Photographs and captions included in this report depict the stories of the brave and dedicated people involved with CBS: recipients, donors, volunteers, employees.

Our 6-year old cover girl was diagnosed with acute lymphocytic leukemia in October 1996.

“When I go to the hospital or when I get a blood transfusion, I always take Tamy along, she’s my favourite doll. I like to share everything with her — even needles!”

Patricia Yasa,
Recipient, Gloucester

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1999-09-15

The Honourable Mildred Dover, M.L.A.
Minister of Health and Social Services
Chair, Council of Provincial/Territorial Ministers of Health
Charlottetown, Prince Edward Island

Dear Minister:

On behalf of the Board of Directors, I have the privilege to submit this Report to Canadians from Canadian Blood Services, together with its financial statements, for the period September 28, 1998 to March 31, 1999.

Sincerely,

Kenneth J. Fyke
Chair
“Safety is not just a destination, a target we can hope to reach if we carry out this test or implement that process. Rather, it is a state of mind, an attitude and an approach that will pervade the entire CBS. Indeed, safety must be an integral part of the culture of the organization.”

Kenneth J. Fyke, Chair, Canadian Blood Services

“I was diagnosed with T-cell leukemia in August of 1998. I am currently on the road to recovery. Nobody needs to be afraid of having a needle. I used to get them every week. It is scary at first, but you get used to it... It helps to have someone hold your hand.”

Jamie Vizena, Recipient, Ottawa
“We have not simply grafted a new head on the same old body. Canada’s new blood system is designed in a fundamentally different way that reflects the recommendations of the Krever inquiry.”

Lynda Cranston, Chief Executive Officer, Canadian Blood Services
A Message to Canadians

At Canadian Blood Services (CBS), we are committed to restoring public confidence in the safety and security of Canada’s blood supply. This has been the fundamental driver at CBS. To this end, we have instigated a process of fundamental change designed to create a safer and more accountable blood supply system for Canadians.

It is no secret that CBS and Héma-Québec, the blood operator in Québec whom we work with closely, were created as a result of the crisis in the blood supply of the 1980s and 90s. This crisis seriously undermined the confidence of Canadians in blood and blood products. Our goal continues to be the restoration of the confidence of Canadians. This is the key ingredient if we hope to ensure that we meet the daily challenge of matching supply with demand for blood and blood products.

The Transition from the Canadian Red Cross to CBS

On September 10, 1996, Federal, Provincial and Territorial Health Ministers agreed to put in place a new national blood authority that would operate at arm’s length from all governments and that would be responsible for managing all aspects of an accountable and fully integrated blood system. They agreed that the safety of the blood system is paramount; that a fully integrated approach is essential; that accountabilities must be clear; and, that the system must be transparent.

In particular, the Ministers confirmed that the new supply system would adhere to a set of key guiding principles designed not only to maintain and protect the voluntary donor system, but also pursue national self-sufficiency. These principles would also encourage adequacy and security of supply; confirm safety of all blood components and fractions; preserve gratuity of all blood to recipients within insured health services; achieve a cost-effective and cost-efficient system; and, maintain a national blood program.

The new national blood authority would be responsible and accountable for recruiting blood donors and managing blood donations; collect-
I feel proud to work for CBS with my team to contribute towards improvement of the safety of our blood supply.”

Dr. Yu-Wen Hu, Lab Scientist, Molecular Virology, National Testing Laboratory, Head Office, Ottawa.

The decision to create a new national blood authority was consistent with the conclusions of Mr. Justice Krever in his Final Report, Commission of Inquiry on the Blood System in Canada, calling for a single, integrated entity responsible and accountable for the safety and security of Canada’s blood supply system.

The Canadian Blood Services Transition Bureau (CBSTB) was appointed by Canada’s Health Ministers on October 15, 1997. The Transition Bureau had the responsibility for managing the safe and effective transfer of the Canadian Red Cross Blood Program to CBS.

