ASSURANCE AND ADVISORY
BUSINESS SERVICES

ASSURANCE SERVICES

Financial Statements

Hamilton Health Sciences Corporation

March 31, 2006

ERNST & YOUNG

ERNST & YOUNG LLP

AUDITORS' REPORT

To the Members of
Hamilton Health Sciences Corporation

We have audited the statement of financial position of **Hamilton Health Sciences Corporation** as at March 31, 2006 and the statements of operations, changes in net deficit and cash flows for the year then ended. These financial statements are the responsibility of the Hospital'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 Hospital as at March 31, 2006 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 Corporations Act (Ontario), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Ernst & Young LLP

Toronto, Canada,
May 12, 2006.

Chartered Accountants

Hamilton Health Sciences Corporation

STATEMENT OF FINANCIAL POSITION

[in thousands of dollars]
[see Hospital Operations - note 2]

As at March 31

	2006 $	2005 $
ASSETS		
Current		
Cash	—	2,277
Restricted cash and cash equivalents *[notes 5 and 10]*	**64,481**	92,672
Short-term investments *[note 5]*	**19,677**	49,251
Accounts receivable *[notes 7 and 17]*	**47,828**	59,790
Inventories	**10,915**	10,153
Prepaid expenses and deposits	**3,227**	2,445
Total current assets	**146,128**	216,588
Long-term receivable *[note 17]*	**26**	53
Long-term investments *[note 6]*	**141,674**	70,305
Long-term investment in Bay Area Health Trust *[note 17[c]]*	**3,248**	992
Capital assets, net *[note 8]*	**161,556**	140,021
Total assets	**452,632**	427,959
LIABILITIES AND NET DEFICIT		
Current		
Bank indebtedness *[note 4]*	**17,917**	—
Accounts payable and accrued liabilities	**106,700**	113,618
Current portion of obligations under capital leases *[note 11]*	**3,655**	3,964
Current portion of long-term debt *[note 10]*	**513**	500
Current portion of deferred contributions *[note 9]*	**78,966**	124,682
Total current liabilities	**207,751**	242,764
Long-term debt *[note 10]*	**9,582**	—
Obligations under capital leases *[note 11]*	**2,632**	2,684
Accrued benefit liability *[note 12]*	**22,370**	19,101
Deferred capital contributions *[note 13]*	**129,369**	121,542
Deferred contributions *[note 9]*	**101,358**	63,623
Total liabilities	**473,062**	449,714
Commitments and contingencies *[notes 11, 16 and 17]*		
Net deficit		
Unrestricted	**(110,191)**	(87,748)
Invested in capital assets *[note 14[a]]*	**48,697**	40,834
Board designated	**41,064**	25,159
Total net deficit	**(20,430)**	(21,755)
	452,632	427,959

See accompanying notes

On behalf of the Board:

Director

Director

Hamilton Health Sciences Corporation

STATEMENT OF CHANGES IN NET DEFICIT

[in thousands of dollars]

Year ended March 31

	2006				2005
	Unrestricted $	**Invested in capital assets** $ [note 14[a]]	**Board designated** $	**Total** $	**Total** $
Net assets (deficit), beginning of year	**(87,748)**	**40,834**	**25,159**	**(21,755)**	(23,847)
Excess of revenue over expenses for the year	**1,325**	—	—	**1,325**	2,092
Transfer to Board designated	**(15,905)**	—	**15,905**	—	—
Net change in invested in capital assets *[note 14[b]]*	**(7,863)**	**7,863**	—	—	—
Net assets (deficit), end of year	**(110,191)**	**48,697**	**41,064**	**(20,430)**	(21,755)

See accompanying notes

Hamilton Health Sciences Corporation

STATEMENT OF OPERATIONS

[in thousands of dollars]

