

Management analysis

This management analysis outlines Canadian Blood Services' financial results for the year ended March 31, 2019. It should be read in conjunction with Canadian Blood Services' audited consolidated financial statements and accompanying notes for the year ended March 31, 2019. The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. This management analysis should also be read together with the complete annual report, which provides context on the programs and operations of Canadian Blood Services. The information in this analysis is current to June 21, 2019, unless otherwise indicated.

Readers are cautioned that this management analysis includes forward-looking information and statements. By their nature, forward-looking statements require management to make assumptions and are subject to important known and unknown risks and uncertainties that may cause actual results to differ materially from those disclosed here. Although we consider our assumptions to be reasonable and appropriate, on the basis of current information, actual results may vary from those predicted in the forward-looking information and statements.

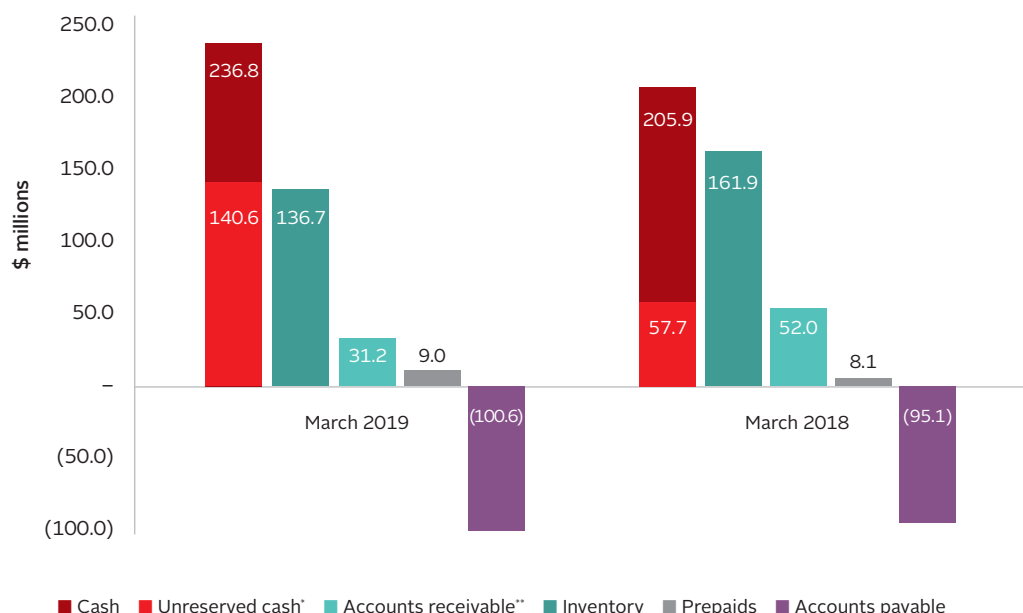
Our blood, plasma, stem cells, and organs and tissues programs are block funded by the participating provinces and territories, whereas our procurement and distribution of plasma protein products to hospitals and the diagnostic services we offer health systems are funded on the basis of products issued and services rendered.

We receive federal funding for our role in organ and tissue donation and transplantation (OTDT), which includes management of national registries for interprovincial organ sharing, development of leading national practices, and professional education, public awareness and system performance activities. Federal funding also supports research and development activities aimed at improving patient outcomes and the health and safety of donors. For both OTDT and research and development activities, the federal funding we receive complements funding received for related activities from the provincial and territorial members.

ANALYSIS OF FINANCIAL RESULTS – FINANCIAL POSITION

Current assets and liabilities

The following chart provides a summary of the most significant current assets and current liabilities as at March 31, 2019, and March 31, 2018.



* Unreserved cash represents cash (\$236.8 million at March 31, 2019; \$205.9 million at March 31, 2018) less internally reserved cash balances relating to certain deferrals reserved for future expenses (\$56.8 million at March 31, 2019; \$93.7 million at March 31, 2018), other retirement and post-employment benefit liabilities (\$39.4 million at March 31, 2019; \$40.5 million at March 31, 2018) and bank indebtedness (nil at March 31, 2019; \$14 million at March 31, 2018).

** Accounts receivable represents members' contributions receivable (\$19.6 million at March 31, 2019; \$33.7 million at March 31, 2018) and other amounts receivable (\$11.6 million at March 31, 2019; \$18.3 million at March 31, 2018).

The provincial and territorial ministers of health (except the health minister of Quebec) serve as members of the corporation under the *Canada Not-for-profit Corporations Act*. Canadian Blood Services' liquidity is largely influenced by the timing of receipt of funds from members, the volume of inventory held, fluctuations in foreign exchange, the demand for plasma protein products, the amount of deferred contributions and the number of large capital-intensive projects, such as those included in the National Facilities Redevelopment Program (NFRP). As the operator of a national system, Canadian Blood Services is also exposed to varying payment terms on balances owed to and owed by the organization within each jurisdiction.

Cash has increased by \$30.9 million to \$236.8 million at March 31, 2019, whereas unreserved cash increased by \$82.9 million to \$140.6 million. For both total cash and unreserved cash, \$17.5 million of the increase relates to an increase in advances received by members, which are included in deferred contributions. The unreserved cash represents cash available for day-to-day operations and excludes cash reserved for specific future purposes and projects. The number of days of unreserved cash on hand was 42.8 days at March 31, 2019, which represents a substantial improvement from 16.8 days at March 31, 2018.

Accounts receivables decreased by \$20.9 million to \$31.2 million, mainly driven by a decrease in members' contributions receivable. The province of Ontario's contribution receivable, representing 96 per cent of the balance, was substantially improved from March 31, 2018.