CBS was authorised to establish the CBS Insurance Company Limited (CBSI) by a Members Resolution passed on August 24, 1998. The Provinces and Territories agreed to provide funding to CBS in order to capitalise CBSI to an aggregate amount of $250 million. The initial capital requirement of $50 million was provided to CBS as part of the start-up and transition costs of CBS. Through annual operating budgets, the Provinces and Territories agreed to provide additional funding on an annual basis, which will total an additional $200 million over a period ending in 2003 to fully capitalise CBSI.

The principal purpose of incorporating CBSI was to access reinsurance capacity with respect to blood products liability and medical malpractice.
Our First Six Months

“I donate blood because I feel we need to have personal involvement in society. It is a privilege to help others.”

Rick Morrison, Donor, Vancouver

risks arising out of the ownership, management and operation of the blood supply system by CBS. The Provinces and Territories set as a target a total insurance limit of $1 billion.

A core transition planning team remained in place until CBS assumed full responsibility for the operation of Canada’s new blood supply system on September 28, 1998, ending the Canadian Red Cross operation of the blood system. CBS acknowledges the contribution of CRC staff and volunteers for more than 50 years.

Significant Changes
Stepping up to the challenge to meet Canadians’ expectations for a blood supply system that is second to none in terms of safety and effectiveness has necessitated fundamental changes in how our organization functions. These six significant changes form the foundation upon which we will achieve our goal:

1. An autonomous Board of Directors designed to reflect the interests of stakeholders. In addition to a Chair, the CBS Board features two consumer interest representatives, four regional interest representatives, and six representatives from the medical, technical, scientific, public health and business communities.

2. Independent expert advisory committees—such as the Consumer Advisory Group, the Research and Development Advisory Committee and the Scientific Advisory Committee—that provide early and informed reviews of key decisions.

In addition, safety audits will be conducted periodically by independent experts.

3. Openness in our operations that reflects a key recommendation of the Commission of Inquiry on the Blood System in Canada. For instance, the CBS Board of Directors makes its agendas public in advance of meetings and releases its minutes on our web site. Earlier this year, we held our first annual public Board Meeting. This will become a regular occurrence for CBS, not only at our Head Office in Ottawa but right across the country. We also encouraged stakeholder consultations through open forums held in Vancouver, Edmonton and Ottawa. A large amount of general information ranging from clinic locations to donor eligibility, from bone marrow registry to research and development, from career opportunities to Y2K updates, is also available on the web site.

4. Clear lines of accountability. The Board has established a clear line of accountability through the CEO. CBS is a single focus organization. Our business is blood, blood products and their alternatives.

5. Tools to react quickly to unforeseen circumstances or events. CBS will have increased flexibility to deal with contingencies through the more agile funding mechanisms of a three-year business plan. CBS will be in a position to make decisions in a timely manner.
6. Ability to guard against any potential threat to the blood system. We’ve learned from the mistakes of the past and, as a result, we strive to minimize transfusion risk through research into blood safety, alternatives to transfusions and blood substitutes. CBS has set a target of 10 per cent of its operating budget for investment in blood-related research and development vital to our future. Beginning in 2000–2001, CBS will receive $5 million annually from the Federal government for blood-related research. For CBS, undertaking such significant levels of R&D represents no less than a commitment to embracing constant change for the future.

Challenges Ahead
The distance we have travelled since Canada’s Health Ministers announced their intention to establish CBS is enormous, but while the September 28 transition date was an important milestone, it was one small step.

To meet Canadians’ expectations for a safe and effective blood supply system, we will focus our attention on a number of areas:

- Increasing our donor base to ensure our product supply fully meets hospital requirements and, at the same time, carefully balancing customer demand and product utilization.
- Defining the optimum organizational model for CBS through extensive consultation with key blood system stakeholders and benchmarking of international best practices.
- Aiming to achieve efficiencies in program and service delivery. Our consultations with the healthcare community have made it clear that the onus for positive change is a shared one and that we must find new ways to work together.
- Attracting and retaining skilled staff.
- Reviewing the roles and responsibilities of key stakeholders involved in the Unrelated Bone Marrow Donor Registry (UBMDR) as well as its program mandate, clientele definition, registry size and composition, recruitment strategies and techniques, search techniques, fund-raising, testing, umbilical cord blood, systems, communications, risk management and organizational structure.
- Establishing a sound health-risk management framework for CBS. The CBS Board has made it clear that safety will be the lens through which it will view decisions affecting the blood system.
- Meeting accepted international standards because, in today’s world, science moves faster than the ability of government to regulate.