Year ended March 31

	2006 $	2005 $
REVENUE		
Ontario Ministry of Health and Long-Term Care	**658,108**	621,859
Ontario Health Insurance Plan	**25,085**	22,911
Ministry of Community and Social Services	**21,692**	16,990
Patient and third party payors	**19,028**	18,064
Amortization of deferred capital contributions *[note 13]*	**13,584**	8,634
Investment income	**10,206**	8,217
Ancillary and other recoveries	**96,359**	98,161
Research grants *[note 9]*	**135,841**	125,275
	979,903	920,111
EXPENSES		
Salaries and employee benefits *[note 12]*	**529,512**	510,002
Medical staff remuneration	**61,351**	52,132
Facilities	**29,531**	26,074
Amortization of capital assets	**22,905**	18,134
Other non-salary	**199,438**	186,402
Research	**135,841**	125,275
	978,578	918,019
Excess of revenue over expenses for the year	**1,325**	2,092

See accompanying notes

Hamilton Health Sciences Corporation

STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended March 31

	2006 $	2005 $
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	**1,325**	2,092
Add (deduct) non-cash items		
Amortization of capital assets	**22,905**	18,134
Amortization of deferred capital contributions	**(13,584)**	(8,634)
Non-pension post-retirement benefits expense	**4,597**	4,446
Equity income in Bay Area Health Trust	**(2,256)**	(1,000)
Loss on disposal of capital assets	**214**	—
	13,201	15,038
Net change in non-cash working capital balances related to operations *[note 15]*	**3,500**	4,427
Non-pension benefit contributions	**(1,328)**	(1,580)
Increase (decrease) in deferred contributions	**(7,981)**	32,931
Cash provided by operating activities	**7,392**	50,816
INVESTING ACTIVITIES		
Decrease in long-term receivable	**27**	526
Purchase of capital assets	**(44,654)**	(48,102)
Increase in investments, net	**(41,795)**	(52,911)
Decrease in restricted cash and cash equivalents	**28,191**	17,203
Cash used in investing activities	**(58,231)**	(83,284)
FINANCING ACTIVITIES		
Contributions received for capital purposes	**21,411**	51,893
Increase (decrease) in long-term debt	**9,595**	(500)
Increase (decrease) in bank indebtedness	**17,917**	(13,662)
Decrease in obligations under capital leases	**(361)**	(2,986)
Cash provided by financing activities	**48,562**	34,745
Net increase (decrease) in cash during the year	**(2,277)**	2,277
Cash, beginning of year	**2,277**	—
Cash, end of year	**—**	2,277
Supplemental cash flow information		
Interest paid	**680**	659

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars, except where noted]

March 31, 2006

1. PURPOSE OF THE ORGANIZATION

The Hamilton Health Sciences Corporation [the "Hospital"] is a regional provider of comprehensive health services for Central-West Ontario and a provider of community hospital services to the City of Hamilton. The Hospital is an academic health science organization which is incorporated without share capital under the Corporations Act (Ontario) and is a registered charity under the Income Tax Act (Canada) and, as such, is exempt from income taxes.

2. HOSPITAL OPERATIONS

The Hospital is funded primarily by the Province of Ontario in accordance with funding policies established by the Ontario Ministry of Health and Long-Term Care ["MOHLTC"]. Any excess of revenue over expenses earned during a fiscal year may be retained by the Hospital.

During the year, the Hospital has entered into an agreement with the MOHLTC, the Hospital Accountability Agreement [the "HAA"], that sets out the rights and obligations of the two parties to the HAA in respect of funding provided to the Hospital by the MOHLTC for fiscal 2006 and 2007. The HAA sets out the funding provided to the Hospital together with the performance standards and obligations of the Hospital that establish acceptable results for the Hospital's performance in a number of areas.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, 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 reporting period. Actual amounts could differ from those estimates.

These financial statements include the assets, liabilities and activities of the Hospital. The financial statements do not include the activities of Hamilton Health Sciences Foundation [the "Foundation"] and Hamilton Health Sciences Volunteer Association [the "Volunteer Association"] which are non-controlled not-for-profit entities *[note 17[a] and [b]]*.

The Bay Area Health Trust [the "Trust"], a commercial entity, is accounted for by the equity method *[note 17[c]]*.

A summary of the significant accounting policies is as follows:

Revenue recognition

The Hospital follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized.