Inventory decreased by \$25.2 million to \$136.7 million, mainly because of a \$29.6 million reduction in plasma protein products inventory, which was partly offset by an increase of \$5.3 million in fresh blood inventory, reflecting strong collections at the end of 2018–2019. The reduction in plasma protein products inventory reflects lower volumes, a lower cost per unit and a lower foreign exchange rate (approximately 1.25 in 2018–2019 compared with 1.33 in 2017–2018). The lower cost per unit is attributable to positive negotiations resulting in new contracts executed at the beginning of 2018–2019. The new contracts have achieved brand diversity and product choices while driving an estimated \$455 million in cumulative cost reduction and cost avoidance over their three-year term, from April 1, 2018, to March 31, 2021. Weeks on hand inventory has decreased to 6.9 weeks at March 31, 2019, from 8.1 weeks at March 31, 2018. This decrease is a result of final product transition activities under the new contracts. Weeks on hand inventory continues to normalize now that the first year of product transition activities has been completed.

Captive insurance program — investments and provision for future claims

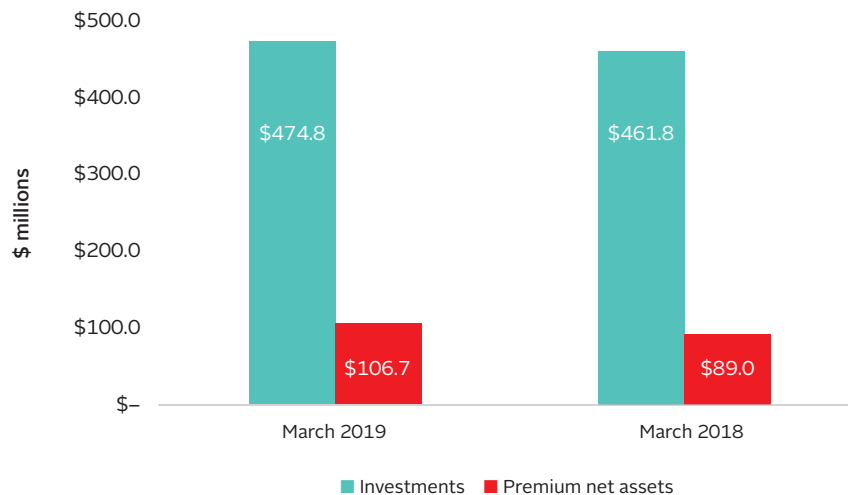
Canadian Blood Services has two wholly owned captive insurance corporations: CBS Insurance Company Limited (CBSI) and Canadian Blood Services Captive Insurance Company Limited (CBSE). Together, these captive insurance companies provide Canadian Blood Services with comprehensive blood risk insurance covering losses up to \$1.0 billion. The primary policy held by CBSI has provided coverage up to \$250.0 million, with the secondary policy held by CBSE providing coverage up to \$750.0 million. Effective April 1, 2019, the primary policy coverage was increased to \$300.0 million, with a corresponding reduction in the secondary policy to \$700.0 million. The policy held by CBSI is fully funded through investment assets, whereas the policy held by CBSE is covered by an indemnification from the provincial and territorial governments (except Quebec). CBSI also provides coverage to Canadian Blood Services for transit risks, consequential loss to blood inventory, certain contingent risks in the event of an emergency event related to the safety of the blood supply, and cyber damage and expense.

The investments have increased by \$13.1 million over the previous year, which can be attributed to a return on investment of 2.8 per cent. Net income earned on investments restricted for captive insurance was \$12.4 million for 2018–2019, compared with \$14.8 million for 2017–2018, because of a downturn in the market during the third quarter. The change in fair value of investments measured at fair value was \$1.0 million for 2018–2019, compared with \$6.9 million for 2017–2018.

Captive investments

CBSI tracks premium net assets, which is the asset balance remaining after the deduction of reserves for the blood risk liability policy, the contingent risk indemnification policy, the stock throughput policy, the cyber damage and expense policy, the statutory reserve and the market volatility reserve. At March 31, 2019, the premium net assets amounted to \$106.7¹ million (\$89.0 million at March 31, 2018).

Canadian Blood Services records a reserve for the estimated future catastrophic and normal blood liability exposure for CBSI. At March 31, 2019, the provision for future claims was \$250.0 million (\$250.0 million at March 31, 2018). Effective April 1, 2019, the primary policy coverage was increased to \$300.0 million, which will result in a \$50 million increase in the provision for future claims and a \$57.5 million reduction in the premium net assets. The \$57.5 million decrease in the premium net assets reflects the \$50 million increase in the primary policy coverage which in turn resulted in a \$7.5 million increase in the statutory reserve.¹



Capital assets

Capital and intangible assets increased by \$34.0 million to \$281.4 million, mainly because of capital additions of \$54.3 million, which were partially offset by depreciation and amortization of \$20.0 million. The most significant capital additions were related to construction of the new Calgary operations building (as part of the NFRP) for \$35.5 million, the information technology (IT) data centre for \$5.6 million, production equipment for \$3.2 million and investment in our vehicle fleet for \$1.6 million.



The new Calgary operations facility.

¹ Premium net assets comprise net current assets (primarily investments) held by CBSI, measured in accordance with International Financial Reporting Standards (\$484.5 million at March 31, 2019), less the aggregate limits of insurance policies held by CBSI (\$290.0 million at March 31, 2019) less statutory reserve (\$37.5 million at March 31, 2019) and market volatility reserve (\$50.3 million at March 31, 2019). The statutory reserve is calculated at 15 per cent of the aggregate limits of the insurance policies, and the market volatility reserve is determined in consultation with a third-party investment advisor.

Employee future benefits

Canadian Blood Services sponsors two defined benefit pension plans, one for employees and the other for executive employees. We also maintain a defined contribution pension plan and provide other non-pension post-retirement and post-employment benefits to eligible employees. The board of directors, the pension board of trustees, the pension advisory committees, and the finance and audit committee of the board are responsible for governance of the pension plans.

Canadian Blood Services' independent actuary calculates each defined benefit plans' net position for accounting purposes as at March 31 of each year. The net position fluctuates annually due to a combination of variables, including the discount rate, inflation rate, expected average rate of salary increases, expected average remaining life expectancies, returns on plan assets and contributions. The \$8.7 million increase in the net liability for employee future benefits, to \$92.7 million, was the result of an increase in the pension plan liability of \$9.7 million, partially offset by a decrease in the post-employment and post-retirement liability of \$1.0 million. The pension liability increased primarily because of a decrease of 30 basis points in the discount rate. The post-employment and post-retirement liability decreased because of a reduction in the long-term disability cost assumption, partially offset by a decrease in the discount rate.