The establishment of CBS provides an unprecedented opportunity for fundamentally changing the basis upon which Canada’s blood system has operated to date. We are aware of the challenges confronting our blood system, and of the need for change.

“I really enjoy the teamwork, but my favourite part of the job is being at the clinics and talking with the donors.”

Gillian Chin Sang, Donor Service Representative, Toronto Blood Centre
The bottom line is that we are building a blood system for Canadians with new components that are already making it fundamentally different from the system of the past. At CBS, we are instituting innovations that involve changing how people relate to our organization. This involves our staff, our volunteers, our donors, and numerous community and interest groups.

Not only is it important for us to more clearly define the roles and responsibilities of blood centres, it is equally important that we work with our partners (i.e., hospitals and clinics, public health authorities, regulating and accrediting bodies, and consumers) to define their respective roles and responsibilities. Only by clearly delineating roles and managing expectations will we be able to identify where standardization makes most sense, and where creativity and flexibility should be fostered. Over the long term, our vision is to have an integrated network of transfusion committees in place at the community, provincial and national levels to share information on best trends and practices.

We at CBS are privileged to be supported by a highly capable management team, a committed and knowledgeable Board of Directors, and motivated employees. The beat of constant change that is inherent in today's environment - whether it is in a business endeavour, government institution, health care facility or association - heralds how we will evolve through the future. We are already creating a very different system from the previous one. And a year from now it will be different again, because we will be continually refining our approach.

It is with gratitude that we acknowledge the contribution of our donors, Members, employees, partners, and suppliers to the smooth transition and current success of CBS. We are pleased to report that the number of donors and volunteers did not decline at the time of transition and has now stabilized. We believe that it is through the respective commitments of these dedicated, selfless individuals that Canadian Blood Services can continue to fulfill its mission. The future looks promising because we know that together we can make the next millennium one in which the blood system is an integrated model that links all of the steps and all of the partners in effective blood management. More importantly, we will measure the success of our efforts in the knowledge that Canadians feel confident about the safety and security of Canada's blood supply.
“I firmly believe in a system that encourages the anonymous donation of blood by those of us who are healthy, so that those who need my blood and blood products can be given a chance for better health. It is perhaps the most purely altruistic thing I can do.”

Reverend Peter Wall, Plasmapherisis donor, London
Corporate Profile

Canadian Blood Services is a national, independent, not-for-profit, charitable organization whose sole mission is to manage the blood supply for Canadians. Created in 1998, it is the successor to the Canadian Red Cross Blood Program and the Canadian Blood Agency (the former funding arm of Canada’s blood supply system). CBS has recently approved the creation of a Charitable Foundation. Located in all Canadian provinces except Québec, CBS is staffed with 3,600 employees in 17 locations.

Who We Are

CBS is a charitable organization responsible for recruiting donors and collecting blood at 14 blood centres, two plasma centres and countless blood donor clinics across Canada, except Québec.

Over the last decade, blood collection has declined from just over 1.2 million units to just under 700,000 units per year. Last year, which includes the transition period to CBS, just under 900,000 units were collected, reversing the ten-year declining trend. CBS expects that the same level or even a modest increase will be realised over the next year.

CBS tests the collected blood for safety, manufactures it into its components and derivative products, and distributes it to hospitals. Because of the astounding pace of change in the science of blood, CBS is also charged with ensuring that Canadian medical research and development remains at the cutting edge, and establishing public and professional education programs.

CBS manages the Unrelated Bone Marrow Donor Registry (UBMDR) whose mission is to secure HLA-compatible, committed, healthy, and unrelated donors for Canadian bone marrow patients and for patients abroad in an expeditious way. The Canadian National Coordinating Centre in Vancouver processes searches of the UBMDR and facilitates searches of other international registries on behalf of Canadian patients.