Financial instruments

The fair value of the Hospital's financial instruments is not significantly different from their carrying value at March 31, 2006 unless otherwise noted. The Hospital is subject to credit risk with respect to its accounts receivable and the investments are primarily exposed to foreign currency, interest rate, market and credit risks.

Inventories

Inventories are valued at the lower of average cost and replacement cost.

Long-term investments

Long-term investments are recorded at cost. Accrued interest is recorded in accounts receivable. If the fair value of these investments is lower than cost and this decline in value is considered to be other than temporary, the investments are written down to fair market value.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Donated capital assets are recorded at fair market value at the date of donation. Amortization is provided on a straight-line basis over the estimated useful life of the related capital asset. The amortization periods are as follows:

Building improvements	20 - 40 years
Equipment	5 - 20 years

The Chedoke site operates in facilities owned by Chedoke Health Corporation. The McMaster University Medical Centre site operates in facilities owned by McMaster University.

Building renovations and alterations that restore original operating conditions are expensed in the year incurred. Building improvements that reduce original operating costs or increase original capacity are capitalized as building improvements.

Equipment under capital leases

Equipment leases that effectively transfer substantially all of the risks and rewards of ownership to the Hospital as lessee are capitalized at the present value of the minimum payments under the lease with a corresponding liability for the related lease obligations. Charges to expenses are made for amortization on the equipment and interest on the lease obligations.

Deferred capital contributions

Capital contributions received subsequent to April 1, 1996 for the purpose of acquiring depreciable capital assets are deferred and amortized on the same basis and over the same period as the related capital assets. Capital contributions received before that time could not be reasonably determined and, accordingly, have not been deferred.

Employee benefit plans

[a] Multi-employer plan

Defined contribution plan accounting is applied to the Hospitals of Ontario Pension Plan ["HOOPP"], a multi-employer plan, whereby contributions are expensed when due as the Hospital has insufficient information to apply defined benefit plan accounting.

[b] Accrued post-retirement benefits

The Hospital accrues its obligations under non-pension employee benefit plans as employees render services. The Hospital has adopted the following policies:

[i] The cost of non-pension post-retirement benefits earned by employees is actuarially determined using the projected benefits method pro rated on service and management's best estimate assumptions.

[ii] Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of active employees at the date of amendment.

[iii] Liabilities are determined using discount rates that are consistent with market rates of high quality debt instruments.

[iv] The excess of the cumulative unamortized balance of the net actuarial gain (loss) over 10% of the benefit obligations is amortized over the average remaining service period of active employees. The average remaining service period of active employees is 14 years.

Board designated net assets

Board designated net assets include donations and bequests as well as certain fund surpluses designated for specific purposes by the Board of Directors.

Contributed services and materials

Volunteers contribute numerous hours to assist the Hospital in carrying out certain charitable aspects of its service delivery activities. The fair value of these contributed services is not readily determinable and, as such, is not reflected in these financial statements. Contributed materials are also not recognized in these financial statements.

Derivative financial instruments

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain rates, indices or changes to notional contract amounts. The Hospital uses an interest rate swap ["IRS"] as an interest rate risk management solution. In effect, the IRS is used to hedge interest rate exposure inherent in floating rate loan facilities. This instrument is used for hedging an on-balance sheet liability and has been designated as a hedge.

Hedges are documented at inception detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the liability being hedged, the type of derivative used and how effectiveness is measured. The derivative must be highly effective in accomplishing the objective of offsetting changes in cash flows attributable to the risk being hedged both at inception and over the life of the hedge. If it is determined that the derivative is not highly effective as a hedge, hedge accounting is discontinued. Derivative transactions that do not qualify for hedge accounting are carried at fair value, with changes in value during the year recorded as non-interest income.

4. BANK INDEBTEDNESS

As at March 31, 2006, the Hospital has a $45,000 [2005 - $45,000] unsecured demand operating line of credit with the Canadian Imperial Bank of Commerce ["CIBC"]. The line of credit bears interest at prime rate less 1.15%. As at March 31, 2006, CIBC's prime interest rate is 5.50%.