Our independent actuary reviews the funded position of the defined benefit pension plans to inform the board of directors, pension board of trustees, the pension advisory committees, and the finance and audit committee of the board of how these plans are performing. Funding valuations for the defined benefit pension plan for employees and the defined benefit pension plan for executives were completed as at December 31, 2017, and January 1, 2017, respectively. The valuations revealed that the pension plans were funded at 105 per cent and 99 per cent, respectively, on a going-concern basis, and 88 per cent and 84 per cent, respectively, on a solvency basis.

Forward currency contracts

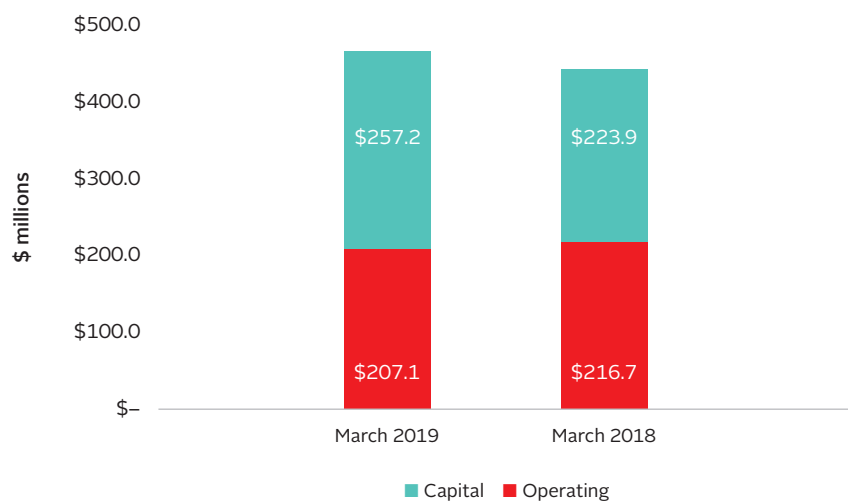
Canadian Blood Services enters into forward currency contracts to mitigate foreign exchange exposure on a substantial portion of our U.S. dollar purchases of plasma protein products. In recent years, Canadian Blood Services designated 70 per cent of the forward currency contracts as being in a hedging relationship with the equivalent forecasted purchases of plasma protein products. Accordingly, hedge accounting was applied, and these transactions were recorded in the cost of plasma protein products only upon maturity. The remaining 30 per cent non-designated forward currency contracts were recorded at fair value at the end of each period. When these contracts matured, the realized gain or loss was recorded as foreign exchange gain or loss.

In September 2018, Canadian Blood Services entered into forward currency contracts for 2019–2020 with a notional value of \$392.0 million and an average exchange rate of \$1.29. At March 31, 2019, the outstanding forward currency contracts — not designated as hedges — were in a favourable position relative to the U.S. dollar exchange rate, resulting in a financial asset of \$4.5 million, consistent with the prior year at \$4.3 million. The remaining outstanding forward currency contract — to which hedge accounting was applied — was also in a favourable position, with a fair value of \$11.0 million, and this unrealized gain is disclosed and not recorded in the financial statements.

Deferred contributions

Deferred contributions related to expenses of future periods (operating) consist of funds received in advance for future projects, members' funding received in advance and funds reserved for specific purposes. The balance decreased by \$9.6 million to \$207.1 million at March 31, 2019. Significant deferred funds used in the construction of facilities (as part of the NFRP) amounted to \$30.1 million, partly offset by an increase in members' funding received in advance of \$17.5 million and an increase in fresh blood and medical supplies inventory of \$4.4 million.

Deferred contributions related to capital assets represent contributions invested in capital assets. The balance increased by \$33.3 million to \$257.2 million at March 31, 2019. This change resulted from capital additions of \$54.3 million — consisting of NFRP construction, the IT data centre, production equipment and investment in our vehicle fleet — offset by the recognition of \$20.0 million revenue equal to amortization.

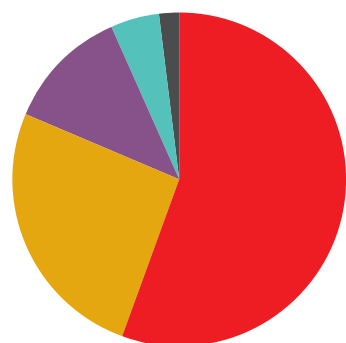


ANALYSIS OF FINANCIAL RESULTS – OPERATIONS

Total consolidated costs

Total consolidated costs by expenditure type

In millions of dollars



| | 2018–2019 | 2017–2018 | Var \$ | Var % |
|--|--------------|--------------|-------------|------------|
| ■ Cost of plasma protein products | 656 | 728 | (72) | -10% |
| ■ Staff costs | 301 | 306 | (5) | -2% |
| ■ General and administrative | 140 | 136 | 4 | 3% |
| ■ Medical supplies | 58 | 63 | (5) | -8% |
| ■ Depreciation and amortization | 20 | 18 | 2 | 10% |
| ■ Foreign exchange (gain) loss | (7) | 6 | (13) | -214% |
| | 1,168 | 1,257 | (89) | |
| ■ Change in fair value of forward currency contracts | – | 6 | (6) | -100% |
| ■ Change in fair value of investments measured at fair value | 1 | 7 | (6) | -85% |
| | 1,167 | 1,244 | (77) | -6% |

Chart is based on 2018–2019 costs, excluding foreign exchange (gain) loss.