Safety is the paramount concern of CBS. Because blood is viewed as biopharmaceutical, it is manufactured with the same strict regulatory standards

“My first donation was broadcast over the air on a local radio station. I was working for the station at the time and we were promoting a blood donor clinic in the area. I’ve been donating ever since.”

Christopher Worth, Donor, Halifax
as any drug, using current Good Manufacturing Practices (cGMP). The pursuit of safety, therefore, is reflected in every branch of the organizational structure, and drives every management and operational decision. As stated in our mission, CBS will provide a safe, secure, cost-effective and accessible supply of quality blood, blood products and their alternatives. There are no exceptions; safety is the deciding factor.

The Federal government, through Health Canada’s Bureau of Biologics and Radiopharmaceuticals, is responsible for regulating the blood system. Health Canada, through its Laboratory Centre for Disease Control, also keeps track of any reports of disease or threats to the blood system, and monitors international trends in blood safety and management.

CBS is the national blood authority that operates at arm’s length from governments and that manages all aspects of the accountable and fully-integrated blood supply system in provinces, except Québec where the blood system is operated by Héma-Québec.

Our Mission

Canadian Blood Services operates Canada’s blood supply in a manner that gains the trust, commitment and confidence of all Canadians by providing a safe, secure, cost-effective and accessible supply of quality blood, blood products and their alternatives.

Our Vision

Canadians have confidence in us. Canadian Blood Services provides a safe, secure, cost-effective and accessible supply of blood, blood products and their alternatives. Canada is self-sufficient in blood and we are working to be self-reliant in plasma. Emerging risks and best practices are monitored continuously. Our blood and products are safe and of quality.

CBS has established and works to maintain effective relationships with all of our stakeholders.

Our arm’s length relationship with Provincial and Federal governments enables us to operate within our business plan and with reliable funding. We are known for our financial stewardship of public funds.

We work with consumer groups to address strategic issues and meet their needs. We monitor our environment and other key indicators that enable us to anticipate changes and prepare for them.

CBS continues to help hospitals improve blood utilization and surveillance. We have found that educating consumers, donors, physicians and other health professionals is key to managing utilization of blood and blood products.
Donors actively support us and our donor base is strong. Our volunteers continue to play a critical and meaningful role.

Through our work and support, the science of transfusion medicine is advanced. Our research program is leading to the development of alternative products in transfusion practices.

We are internationally recognized for our excellence and innovative programs and services.

Our employees view CBS as a great place to work. We have an environment that rewards creativity, teamwork and vision, and provides opportunities for personal and professional advancement.

We are proud of the contribution we make.

**Our Value Statements**

We are committed to delivering safe, quality blood, blood products and their alternatives to Canadians through a national not-for-profit organization that:

- accepts responsibility for ensuring the safety and quality of Canada’s blood supply system;
- considers blood a national resource;
- values and celebrates the contributions of blood donors and volunteers;
- values employees within an environment that provides opportunities for personal and professional advancement;
- encourages and welcomes early and informed input into its activities and operations;
- promotes the appropriate use of blood, blood products and their alternatives;
- responds quickly to medical, technical, scientific and management advances and innovations;
- accepts responsibility for the financial stewardship of public funds;
- is guided by a code of ethical conduct;
- is value-driven and focused on appropriate outcomes;
- is dedicated to achieving or exceeding world standards;
- is dynamic, open and accountable; and
- rewards creativity, teamwork and vision.

“CBS is very important to all of us. It provides a service that is fundamental to health care.”

Lawrence Lau, Telephone Recruiter, Winnipeg Blood Centre
Our Code of Ethical Conduct

This Code of Ethical Conduct derives from the past history and planned future of the Canadian blood supply system.

Preamble
During the early and mid-1980s, international concerns emerged about the safety of national blood systems. Canada shared these concerns, which linked, in part, rising rates of Human Immunodeficiency Virus (HIV) and hepatitis (non-A/non-B) infections to viral contamination of the blood transfusion system. In Canada, and elsewhere, preliminary investigations suggested that deficiencies in the governance and safety of transfusion services had facilitated the transmission of HIV and hepatitis C virus (HCV) through blood and blood products. As a result in 1993, the Canadian Federal, Provincial and Territorial (F/P/T) Ministers of Health created the Commission of Inquiry on the Blood System in Canada under the direction of Mr. Justice Krever. The Inquiry published an interim report in 1995 and a final report in 1997. Based on the extensive recommendations in these reports, the F/P/T governments established Canadian Blood Services in 1998 to oversee a “new” blood system in Canada.