[in thousands of dollars, except where noted]

5. RESTRICTED CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Restricted cash and cash equivalents consists of cash and bankers' acceptances with remaining maturities of less than three months at the date of acquisition. These funds are held for the Hospital's research operations. The bankers' acceptances earn interest at an average rate of 4.00% [2005 - 3.59%] and have a carrying value that approximates market value. Cash in the Hospital's bank account earns interest at a rate of prime less 1.85%.

Short-term investments consist of Government and Corporate Bonds with remaining maturities of less than one year. These investments are recorded at cost and as at March 31, 2006, the market value is $19,299 [2005 - $47,212]. Included in short-term investments are restricted short-term investments of $12,816 [2005 - $49,251] and unrestricted short-term investments of $6,861 [2005 - nil].

6. LONG-TERM INVESTMENTS

Long-term investments consist of the following:

	2006		2005	
	Cost	**Market value**	**Cost**	**Market value**
	$	$	$	$
Fixed income - Canadian	**60,192**	**58,754**	57,431	56,409
Fixed income - U.S.	**58,069**	**56,096**	—	—
Equities - Canadian	**23,413**	**25,263**	12,874	13,201
	141,674	**140,113**	70,305	69,610

Fixed income investments have an average term of 9.97 years [2005 - 5.5 years] to maturity and have a weighted average yield of 4.59% [2005 - 6.24%] as at March 31, 2006.

Pursuant to the SuperBuild Millennium Partnerships' initiatives, the Hospital entered into agreements with the MOHLTC for capital grants totalling $15,900 to assist the Hospital to fast track capital projects. These grants are net present value grants with an implicit rate of return of 6.2%. To date, approximately $10,501 [2005 - $11,186] has been used to fund capital projects and the unspent balance of $7,452 [2005 - $6,629] is invested in fixed income securities.

[in thousands of dollars, except where noted]

7. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2006 $	2005 $
Ontario Ministry of Health and Long-Term Care	**7,602**	27,323
Patient receivables	**10,294**	8,804
Bay Area Health Trust *[note 17[c]]*	**9,202**	4,692
Research	**5,602**	4,109
Hamilton Health Sciences Foundation and Hamilton Health Sciences Volunteer Association *[note 17[a] and [b]]*	**5,967**	4,095
Other	**9,161**	10,767
	47,828	59,790

8. CAPITAL ASSETS

Capital assets consist of the following:

	2006		
	Cost $	**Accumulated amortization** $	**Net book value** $
Building improvements	**45,887**	**11,121**	**34,766**
Equipment	**238,404**	**154,093**	**84,311**
Construction in progress	**42,479**	**—**	**42,479**
	326,770	**165,214**	**161,556**

	2005		
	Cost $	**Accumulated amortization** $	**Net book value** $
Building improvements	36,247	9,082	27,165
Equipment	204,269	137,035	67,234
Construction in progress	45,622	—	45,622
	286,138	146,117	140,021

[in thousands of dollars, except where noted]

Included in equipment are assets under capital leases at a cost of $19,604 [2005 - $23,490] and accumulated amortization of $12,454 [2005 - $14,857].

Fully depreciated capital assets with a cost of $437 [2005 - $3,515] were removed from the accounts in fiscal 2006.

Capital assets with a cost of $3,585 and accumulated amortization of $3,371 were disposed of during fiscal 2006. The loss of $214 is reflected in other non-salary expenses.

9. DEFERRED CONTRIBUTIONS

Deferred contributions represent unspent externally restricted grants for research. The changes in the deferred contributions balance are as follows:

	2006 $	2005 $
Balance, beginning of year	**188,305**	155,374
Externally restricted contributions received	**127,860**	158,206
Less amount recognized as revenue during the year	**(135,841)**	(125,275)
Balance, end of year	**180,324**	188,305
Less current portion	**(78,966)**	(124,682)
	101,358	63,623

10. LONG-TERM DEBT

Long-term debt consists of the following:

	2006 $
Non-revolving capital loan payable by August 1, 2025 in monthly blended principal and interest installments at a variable rate [a]	**8,839**
Capital loan payable by April 1, 2011 in monthly principal and interest installments of $23,908 at 5.36% per annum [b]	**1,256**
	10,095
Less current debt	**513**
	9,582