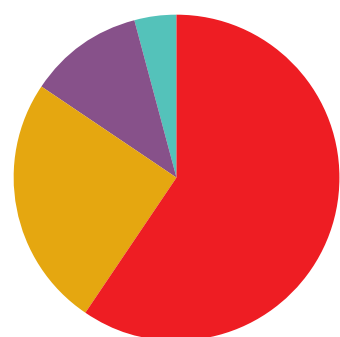
Plasma protein products continued to represent our largest cost in 2018–2019; however, because of successful contract negotiations, we have decreased the cost by \$72 million, or 10 per cent. The key variables that influence these costs are product demand, product mix, the per-unit cost of the products and foreign exchange. Staff costs incurred to deliver our products and services are our second-largest cost. Our remaining costs are for general and administrative expenses, depreciation and medical supplies (e.g., blood bags used in collection). Details of the expenses by product line follow in the individual program sections.

Fresh blood products and the national facilities redevelopment program

We collect, test, manufacture and distribute blood and blood products, including red blood cells, platelets and plasma. We also conduct research, which yields new knowledge, processes and technologies for the manufacturing environment while helping to improve quality and efficiency in the blood supply chain and across our entire scope of operations.

Cost breakdown for fresh blood products and NFRP

In millions of dollars



| | 2018–2019 | 2017–2018 | Var \$ | Var % |
|--------------------------------------|------------|------------|----------|-----------|
| ■ Staff costs | 272 | 274 | (2) | -1% |
| ■ General and administrative | 114 | 107 | 7 | 7% |
| ■ Medical supplies | 52 | 56 | (4) | -7% |
| ■ Foreign exchange (gain) loss | – | – | – | –% |
| ■ Depreciation and amortization | 19 | 18 | 1 | 6% |
| ■ Transfer of recovered plasma costs | (26) | (26) | – | –% |
| | 431 | 429 | 2 | 0% |

Chart is based on 2018–2019 costs, excluding transfer of recovered plasma costs.

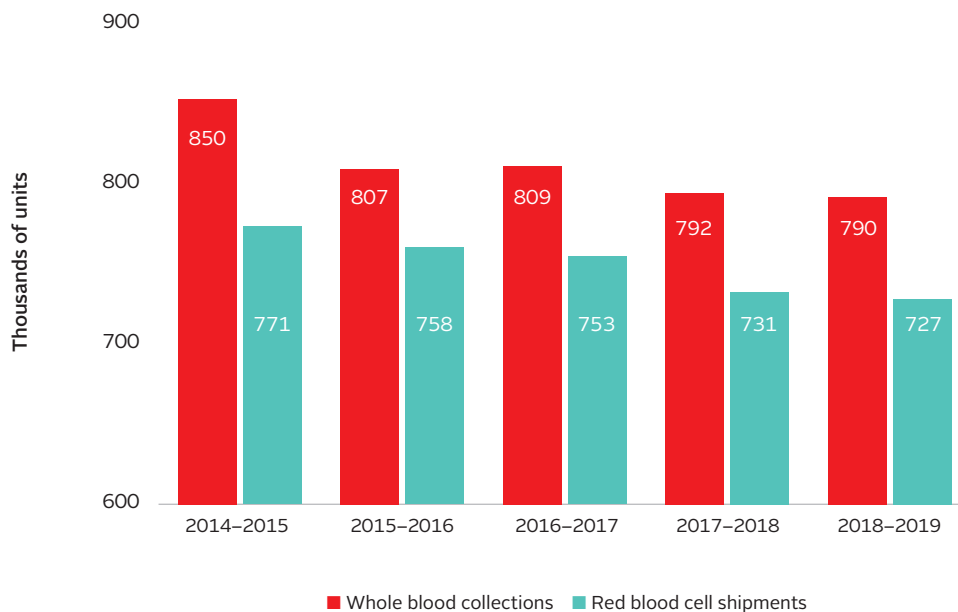
Demand for red blood cells, platelets and plasma and the associated number of whole blood collections have the greatest influence on activities associated with fresh blood products. The main factors affecting costs are labour and materials needed to recruit donors and to collect, produce, test and ship each unit of product. Staff costs and medical supplies account for more than 75 per cent of the total cost of fresh blood products. Additional expenses, such as fuel, utilities, IT, facilities and support functions, also influence these costs.

The decline in demand for red blood cells continued in 2018-2019; however, the rate of decline is diminishing. Although patient blood management activities and restrictive transfusion policies continue to be implemented across the country, the greatest decreases in demand may already have been achieved, particularly in larger hospitals. The number of red blood cell units routinely required as part of massive transfusion protocols is also lower. Additionally, we expect the increased transfusion requirements of the growing aging population to contribute to a flattening of the declining demand trend over time.

Staff costs have declined with the slight reduction in demand and also because of corporate initiatives in recent years aimed at enhancing processes and realizing efficiencies — from the automation of our supply chain to our continuous improvement initiatives.

General and administrative expenses increased because of incremental marketing costs, equipment maintenance costs related to our data centre migration projects and incremental property expenses.

Costs for medical supplies have declined, in part because the request for proposal for donor testing medical supplies resulted in better negotiated prices in effect for 2018–2019 and as a result of reduced collections due to declining red blood cell demand. Overall, the impact of reduced collections accounted for approximately \$0.4 million of the total reduction in the cost of medical supplies for the fresh blood program from 2017–2018 to 2018–2019.



Plasma protein products

We collect plasma from unpaid volunteer donors in Canada. We retain some of this plasma to meet the transfusion needs of Canadian patients, but most of it is shipped to contract manufacturers of plasma protein products. We then distribute approved plasma protein products — those derived from our own plasma, as well as products that we purchase from manufacturers — to hospitals in Canada (excluding Quebec) for treatment of immune disorders and diseases such as hemophilia.