To assist CBS to honour its mission, its By-laws require that it formulate a Code of Ethical Conduct. This Code will govern the conduct of the business of the Corporation, its directors, officers and employees. It will offer ethical guidance for decision-making in general, but particularly concerning issues of safety, the development of alternatives to blood, the financial and administrative autonomy of CBS, potential supply difficulties, and the creation of a culture of innovation and curiosity in Canadian transfusion medicine. This Code should also be seen as the instrument by which CBS will exercise its duties of “accountability and openness” for all of its stakeholders.

Principle of the Code
The Code of Ethical Conduct is based on the four ethical principles of respect for persons, avoiding harm (non-maleficence), doing good (beneficence), and justice. The practice of ethics by principles is but one of several available options. For CBS, principlism is particularly appropriate as a procedural option, given the close relationships of the transfusion sciences to the health system and the widespread use of these same principles by the health system in Canada and internationally. As well, the use of principles in ethics fosters personal integrity in decision-making rather than relying on the often ritualistic rigidity of rules.

The principle of respect for persons applies to all who constitute the “family” of CBS: donors, recipients, volunteers, employees, senior management, and the Board of Directors — and ultimately to the F/P/T Ministers of Health. In this context, respect for persons means that all within the family of CBS will always strive to respect the autonomy, confidentiality, and integrity of each other, as well as their accountability to each other and their stakeholders, while recognizing...
that compromise can be demanded for legal or ethical requirements.

The principle of non-maleficence (avoiding harm) captures the essence of one of Mr. Justice Krever’s primary recommendations, namely, the “safety of the blood supply system is paramount”. In this context, safety was prioritized as a means of avoiding harm within the blood supply system. As with any human biological system, however, possible harm (and the risk thereof) in the blood supply system must be balanced with anticipated benefits to ensure that harm always is minimized and benefits always are maximized. It is also essential to apply the principle of non-maleficence in the blood supply system in ways that will balance the several relevant forms of harm and benefit, including physical, emotional, societal and moral harm and benefit. Because of these considerations it will be seen that in ethical analysis the principles of non-maleficence (avoiding harm) and beneficence (doing good) cannot always, or easily, be separated from each other.

The principle of beneficence (doing good) is a powerful determinant of human ethical behavior. In relation to the blood supply system, it underlies both the altruism of blood donation and Mr. Justice Krever’s recommendation that blood be confirmed as a “public resource” in Canada. However, just as “avoiding harm” in the blood supply system cannot always be applied as an absolute, neither can “doing good”. Inevitably, but hopefully rarely, CBS will encounter ethical dilemmas wherein the choices between two competing safety procedures, for example, will cause conflict between the principles of beneficence and non-maleficence.

In such situations, where there will be no single “right” choice, the application of the principles of this Code will assist in achieving the least morally harmful outcome by maximizing benefits and minimizing harm.

The principle of justice should be seen from the perspective of ethics rather than that of the law. In the blood supply system, justice demands fairness in the application of the three preceding principles. Justice has particular relevance for the selection and exclusion of blood donors and recipients, for sharing the benefits and burdens (harms) inherent in the supply of blood and blood products, for truth-telling and honesty, for confidentiality, and for accountability to the stakeholders of CBS. Justice not only stands alone as a principle, but it also pervades the principles of respect for persons, non-maleficence and beneficence.

It is important to emphasize that none of the principles in this Code exert a priori authority over each other. They are each intended to serve as ethical benchmarks that will establish expected norms of behaviour, the application of which will assist in the ethical analysis of particular issues relevant to accountability in the Canadian blood supply system.

“Everyday brings a new challenge. Working for Canadian Blood Services is a rewarding and educational experience.”