[a] On July 15, 2005, the Hospital entered into a $9 million, 20-year financing arrangement for the purpose of financing the construction, acquisition and development costs of parking equipment and improvements of the parking facilities at the Hamilton General Hospital and Henderson General Hospital Sites. The $9 million facility is comprised of a non-revolving credit facility, and a second facility to hedge the interest risk on the first facility. The second facility fixes the interest rate over the 20-year term at 4.65%. On a monthly basis, the Hospital is required to deposit the Net Profit, as defined, from the parking operations of the General and Henderson sites into a Net Profit account held at the bank. At all times, the Hospital must maintain a minimum balance in the Net Profit Account equal to the next scheduled payment of principal and interest. At March 31, 2006, the balance in the Net Profit Account is $795 and is included in restricted cash and cash equivalents on the statement of financial position.

As security, the bank has a first ranking specific assignment of all rights, title and interest in and to all Net Profit and any other revenue and income arising from Hamilton General and Henderson Parking Improvements from time to time but expressly excluding payments for monthly parking permits of employees of the Hospital; and a first ranking security agreement in respect of the Net Profit Account. Under the terms of the financing the Hospital is required to comply with certain loan covenants and, at year-end, the Hospital was in compliance with all bank loan covenants.

The Hospital has in place an Interest Rate Swap Agreement [the "Agreement"], which will expire on August 1, 2025. Under the terms of the Agreement, the Hospital agrees with the counterparty to exchange, at specified intervals and for a specified period, its floating interest rate for a fixed interest rate of 4.65%. The use of the swap effectively enables the Hospital to convert floating rate interest obligations into fixed rate obligations and thus manage its exposure to interest rate risk. As at March 31, 2006, this Agreement was designated as a hedge.

As at March 31, 2006, the fair value of this Agreement was $14.

[b] On April 1, 2005, the Hospital entered into a separate $1,256, five-year loan for the purpose of purchasing diagnostic medical equipment. The interest is fixed at a rate of 5.36%. The equipment financed by the loan is pledged as collateral for the loan.

[in thousands of dollars, except where noted]

These loans are repayable over the next five years and thereafter as follows:

	$
2007	513
2008	538
2009	565
2010	594
2011	624
Thereafter	7,261
	10,095

11. LEASE COMMITMENTS

The future minimum annual payments under capital and operating leases consist of the following:

	Capital leases $	**Operating leases** $
2007	**4,106**	**2,624**
2008	**1,243**	**1,915**
2009	**771**	**1,176**
2010	**664**	**703**
2011	**273**	**54**
Total minimum lease payments	**7,057**	**6,472**
Less interest included in lease payments	**770**	
Obligations under capital leases	**6,287**	
Less current portion	**3,655**	
	2,632	

The Hospital has entered into various arrangements for the leasing of computer and medical equipment. The effective average interest rate of the capital leases is 5% [2005 - 7%].

[in thousands of dollars, except where noted]

12. EMPLOYEE BENEFIT PLANS

[a] Multi-employer plan

Substantially all of the employees of the Hospital are eligible to be members of the Hospitals of Ontario Pension Plan [the "Plan"], which is a multi-employer, defined benefit, final average earnings, contributory pension plan. The Plan is accounted for as a defined contribution plan. The Hospital's contributions to the Plan during the year amounted to $33,828 [2005 - $30,707] and are included in salaries and employee benefits expense in the statement of operations. The most recent actuarial valuation of the Plan as of December 31, 2003 indicates the Plan is fully funded.

[b] Accrued post-retirement benefits

The Hospital's non-pension post-retirement benefit plans comprise medical, dental and life insurance coverage for certain groups of employees who have retired from the Hospital and are between the ages of 55 and 65. The sick leave benefit plan for employees was previously amended such that the future accumulation of sick leave credits was discontinued; however, employees are entitled to cash payments on a portion of their accumulated sick bank entitlements upon termination of employment.