Canadian Blood Services is the only purchaser, contract manufacturer and distributor of plasma protein products in Canada (excluding Quebec). The program formulary comprises plasma protein products, including their recombinant and substitute products, and is managed for patients on behalf of the funding governments. Canadian Blood Services ensures that these products are safe and that they are provided to Canadians when and where they need them and in sufficient quantities. More than 45 brands of products, procured from Canadian and international suppliers, are currently being managed on the formulary. The formulary also manages products available under Health Canada's Special Access Programme.

| | | |
|-----------------------------|-----|--|
| Immune globulin (Ig) | 43% | |
| Recombinant factor (rFVIII) | 16% | |
| C1 Esterase | 13% | |
| Recombinant factor VIIa | 6% | |
| Recombinant factor IX | 6% | |
| FEIBA | 4% | |
| Factor VIII/VWF | 4% | |
| Albumin | 3% | |
| Other | 5% | |

Cost breakdown of the plasma protein products program

In millions of dollars

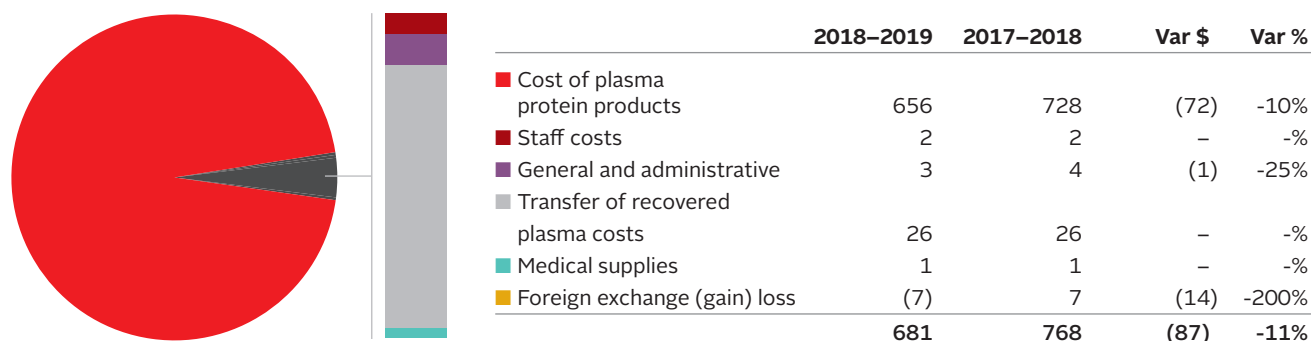


Chart is based on 2018–2019 costs, excluding foreign exchange (gain) loss.

The principal drivers influencing the overall cost of the plasma protein products program are:

- product demand
- product cost per unit
- foreign exchange rate
- brand mix within a product category

In 2018–2019, the total cost of the plasma protein products program decreased by \$86.9 million to \$681.0 million. In the immune globulin (Ig) and recombinant factor VIII categories, more than \$110 million in savings were realized as a result of the favourable pricing obtained through the request for proposal conducted in the fall of 2017 and the new contracts executed in early 2018–2019. These savings were offset by increased product utilization, especially in the Ig, inhibitors and C1 categories. Demand for plasma protein products continues to increase year over year, offsetting contractual savings.

The figure below shows total volume and price per cent changes between fiscal year 2013–2014 and 2018–2019.

| Product | Volume change between | Cost per unit |
|-----------|-------------------------|-------------------------|
| | 2013–2014 and 2018–2019 | 2013–2014 and 2018–2019 |
| Ig | Up 50 per cent | Down 9 per cent |
| rFVIII | Up 27 per cent | Down 21 per cent |
| Inflation | Not applicable | Up 8.5 per cent |

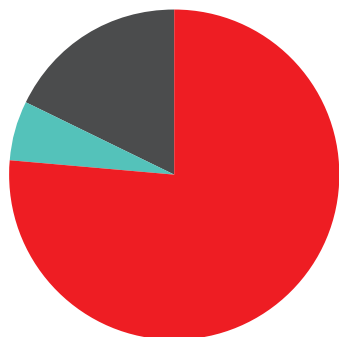
Ig (immune globulin); rFVIII (recombinant factor VIII)

The transfer of recovered plasma costs represents the cost of plasma recovered from whole blood donations (known as recovered plasma) and some source plasma that is subsequently transferred from the fresh blood products program to the plasma protein products program. These transfer costs represent the approximate cost of plasma recovered from Canadian donors and subsequently shipped to commercial fractionators in the United States for processing into products for redistribution back to Canada.

Diagnostic services

Cost breakdown of diagnostic services program

In millions of dollars



| | 2018–2019 | 2017–2018 | Var \$ | Var % |
|------------------------------|-----------|-----------|----------|-----------|
| ■ Staff costs | 13 | 13 | – | –% |
| ■ General and administrative | 1 | 1 | – | –% |
| ■ Medical supplies | 3 | 3 | – | –% |
| | 17 | 17 | – | –% |

Chart is based on 2018–2019 costs.

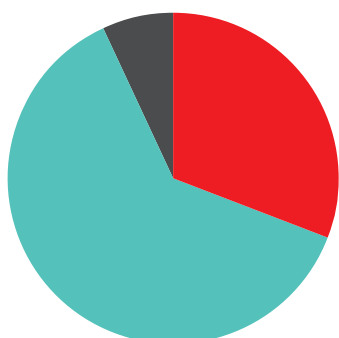
Canadian Blood Services provides diagnostic services for patients and hospitals across western Canada and in some parts of Ontario. These services include prenatal testing, reference red blood cell serology (antibody investigations), human platelet antigen testing, and pre-transfusion and compatibility testing. These services are billable to the respective provincial and territorial governments according to usage.

Demand for diagnostic services is variable, depending on the jurisdiction where the services are offered. During 2018-2019, overall demand for these services has remained relatively flat compared with the previous year.

Stem cells

Cost breakdown of stem cells program

In millions of dollars



| | 2018–2019 | 2017–2018 | Var \$ | Var % |
|------------------------------|-----------|-----------|------------|-------------|
| ■ Staff costs | 9 | 11 | (2) | -18% |
| ■ General and administrative | 18 | 20 | (2) | -10% |
| ■ Medical supplies | 2 | 3 | (1) | -33% |
| ■ Foreign exchange gain | – | – | – | –% |
| | 29 | 34 | (5) | -15% |

Chart is based on 2018–2019 costs.

