (decrease) in accounts payable and accrued liabilities | (829,704) | 3,569,451 |
| Increase (decrease) in deferred revenue | 65,223 | (128,484) |
| | (13,440,429) | (12,221,827) |
| Financing and investing: | | |
| Purchase of capital assets | (79,905) | (363,459) |
| Repayment of obligations under capital lease | (33,209) | (31,913) |
| Draws from investments | 13,484,000 | 14,850,000 |
| Investment related activity | 137,405 | 59,877 |
| | 13,508,291 | 14,514,505 |
| Increase in cash | 67,862 | 2,292,678 |
| Cash, beginning of year | 2,554,395 | 261,717 |
| Cash, end of year | \$ 2,622,257 | \$ 2,554,395 |

See accompanying notes to financial statements.

CANADIAN HEALTH SERVICES RESEARCH FOUNDATION

Notes to Financial Statements

Year ended December 31, 2005

The Canadian Health Services Research Foundation (the "Foundation") was established to enhance the quality and effectiveness of health care in Canada through the funding of health services research and the dissemination of knowledge. The Foundation is a registered charity under the Income Tax Act, and accordingly, is exempt from income taxes. The Foundation became operational in fiscal 1997 and is incorporated under the Canada Corporations Act.

Under the Federal Budget, 1996, the Government authorized Health Canada to pay \$55,000,000 to the Foundation over a five year period. As part of the same agreement, the Medical Research Council ("MRC") agreed to pay the Foundation \$10,000,000 and the Social Sciences and Humanities Research Council of Canada ("SSHRC") agreed to pay the Foundation \$1,500,000. In 1999, the Federal government granted \$35,000,000 to the Foundation for participation in the Canadian Institutes of Health Research and another \$25,000,000 to support a ten year nursing research fund. In 2003, the Government provided a grant of \$25,000,000 to the Foundation to implement the Executive Training for Research Application ("EXTRA") program over a 13 year period.

It is the Foundation's objective to use this funding to leverage contributions for research from external parties, especially decision makers in the health system. For this purpose, a number of third party co-sponsors are recruited and have agreed to contribute funds toward the research performed by applicants identified by the Foundation. These co-sponsor contributions are generally restricted to either researchers from or working on issues in a particular province or research in a particular theme. In 1999, the Foundation agreed to administer these funds for its third party co-sponsors if they so wished.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

(a) Fund accounting:

The accounts of the Foundation are maintained in accordance with the principles of fund accounting, applying the deferral method of accounting for not-for-profit organizations. Resources received and expended are classified for accounting and reporting purposes into funds according to objectives specified by donors.

(i) Core Fund:

The Core Fund reports revenue and expenses relating to research, program delivery and administrative activities.

CANADIAN HEALTH SERVICES RESEARCH FOUNDATION

Notes to Financial Statements, page 2

Year ended December 31, 2005

1. Significant accounting policies (continued):

(a) Fund accounting (continued):

(ii) Nursing Research Fund:

The Nursing Research Fund reports revenue and expenses directly relating to nursing research or research undertaken by nurses. Indirect costs, comprised of administrative expenses and amortization of capital assets, are allocated to the Nursing Research Fund based on the percentage of normalized costs directly attributable to the Fund.

(iii) Executive Training for Research Application Fund:

The Executive Training for Research Application ("EXTRA") Fund reports revenue and expenses directly relating to the EXTRA program. Indirect costs, comprised of administrative expenses and amortization of capital assets, are allocated to the EXTRA Fund based on the percentage of normalized costs directly attributable to the Fund.

(b) Revenue recognition:

Contributions are recognized as revenue of the appropriate fund in the year in which the related expenses are incurred.

Contributions applied towards the purchase of capital assets are deferred and amortized to revenue, at a rate corresponding with the amortization rate of the related capital assets.

The Foundation receives contributions from third-party co-sponsors to fund research initiatives. Revenue from co-sponsors is deferred and amortized to revenue as expenses are incurred.

Investment income earned on the Nursing Research Fund and EXTRA Fund that must be spent on research activities is recorded as an addition to the respective funds in the statement of changes in deferred contributions. Other investment income is recorded as an addition to the Core Fund.

(c) Investments:

Investments, other than derivative financial instruments, are recorded at cost. If the market value of investments becomes lower than cost and this decline in value is considered to be other than temporary, the investments are written-down to market value. Amortization of bond discounts or premiums are accrued over the life of the investments. The Foundation has an investment strategy for the Core Fund and the Nursing Research Fund which recommends a target investment asset mix of 35% fixed income investments, 35% equity investments and 30% marketable absolute return investments. The investment strategy for the EXTRA Fund is 100% fixed income investments.