Jennifer Skuce, Library Technician, Library Services, Head Office, Ottawa
Implementation

- Every “family” member of CBS – donors, recipients, volunteers, employees, managers and directors - must be provided the opportunities to become familiar with this Code so that its principles form the daily work ethic of CBS.
- Implementation of this Code should be undertaken by the Executive Management Team.
- The Code’s principles should serve to inform the human rights policies of CBS.
- Ultimate responsibility for the administration, interpretation and modification of the Code remains the duty of the Board of Directors.

Conclusion

Blood is the gift of life. By employing this Code of Ethical Conduct, CBS will create a day-to-day work ethic of principlism in the blood supply system in Canada, and will honour and be accountable to those who have given, and those who have received this gift.

Our Strategic Direction

In less than a year, CBS has laid the foundation for an integrated model blood system that links all of the steps and all of the functions in blood management. This was achieved through collaboration with our many stakeholders and through a common desire to restore public confidence in the safety and integrity of Canada’s blood supply system.

Our overall strategic goal is to provide a safe, secure, cost-effective and accessible supply of quality blood, blood products and their alternatives.

With input from CBS employees, management, and the Board of Directors, we have developed outcomes under an eight-point strategic direction:

1. Organizational Model and Service Delivery Systems
   Design and successfully implement an organizational model and service delivery systems that enable CBS to achieve its vision and mission as well as to identify and implement the services and support that CBS should provide to its customers.

2. Safety and Quality of the Blood Supply
   Provide safe quality products and practices from “pre-vein to post-vein”.

Leslie Clark,
Coordinator, Employee Health Services,
Human Resources,
Head Office, Ottawa
3. **Donor Retention, Recruitment and Plasma Self-sufficiency**
   Develop and maintain a stable active donor pool and ensure plasma self-sufficiency in order to supply Canadians with appropriate blood products.

4. **Relationship Management**
   Establish and maintain positive relationships with significant stakeholders: volunteers, governments, regulators, hospitals, professional licensing bodies, consumer interest groups, consumers, professionals, suppliers and labour organizations.

5. **Research and Development**
   Establish an environment of excellence at CBS in research and development into blood, blood products and their alternatives.

6. **Education**
   Ensure that stakeholders are aware of blood, blood products and alternatives and their appropriate use.

7. **Marketing and Communications**
   Develop communications plans and marketing strategies to ensure that consumers, donors and other stakeholders understand our activities and our role, and develop an internal communications plan to ensure that employees are knowledgeable about CBS activities.

8. **Infrastructure**
   (Information Technology, Finance and Human Resources)
   Establish comprehensive and integrated value-added business processes and practices that are standards-based and are consistent with the organizational model.

“I started donating blood in 1971 after being encouraged to do so by my doctor. I keep coming back because I understand the constant need for blood. Who knows, maybe someday I’ll be the one who needs blood.”

David Culliford, Donor, Toronto
CBS has been described as a model for a new national organ and tissue collection agency:

"I would suggest the model that has been set up for CBS could serve as a model for transplantation in that they have a voluntary board that's accountable to both the public and the government."

Bill Darable, Chief Executive Officer, British Columbia Transplant Society
### Highlights

#### Facts at a Glance

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* Please note that these figures seem low when compared to previous years for two reasons:
1) the period reported is 6 months versus 12 months because CBS was launched halfway through the fiscal year, and
2) with the creation of Héma-Québec, the Province of Québec is no longer part of the national blood program.

‡ Unrelated Bone Marrow
† Unrelated Bone Marrow Donor Registry

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Lacey receives Gamimune, a blood by-product, on a monthly basis.

“Without it, my life wouldn’t be the same.”

Lacey Risser, Recipient, Halifax
“While no medical procedure is 100% safe, it's our job to strive towards achieving zero risk in transfusion medicine.”

Dr. Graham Sher, Vice-President, Medical, Scientific and Clinical Management, Canadian Blood Services
We faced many challenges during our first six months; we had to ensure a smooth transition, it occurred; we had to establish strategic priorities that would help us move forward, we did; we had to regain the public's confidence in a safe blood system, we are continuing to do so.