Canadian Blood Services Stem Cell Registry is the only pan-Canadian program (excluding Quebec) for patients in need of a stem cell transplant from an unrelated donor. The program provides high-quality stem cell products to meet patients' needs across Canada and around the world. We do this by providing services in donor human leukocyte antigen (HLA) typing, donor and recipient matching, facilitation of adult stem cell donation and provision of frozen cord blood units, as well as provision of frozen autologous and allogeneic stem cell products.

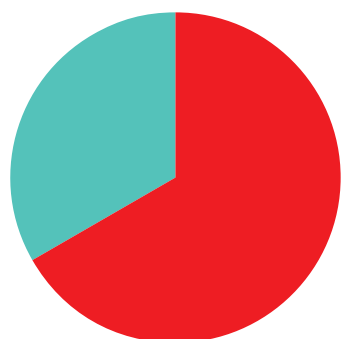
The cord blood banking industry and stem cell transplantation practices have been changing over the past several years. Overall, there has been growth in both autologous and allogeneic stem cell transplants² and a sharp increase in haploidentical³ donors as a source of stem cells, with a consequent decline in the use of cord blood as a source. For the first time, the industry is now seeing a plateau in the use of unrelated donor stem cells – that is, stem cells collected from adult registrants. Recent data suggest that the trend toward increased use of haploidentical donors rather than cord blood and unrelated donors may be prolonged. However, there continues to be a need for all stem cell sources.

In response to decreased international demand for cord blood units and a stabilization in the demand for unrelated donor stem cells, many banks and registries have shifted their strategy. In the cord blood industry, these shifts include moving toward higher-quality units, consolidation of cord blood banks, reduction in collection facilities or hours, and reduced pricing. Canadian Blood Services' Cord Blood Bank has similarly shifted its strategy by reducing collection facilities, collection hours and manufacturing facilities. Canadian Blood Services has specifically aimed to build an ethnically diverse cord blood bank, with quality units. For the year ended March 31, 2019, as a result of this education and consolidation in collection and manufacturing facilities and hours of operation, overall costs declined by \$5.2 million within the overall stem cell program.

Organs and tissues

Cost breakdown of organs and tissues program

In millions of dollars



| | 2018–2019 | 2017–2018 | Var \$ | Var % |
|------------------------------|-----------|-----------|----------|------------|
| ■ Staff costs | 6 | 6 | – | –% |
| ■ General and administrative | 3 | 2 | 1 | 50% |
| | 9 | 8 | 1 | 13% |

Chart is based on 2018–2019 costs.

We manage a national transplant registry for interprovincial organ sharing and related programs for organ donation and transplantation. Working with partners across the organ and tissue donation and transplantation (OTDT) community, we develop and share leading practices, provide educational resources and collaborate on new ways to share data on the performance of the OTDT system in Canada.

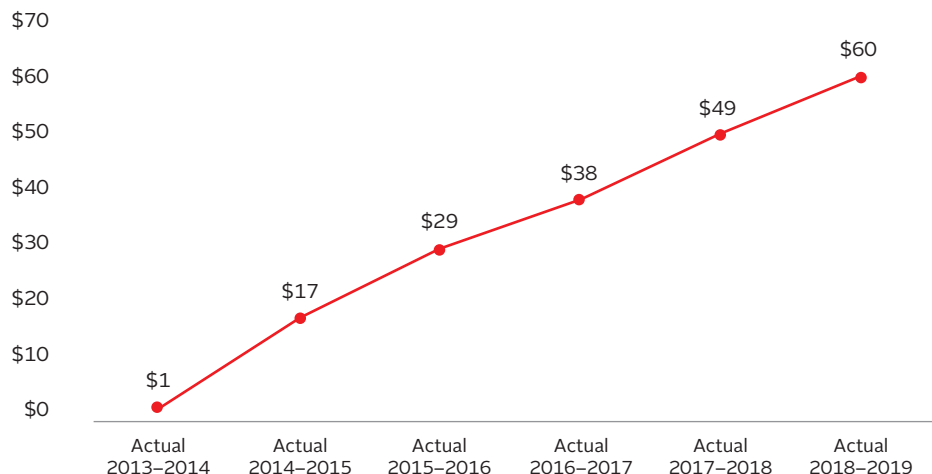
Overall spending in the program increased slightly as a result of additional 2018–2019 mid-year funding provided by Health Canada. The funding was awarded after reports released in 2017 indicated ongoing challenges within the OTDT system in Canada, highlighting in particular the persistent shortfall that exists between the demand for organs and the available supply, and the high variability across jurisdictions and challenges in OTDT system performance. Additional funding for 2018–2019 and 2019–2020 is aimed at public education and awareness, professional education and leading practices.

² Stem cell transplants associated with high doses of chemotherapy and radiation treatment.

³ Stem cell transplants that are a half match from a family member. A biologic parent or child is always a half match to the patient.

Optimizing cost-efficiency

Efficiencies realized from fiscal year 2013–2014 to 2018–2019



As a partner in health care, Canadian Blood Services has an obligation to ensure that every dollar entrusted to us by Canadians is managed efficiently and effectively. Although our first priority is to safeguard the processes, practices and systems that help us to ensure the quality, safety and sufficiency of our products and services, we constantly look for opportunities to become more productive and maximize the impact of our investments.

We manage this effort through the Productivity and Efficiency Program, which has been in place since 2008, leveraging continuous improvement concepts, operational consolidation, organizational redesign and the implementation of technology, as well as shifting to digital interactions and successful procurement practices to drive value, improve efficiencies and manage costs.

Through two focused waves, Canadian Blood Services is targeting \$170 million in total efficiencies, largely through our fresh blood function. The first wave saw \$70 million in cost savings achieved between fiscal years 2008–2009 and 2011–2012, confirmed by the independent performance review of our operations undertaken by EY in 2013. The second wave, which is ongoing, targets an additional \$100 million in efficiencies, of which \$60 million has been realized so far. To date, the cumulative savings over the two waves are \$130 million of the \$170 million targeted.

Beyond efficiencies for fresh blood, our members have benefited in recent years (and continue to benefit) from product choice and favourable pricing obtained through Canadian Blood Services' value-based procurement activities related to plasma protein products.