CANADIAN HEALTH SERVICES RESEARCH FOUNDATION

Notes to Financial Statements, page 3

Year ended December 31, 2005

1. Significant accounting policies (continued):

(d) Derivative financial instruments:

The Foundation is party to certain derivative financial instruments, including a United States ("US") equity futures contract (used to obtain exposure to the US market) and a forward US-Canadian exchange contract (used to manage the US dollar currency exposure). These instruments are not recognized in the financial statements on inception. The carrying amounts of derivative financial instruments, comprised of unrealized gains and losses, are included with investments in the statement of financial position. Gains and losses are realized upon the settlement of the derivative financial instrument. There is an overlay program on the US Equity Futures Contract where a low volatility marketable absolute return investment is used to enhance the return of the Contract.

(e) Capital assets:

Purchased capital assets are recorded at cost. Assets acquired under capital leases are recorded at cost and amortized over the estimated life of the assets or over the lease term, as appropriate. Repair and maintenance costs are charged to expense. When a capital asset no longer contributes to the Foundation's ability to provide services, its carrying amount is written-down to its residual value.

Capital assets are amortized on a declining balance basis using the following annual rates:

| Asset | Rate |
|------------------------------|------------|
| Computer software | 100% |
| Computer and other equipment | 20% to 30% |
| Furniture | 20% |

Leasehold improvements are amortized on a declining balance basis over the shorter of the lease term or their estimated useful lives.

(f) Leases:

Leases are classified as either capital or operating in nature. Capital leases are those which substantially transfer the benefits and risks of ownership to the lessee. Assets acquired under capital leases are amortized at the rates as described in note 1(e). Obligations recorded under capital leases are reduced by the principal portion of lease payments. The imputed interest portion of lease payments is charged to expense.

CANADIAN HEALTH SERVICES RESEARCH FOUNDATION

Notes to Financial Statements, page 4

Year ended December 31, 2005

1. Significant accounting policies (continued):

(g) Deferred lease inducement:

The value received by the Foundation represented by a rent-free period relating to leased premises is deferred and amortized over the term of the lease.

(h) Employee future benefits:

The Foundation has a defined benefit pension plan for its employees. The benefits are based on years of service and the employee's compensation. The cost of this program is currently being funded by the Foundation and its eligible employees.

The cost of defined benefit pension benefits earned by employees is determined using the projected accrued benefit method prorated on service and is charged to operating expense as services are rendered. This cost is actuarially computed using the Foundation's best estimate assumptions of the pension plan's expected investment yields, salary escalations, mortality of members, terminations and the ages at which members will retire. Adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized over the expected average remaining service life of the employee group. The most recent actuarial valuation of the pension plan for funding purposes was as of January 1, 2003 and the next required valuation will be as of January 1, 2006.

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. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. 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.

(i) Foreign currency:

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the balance sheet date. Non-monetary assets and liabilities are translated at historic exchange rates. Revenue and expenses are translated at the exchange rates prevailing on the transaction date. Realized and unrealized exchange gains and losses are included in operations.

CANADIAN HEALTH SERVICES RESEARCH FOUNDATION

Notes to Financial Statements, page 5

Year ended December 31, 2005

1. Significant accounting policies (continued):

(j) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period they become known.

2. Investments:

| | 2005 | |
|----------------------------------|-----------------------|-----------------------|
| | Market Value | Carrying Value |
| Cash and cash equivalents | \$ 3,198,736 | \$ 3,198,736 |
| Equity securities | 59,455,099 | 54,833,916 |
| Fixed income securities | 57,045,178 | 50,475,312 |
| Derivative financial instruments | 971,628 | 971,628 |
| | <u>\$ 120,670,641</u> | <u>\$ 109,479,592</u> |

| | 2004 | |
|----------------------------------|-----------------------|-----------------------|
| | Market Value | Carrying Value |
| Cash and cash equivalents | \$ 22,580,951 | \$ 22,577,608 |
| Equity securities | 42,298,956 | 41,572,253 |
| Fixed income securities | 57,773,645 | 52,319,914 |
| Derivative financial instruments | 578,286 | 578,286 |
| | <u>\$ 123,231,838</u> | <u>\$ 117,048,061</u> |

CANADIAN HEALTH SERVICES RESEARCH FOUNDATION

Notes to Financial Statements, page 6

Year ended December 31, 2005

2. Investments (continued):

Investments are managed as a pool by investment managers who are under the direction of the Finance, Audit and Investment Committee reporting to the Board of Trustees. Investments include:

(a) Cash and cash equivalents:

Cash and cash equivalents are comprised of cash and debt securities with a variety of interest rates and having original maturity dates of less than 90 days.