The related expense for the year is $4,597 [2005 - $4,446] and the accrued benefit liability as at March 31, 2006 is $22,370 [2005 - $19,101]. The post-retirement benefit obligation as at March 31, 2006 is $41,038 [2005 - $34,659]. Employer contributions and benefit payments for non-pension post-retirement benefit plans totalled $1,328 for the year ended March 31, 2006 [2005 - $1,580].

The last actuarial valuation was performed on April 1, 2004.

The significant actuarial assumptions adopted in measuring the Hospital's accrued benefit obligations and expenses for the non-pension post-retirement benefit plans are as follows:

	2006 %	**2005** %
Discount rate	**4.75**	5.75
Expected annual increase in dental care costs	**4.5**	4.5
Expected annual increase in health care costs	**4.5***	4.5*

* The current rate is 10.5%. The rate is presumed to decline by 1% increments per annum to an ultimate rate of 4.5%.

[in thousands of dollars, except where noted]

13. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of contributions received for the purchase of capital assets. The changes in the deferred capital contributions balance are as follows:

	2006 $	2005 $
Balance, beginning of year	**121,542**	78,283
Add contributions for capital purposes		
MOHLTC grant	**3,405**	40,226
Research grants	**987**	1,057
SuperBuild interest	**139**	132
Hamilton Health Sciences Foundation and Hamilton Health Sciences Volunteer Association *[note 17[a] and [b]]*	**13,060**	7,284
Other	**3,820**	3,194
Less amortization	**(13,584)**	(8,634)
Balance, end of year	**129,369**	121,542

Included in the above balance are contributions of $30,192 [2005 - $26,803] received but not yet used to purchase capital assets.

14. NET ASSETS INVESTED IN CAPITAL ASSETS

[a] Net assets invested in capital assets are calculated as follows:

	2006 $	2005 $
Capital assets, net	**161,556**	140,021
Less amounts funded by		
Deferred capital contributions *[note 13]*	**(99,177)**	(94,739)
Obligations under capital leases *[note 11]*	**(6,287)**	(6,648)
Debt	**(10,095)**	(500)
Other	**2,700**	2,700
	48,697	40,834

[in thousands of dollars, except where noted]

[b] Net change in invested in capital assets is calculated as follows:

	2006 $	2005 $
Purchase of capital assets	**44,654**	48,102
Amounts funded by deferred capital contributions	**(18,022)**	(38,011)
Amortization of capital assets	**(22,905)**	(18,134)
Loss on disposal of capital assets	**(214)**	—
Amortization of deferred capital contributions	**13,584**	8,634
Decrease in obligations under capital leases	**361**	2,986
Decrease (increase) in long-term debt	**(9,595)**	500
	7,863	4,077

15. STATEMENT OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

	2006 $	2005 $
Accounts receivable	**11,962**	(8,833)
Inventories	**(762)**	(816)
Prepaid expenses and deposits	**(782)**	(445)
Accounts payable and accrued liabilities	**(6,918)**	14,521
	3,500	4,427

16. COMMITMENTS AND CONTINGENCIES

[a] The nature of the Hospital's activities is such that there is usually litigation pending or in progress at any time. With respect to claims as at March 31, 2006, it is management's position that the Hospital has valid defenses and appropriate insurance coverage in place, such that there would be no material effect on the financial statements as a result of these claims. In the unlikely event any claims are successful, such claims are not expected to have a material effect on the Hospital's financial position.

[b] The Hospital participates in the Healthcare Insurance Reciprocal of Canada, a pooling of the public liability insurance risks of its hospital members. All members of the pool pay premiums that are actuarially determined. All members are subject to assessment for losses, if any, experienced by the pool for the year in which they were members. No assessments have been made for the year ended March 31, 2006.

[c] The Hospital has commenced various construction and renovation projects and capital expenditure commitments outstanding at March 31, 2006 are estimated at $40,520 [2005 - $50,500].