- After negotiating contracts that took effect in 2013–2014, we delivered more than \$600 million in cumulative cost reductions and cost avoidance over the five-year contract term.
- We executed contracts for recombinant factor VIII and IX products, which resulted in both a significant decrease in the cost per unit (approximately \$90 million in cost reduction and cost avoidance over fiscal years 2016–2017 and 2017–2018) and the successful conversion, where it made financial sense, of payment currency to Canadian dollars.
- New contracts, which went into effect in 2018–2019, have achieved brand diversity and product choices while also driving an estimated \$455 million⁴ in cumulative cost reduction and cost avoidance over their three-year term.

⁴ The forecasted savings and cost avoidances are subject to utilization and product mix trends. In addition, if switching occurs at a slower rate than anticipated, savings related to new contract pricing may be reduced.

Governance

Canadian Blood Services is a not-for-profit charitable organization that operates independently of government and is regulated by Health Canada through the federal *Food and Drugs Act*. It was created through a memorandum of understanding among the federal, provincial and territorial governments. In 2018–2019, Canadian Blood Services and the provincial and territorial governments, as corporate members, negotiated terms for a National Accountability Agreement (NAA). The NAA, which sets out the accountability relationship among the parties, is consistent with and complementary to the 1998 memorandum of understanding. A draft has been completed and is now undergoing review; it is expected that the NAA will be signed and executed in 2019–2020.

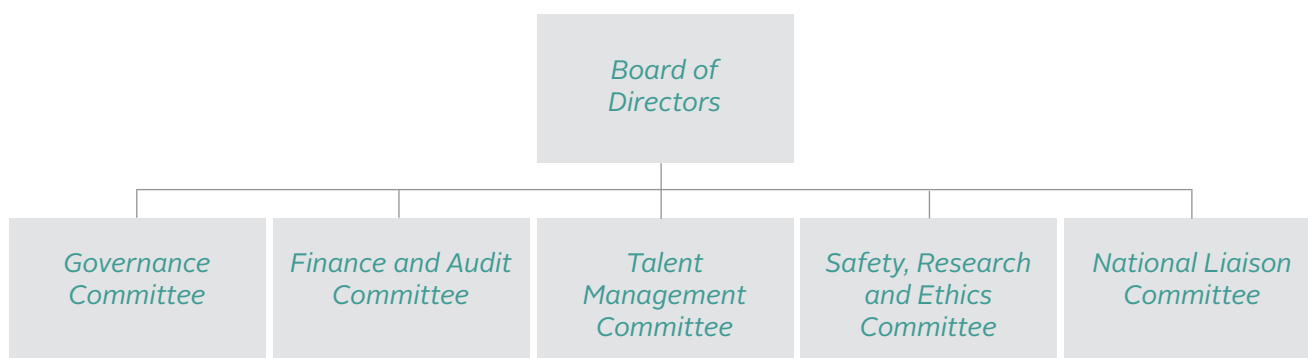
Members

Under the *Canada Not-for-profit Corporations Act*, the provincial and territorial ministers of health (except Quebec) serve as members of the corporation and appoint our board of directors. The board of directors is accountable to the members.

The ministers also collectively approve Canadian Blood Services' three-year corporate plan and annual budget. A lead province is designated every two years, Effective April 1, 2019, Prince Edward Island assumed this role, replacing Saskatchewan.

Board of directors and committees

Our board consists of 13 directors, who are appointed by the corporate members (except in Quebec). The board's role is broad oversight of Canadian Blood Services' management and direction.



Number of board of directors and committee meetings during 2018–2019

| | |
|---------------------------------------|---|
| Board | 6 |
| Talent Management Committee | 6 |
| Finance and Audit Committee | 6 |
| Governance Committee | 4 |
| Safety, Research and Ethics Committee | 4 |
| National Liaison Committee | 1 |

Board attendance and compensation paid during 2018–2019

| Director | Chair | Number of board meetings attended | Number of committee meetings attended | Honorariums paid |
|----------------------|---------------------------------------|-----------------------------------|---------------------------------------|------------------|
| Melvin Cappe | Board | 6/6 | 12/12 | \$64,750 |
| Judy Steele | Finance and audit committee | 5/6 | 9/13 | \$16,625 |
| Glenda Yeates | Board Vice-Chair | 6/6 | 12/12 | \$28,375 |
| Dr. Brian Postl | | 1/1 | 2/2 | \$7,500 |
| Lorraine Muskwa | | 1/1 | 2/3 | \$6,750 |
| Robert Adkins | | 1/1 | 2/2 | \$6,750 |
| Kelly Butt | Governance committee | 6/6 | 7/7 | \$35,500 |
| Victor Young | | 1/1 | 1/3 | \$6,000 |
| Craig Knight | Talent management committee | 6/6 | 11/11 | \$30,938 |
| David Lehberg | | 6/6 | 11/13 | \$11,125 |
| Anne McFarlane | Safety, research and ethics committee | 6/6 | 8/8 | \$20,875 |
| Dunbar Russel | | 6/6 | 9/10 | \$28,250 |
| Dr. Jeff Scott | | 6/6 | 11/11 | \$23,500 |
| R. Wayne Gladstone | | 5/5 | 7/7 | \$27,750 |
| Dr. Kevin W. Glasgow | | 5/5 | 8/8 | \$20,750 |
| Suromitra Sanatani | | 3/4 | 5/5 | \$16,875 |
| Mike Shaw | | 4/4 | 5/5 | \$15,500 |

There were a number of changes to the board of directors during 2018–2019. Board member Judy Steele started her term effective March 12, 2018, replacing Elizabeth A. Martin. Board members Dr. Brian Postl, Lorraine Muskwa, Robert Adkins and Victor Young joined effective January 7, 2019. They replaced R. Wayne Gladstone, Dr. Kevin W. Glasgow, Suromitra Sanatani and Mike Shaw.