(b) Equity securities:

Equity securities consist of common and preferred shares of publicly traded corporations or funds investing primarily in equity securities. These securities are subject to market value and exchange rate fluctuations.

(c) Fixed income securities:

Fixed income securities consist of Canadian and United States government and commercial bonds or funds investing primarily in fixed income securities with various interest rates and terms to maturity. The value of these securities is subject to interest rate and exchange rate fluctuations.

(d) Derivative financial instruments:

The Foundation has entered into an equity futures contract to obtain exposure to the US equity market and a forward exchange contract as part of a specific investment strategy of the Foundation designed to reduce its exposure to the US-Canadian dollar fluctuations.

The forward contract obliges the Foundation to sell US dollars and purchase Canadian dollars in the future at predetermined exchange rates. The amount of US currency exposure is determined by the Foundation's investment in United States securities. The Foundation's policy is to enter into forward exchange contracts for 45% to 55% of the US dollar exposure. It is the intent of the Foundation to meet any loss on the maturity of the forward contract by selling part of the US dollar investments.

CANADIAN HEALTH SERVICES RESEARCH FOUNDATION

Notes to Financial Statements, page 7

Year ended December 31, 2005

3. Capital assets:

| | 2005 | | 2004 | |
|-------------------------------|--------------|--------------------------|----------------|----------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Computer software | \$ 177,297 | \$ 174,117 | \$ 3,180 | \$ 14,163 |
| Computer and other equipment | 482,846 | 306,113 | 176,733 | 170,458 |
| Furniture | 293,156 | 154,271 | 138,885 | 171,003 |
| Leasehold improvements | 477,176 | 82,852 | 394,324 | 439,513 |
| | 1,430,475 | 717,353 | 713,122 | 795,137 |
| Equipment under capital lease | 171,975 | 80,252 | 91,723 | 126,115 |
| | \$ 1,602,450 | \$ 797,605 | \$ 804,845 | \$ 921,252 |

During the year, capital assets were acquired at an aggregate cost of \$79,905 (2004 - \$363,459), of which \$Nil (2004 - \$Nil) were funded by capital lease.

Cost and accumulated amortization at December 31, 2004 amounted to \$1,548,525 and \$627,273 respectively.

4. Pension asset:

The reconciliation of the funded status of the defined benefit pension plan to the amount recorded in the financial statements is as follows:

| | 2005 | 2004 |
|--------------------------------|--------------|--------------|
| Fair value of plan assets | \$ 2,826,591 | \$ 1,957,383 |
| Accrued benefit obligation | 3,161,313 | 2,265,858 |
| Funded status – plan deficit | (334,722) | (308,475) |
| Balance of unamortized amounts | 339,588 | 337,359 |
| Pension asset | \$ 4,866 | \$ 28,884 |

CANADIAN HEALTH SERVICES RESEARCH FOUNDATION

Notes to Financial Statements, page 8

Year ended December 31, 2005

4. Pension asset (continued):

The significant assumptions used in accounting for the defined benefit plan at December 31 are as follows:

| | 2005 | 2004 |
|--|-------|-------|
| Accrued benefit obligation as of December 31: | | |
| Discount rate | 5.02% | 5.75% |
| Rate of compensation increase | 3.50% | 3.50% |
| Benefit costs for years ended December 31: | | |
| Discount rate | 5.02% | 5.75% |
| Expected long-term rate of return on plan assets | 7.00% | 7.00% |
| Rate of compensation increase | 3.50% | 3.50% |

Employee future benefit costs recognized in the year:

| | 2005 | 2004 |
|--------------------------|------------|------------|
| Net benefit plan expense | \$ 341,895 | \$ 369,580 |

Total cash amounts recognized as paid or payable for employee future benefits, consisting of employer contributions to the defined benefit plan, were \$317,877 (2004 - \$309,635).

5. Deferred revenue:

The Foundation advances funds on behalf of its co-sponsors. In some cases, funding for the full competition is provided in advance to the Foundation. The Foundation recognizes revenue on behalf of its co-sponsors as the funds are disbursed.