17. RELATED PARTY TRANSACTIONS

[a] The Foundation, an independent organization, raises funds and holds resources solely for the benefit of the Hospital. All amounts received from the Foundation are restricted in use by the Foundation and, accordingly, are accounted for by the Hospital as externally restricted contributions. The Foundation contributed $12,096 during fiscal 2006 [2005 - $7,208] for capital and $1,780 [2005 - $1,506] for research. As at December 31, 2005, the Foundation had net assets of $35,619 [2004 - $37,044]. Included in the Hospital's assets as at March 31, 2006 is $5,450 [2005 - $3,575] in accounts receivable from the Foundation.

[b] The Volunteer Association is an independent organization that raises funds and holds resources for the benefit of the Hospital. All amounts received from the Volunteer Association are restricted and, accordingly, are accounted for as externally restricted contributions. The Volunteer Association contributed $964 [2005 - $76] during the year and has net assets of $235 [2005 - $229] as at March 31, 2006. Included in the Hospital's assets as at March 31, 2006 is $517 [2005 - $520] in accounts receivable from the Volunteer Association.

[c] The Bay Area Health Trust is a commercial entity dedicated to developing business opportunities in association with the Hospital. The purpose of the Trust is to harness private sector experience, energy and entrepreneurship to benefit the community by supporting profitable business development in the Hospital and health care sector. The beneficiaries of the Trust are the Hospital, the Foundation and McMaster University.

[in thousands of dollars, except where noted]

Included in the Hospital's results are the following related party transactions with the Trust:

	March 31, 2006 $	March 31, 2005 $
Statement of financial position		
Accounts receivable	**9,202**	4,692
Long-term receivable	**26**	53
Statement of operations		
Investment income	**250**	178
Ancillary and other recoveries	**2,256**	1,000
Other non-salary expense	**4,622**	3,321

The following amounts represent the Trust's assets, liabilities, revenue and expenses as at and for the nine months ended December 31, 2005 and for the year ended March 31, 2005:

	December 31, 2005 $	March 31, 2005 $
Assets	**62,954**	51,670
Liabilities	**62,954**	51,670
Revenue	**14,679**	11,956
Expenses	**12,722**	10,377
Cash provided by operating activities	**1,957**	11,723
Cash used in investing activities	**(14,766)**	(39,001)
Cash provided by financing activities	**10,190**	33,444

In 2004, the Trust entered into a $45,000 financing arrangement to fund the construction of the cogeneration facilities. The financing arrangement consists of $32,000 at a fixed rate for 25 years and $13,000 at a fixed rate for five years. Interest rates are fixed at the time financing is advanced. The loans under the financing agreement are guaranteed by the Hospital and secured first by the assets of the Trust and also by a defined portion of the Hospital's ancillary revenue.

As of December 31, 2005, the Trust had received $45,000 [March 31, 2005 - $35,000] under the financing agreement of which, $32,000 [2005 - $24,900] bears interest at a rate of 6.18% [2005 - 6.24%] and $13,000 [2005 - $10,100] bears interest at a rate of 5.51% [2005 - 5.53%]. The maximum undiscounted repayment over the term of these loans is $64,647. The fair value of these loans, based on current rates for debt with similar terms and maturities is not materially different from their carrying value.

The Hospital has entered into a service agreement to buy electricity, hot water, steam, chilled water and compressed air from the Trust. The term of the service agreement is from the date of commercial service for the first cogeneration plant and ends 25 years following the completion of the commissioning at all sites covered by the agreement or the date when the loan agreement terminates, whichever is sooner. The prices of the commodities covered by the service agreement have been pre-negotiated between the Hospital and the Trust and are subject to an annual adjustment based on increases or decreases in the operating costs of the cogeneration facilities. If in any calendar month the cost of natural gas purchased to operate the cogeneration facilities plus the monthly loan repayment exceeds the monthly revenue earned, based on the prices included in the agreement, the Hospital must pay the difference to the Trust.

Subsequent to year end, on April 20, 2006, the Hospital entered into a financing agreement with the Trust toward the cogeneration facilities. The financing agreement allows the Trust to draw up to $18,000 from the Hospital at CIBC's prime less 1.15%. As of March 31, 2006, the Trust had borrowed $9,202 [2005 - $5,684].

18. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2006 financial statements.