Board of directors' retainer and honorariums

Canadian Blood Services' bylaws provide that directors be remunerated for attendance at and participation in meetings of the board of directors and committees, as set by the members. The chair receives an annual retainer, other directors receive meeting honorariums, and all directors are reimbursed for their travel expenses. Directors are also entitled to per diems when they are required to conduct business on behalf of the board.

The table below shows the structure of honorariums paid to the directors of the board.

Board of directors' retainer and honorariums

| | |
|--------------------------------|---|
| Annual retainer for the chair | \$15,000 per annum |
| Meeting honorarium | \$750 per diem |
| Meeting preparation honorarium | One day for directors @ \$750 per day Up to two additional days for chair and vice-chair @ \$750 per day Up to one additional day for committee chairs @ \$750 per day |
| Travel to meetings | Up to two days (depending on origin and destination) per meeting @ \$500 per day |
| Days on business honorarium | \$750 per diem (for events such as meetings on behalf of Canadian Blood Services) |
| Travel | Travel costs according to Canadian Blood Services' expense policy. Details of these travel costs can be found on our website at https://blood.ca/en/about-us/our-board-directors . |

Board education

The board of directors' education program has three components:

| | |
|---|---|
| Board orientation | This training is provided to new directors upon joining the board. It provides the essential information they need about Canadian Blood Services, so they can become engaged in the board's work as quickly as possible. |
| Board education, sector-focused (blood, plasma, organs, stem cells) | This ongoing training is provided to all directors. It is a continuing education program intended to give directors a deeper understanding of the activities of Canadian Blood Services within the Canadian health-care sector. An educational session is provided at each in-person board meeting. Additional recorded sessions are available for directors to access as their schedules permit. |
| Board education, director development-focused | This ongoing training is provided to all directors. It is a continuing education program intended to enhance directors' skills and knowledge related to the business of Canadian Blood Services, board business and directors' functions on the board. It takes the form of external educational programs, conferences and seminars. |

Executive management team compensation

Canadian Blood Services is founded on the principles of safety, openness and transparency — traits deeply rooted in our culture. The manner in which we compensate executives reflects these principles. As such, Canadian Blood Services has a comprehensive and rigorous executive performance management and compensation program, following best-practice principles in corporate governance.

The CEO, who reports to the board of directors, oversees the vice-presidents and our internal auditor. Each year, the performance of members of the executive management team, including the CEO, is measured through the use of executive performance agreements. These agreements contain goals linked directly to achieving collective corporate performance goals, as well as specific and measurable individual goals. Performance against these goals is used to derive the specific calculations for either merit increases or performance awards.

The CEO's performance is the responsibility of the full board, with the process being largely overseen and managed by the Talent Management Committee. The CEO is subject to two performance reviews each year: an interim review in the second quarter and a full review at the end of each fiscal year. This full board review tracks in detail the CEO's performance against measurable and specific performance goals. Any compensation adjustments flow from this review, after deliberation by the board, and these adjustments are solely at the board's discretion.

Every two years, the Talent Management Committee also commissions an independent study to gather comparative compensation data for the CEO. Every third year, the committee independently commissions outside expertise to lead a 360° performance review of the CEO.

Members of the executive management team are reviewed through a similar process. The CEO meets with all of the executive management team members and reviews their performance based on the corporate performance indicators contained in their respective performance agreements. The CEO's recommendations for compensation adjustments are presented to the Talent Management Committee of the board for approval.

Components of the compensation program

The compensation program for executives comprises several elements, referred to as “total compensation.” Total compensation includes:

- base salary
- annual pay at risk
- pension plan
- benefits and perquisites

Canadian Blood Services aims to align our total compensation for executives with the market median for comparator groups.

Total compensation for executives

| | Fiscal Year | Base salary | Compensation at risk as a percentage of base salary |
|---|------------------------|-------------|---|
| Dr. Graham D. Sher Chief Executive Officer | 2018–2019 | \$606,000 | 30% |
| | 2017–2018 | \$591,220 | 30% |
| Jean-Paul Bédard Vice-President, Plasma Operations | 2018–2019 | \$296,499 | 22.5% |
| | 2017–2018 | \$290,685 | 22.5% |
| Judie Leach Bennett Vice-President, General Counsel and Corporate Secretary | 2018–2019 | \$260,000 | 22.5% |
| | 2017–2018 | \$230,000 | 22.5% |
| Dr. Christian Choquet Vice-President, Quality and Regulatory Affairs | 2018–2019 | \$276,932 | 22.5% |
| | 2017–2018 | \$270,177 | 22.5% |
| Dr. Isra Levy Vice-President, Medical Affairs and Innovation | 2018–2019 ¹ | \$455,000 | 22.5% |
| | 2017–2018 | \$455,000 | 22.5% |
| Ralph Michaelis Chief Information Officer | 2018–2019 | \$245,193 | 22.5% |
| | 2017–2018 | \$239,212 | 22.5% |
| Andrew Pateman Vice-President, People, Culture and Performance | 2018–2019 | \$328,625 | 22.5% |
| | 2017–2018 | \$319,054 | 22.5% |
| Pauline Port Chief Financial Officer and Vice-President, Corporate Services | 2018–2019 | \$378,684 | 25% |
| | 2017–2018 | \$369,448 | 25% |
| Rick Prinzen Chief Supply Chain Officer and Vice President, Donor Relations | 2018–2019 | \$332,252 | 25% |
| | 2017–2018 | \$288,915 | 25% |
| Ron Vezina Vice-President, Public Affairs | 2018–2019 ² | \$220,000 | 22.5% |

¹ Dr. Isra Levy started in this position effective January 22, 2018. He was not eligible for a base salary increase effective April 1, 2018.

² Ron Vezina started in this position effective August 7, 2018. His base salary and annual allowance were prorated and paid out starting on this date.

Compensation also includes:

- a \$10,000 annual vehicle allowance, with the exception of the CEO who receives an annual allowance of \$18,000
- vacation entitlement: Year 1, four weeks; Year 2, five weeks; Year 3, six weeks; and for the CEO, Year 20, seven weeks
- Standard benefits package: executive benefit package covering health, dental, life insurance, long-term disability, defined benefit pension and health-care spending account