Deferred revenue at year end is comprised of:

| | 2005 | 2004 |
|------------------------|------------|------------|
| CIHR | \$ 351,692 | \$ 290,361 |
| AHFMR Training Centers | – | 243,055 |
| OMHLTC | 372,492 | 161,388 |
| Other | 126,399 | 90,556 |
| | \$ 850,583 | \$ 785,360 |

CANADIAN HEALTH SERVICES RESEARCH FOUNDATION

Notes to Financial Statements, page 9

Year ended December 31, 2005

6. Obligations under capital lease:

Capital lease payments for the years ending December 31 are as follows:

| | | |
|--|----|-----------|
| 2006 | \$ | 38,006 |
| 2007 | | 38,006 |
| 2008 | | 29,133 |
| Total minimum lease payments | | 105,145 |
| Less amount representing interest at 4.00% | | 6,074 |
| Present value of minimum lease payments | | 99,071 |
| Current portion of obligations under capital lease | | 34,557 |
| | | \$ 64,514 |

7. Deferred contributions:

All of the deferred contributions of the Foundation are subject to externally imposed restrictions in accordance with the related funding agreements. Investment income earned on the grants received from the Government of Canada is also restricted. Accordingly, the net assets of the Foundation are deferred and taken into revenue as expenditures are made with no net asset balance outstanding at any time.

8. Investment income:

Investment income earned on the Foundation's assets consists of the following:

| | 2005 | 2004 |
|---|--------------|---------------|
| Interest | \$ 3,080,343 | \$ 3,539,504 |
| Gain on sale of investments | 3,041,297 | 7,513,650 |
| Gains on derivative financial instruments | 576,126 | 578,286 |
| Currency exchange surplus (loss) | (247,922) | 62,098 |
| Amortization of bond premiums | (396,908) | - |
| | \$ 6,052,936 | \$ 11,693,538 |

CANADIAN HEALTH SERVICES RESEARCH FOUNDATION

Notes to Financial Statements, page 10

Year ended December 31, 2005

9. Fair values of financial assets and financial liabilities:

The carrying values of cash, accounts receivable and accounts payable and accrued liabilities approximate fair values because of the relatively short period to maturity of the instrument.

The carrying value of the capital lease approximates its fair value as the interest rate inherent in the lease approximates the current rate of borrowing for the Foundation.

The value of investments is separately disclosed in note 2, and is approximated by market value as provided by the Foundation's investment advisers.

10. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

11. Commitments:

(a) Operating:

The Foundation is committed to payments under operating leases for premises as follows:

| | |
|---------------------|------------|
| 2006 | \$ 167,143 |
| 2007 | 167,143 |
| 2008 | 164,625 |
| 2009 | 176,610 |
| 2010 and thereafter | 731,310 |

\$ 1,406,831

In the normal course of business, the Foundation has entered into a lease agreement for the rental of their premises. It is common in such lease transactions for the Foundation as the lessee to agree to indemnify the lessor for liabilities that may arise from the use of the leased premises. The maximum amount potentially payable under the foregoing indemnities cannot be reasonably estimated. The Foundation has liability insurance that relates to the indemnifications described above.

CANADIAN HEALTH SERVICES RESEARCH FOUNDATION

Notes to Financial Statements, page 11

Year ended December 31, 2005

11. Commitments (continued):

(b) Grant funding:

Funding is provided by the Foundation to researchers in the field of health services and nursing. The following are the commitments of the Foundation in regards to these grants as at December 31, 2005:

| | Knowledge Brokers | Nursing Care Partnership | Regional Training Centers | Chairs | Open Grants Competition | Post- Doctoral Awards | REISS | Total |
|------|----------------------|--------------------------------|---------------------------------|--------------|-------------------------------|-----------------------------|---------------|---------------|
| 2006 | \$ 298,400 | \$ 525,000 | \$ 800,000 | \$ 1,000,000 | \$ 304,432 | \$ 400,000 | \$ 750,000 | \$ 4,077,832 |
| 2007 | 221,363 | 525,000 | 800,000 | 1,000,000 | — | 400,000 | 1,250,000 | 4,196,363 |
| 2008 | 60,000 | 525,000 | 800,000 | 1,000,000 | — | 400,000 | 1,750,000 | 4,535,000 |
| 2009 | — | 525,000 | 800,000 | 1,000,000 | — | 400,000 | 2,250,000 | 4,975,000 |
| 2010 | — | 525,000 | 800,000 | 710,925 | — | 400,000 | 2,000,000 | 4,435,925 |
| 2011 | — | 525,000 | 371,875 | 170,460 | — | 400,000 | 2,000,000 | 3,467,335 |
| 2012 | — | — | 46,875 | — | — | — | 2,000,000 | 2,046,875 |
| | \$ 579,763 | \$ 3,150,000 | \$ 4,418,750 | \$ 4,881,385 | \$ 304,432 | \$ 2,400,000 | \$ 12,000,000 | \$ 27,734,330 |

Other sponsors have also made commitments for the above-noted programs, however, these commitments have not been included in these financial statements.