A potential loss of donors was a major concern leading up to transition. A comprehensive national communications plan was put into place, including a major advertising campaign, letters sent to 1.5 million donors, news releases and internal communication. We believe that this concerted effort led to the stabilization of our donor base, unlike other countries that experienced a sharp decline in donor base as a result of a similar transition.

This section summarizes the issues we have addressed and the accomplishments we have achieved in our first six months.

**Bayer Kogenate Hold and Release**

In late December 1998, Health Canada ordered the hold and subsequent release of Kogenate, Bayer's recombinant factor VIII, after Bayer reported that a donor whose plasma had been used to manufacture fractionated products (including virtually all lots of Kogenate) had been diagnosed with Creutzfeldt-Jakob Disease. Following this development, certain consumers and physicians expressed their concerns over the use of the product that was involved in this hold and release, and requested that a non-implicated product be made available.

Because some consumers refused to use this product, CBS offered recombinant factor VIII manufactured by Baxter Healthcare Corporation. CBS purchased 30 million units of Recombinate from Baxter, and 10 million units of Bioclate from Centeon (the same product as Recombinate, sold under another label). CBS was able to purchase only an additional 2.5 million units of these products and, at current rates of consumption, it is forecasted that these extra inventories will be...
depleted by the end of 1999.

Historically, the blood program offered Kogenate as the product of choice, based on a variety of factors, including product safety, consumer choice, and price. Recombinate was made available on an exceptional basis for those patients who could not tolerate Kogenate for medical reasons. Prior to December 1998, Recombinate accounted for 1.5 per cent of recombinant factor VIII issues. In January, Recombinate accounted for 18 per cent of product issues, and in February this percentage increased to 52 per cent. Data from March indicate that the demand for Recombinate decreased to 40 per cent, and patients may be shifting back to Kogenate. CBS continues to monitor the situation.

Benchmark Performance Review
CBS began benchmarking its operations including Good Manufacturing Practices. The benchmarking will be conducted at all CBS donor centres, the two plasma collection centres, the National Testing Laboratory, and the Head Office Quality Assurance organization. CBS will develop action plans to address the results of this review.

Canadian Blood Services Act
In reviewing a draft Canadian Blood Services Act developed by a working group of Federal/Provincial/Territorial officials, the Board of Directors was concerned that the draft enshrined the governance structure of CBS but did not provide an overall policy framework for the blood program as recommended by Mr. Justice Krever.

The Board of Directors has recommended that a proposal for a CBS Act be revisited in late 1999 after having operated the system for a year.
Contingency Planning

CBS is developing the following contingency plans to deal with a variety of situations.

1. A Blood Information System (BLIS) 2000 Contingency Plan has been developed to enable centres to continue operating should the BLIS computer system become unavailable to any centre. This contingency has required the development of a fully manual system.

2. A Service Interruption Recovery Plan to deal with interruptions in service in any individual centre due to events such as major power failures or weather-related catastrophes. This plan is to be complete by November 1, 1999.

3. A list of business critical suppliers has been developed, and a Single Supplier Contingency Plan is targeted for completion in early summer 1999.

4. A National Catastrophe Recovery Plan to deal with situations that could severely restrict CBS's ability to deliver blood products to hospitals. Such a plan involves developing relationships with suppliers outside Canada and CBS is currently discussing these issues with the Bureau of Biologics and Radiopharmaceuticals (BBR).

HCV Testing of Stored Samples

In late December 1998, the Board of Directors decided to approve, in principle, the testing of the frozen blood samples that are in the possession of CBS in the Toronto and Winnipeg Blood Centres. The Board came to this decision after a careful consideration of the ethical, legal, public health, historical and operational issues involved.

HCV Tracebacks

CBS is making every effort to meet demands for HCV tracebacks resulting from government-initiated programs and litigation in various Provinces and Territories. These requests to verify the transmission of Hepatitis C from a blood transfusion have placed an onerous burden on CBS, given the labour and time-intensive nature of each traceback. Moreover, small centres that export their blood and blood products to larger centres are being inundated with traceback requests from these larger centres. For example, Manitoba exports to Ontario and is handling a large number of tracebacks from that province.

Healthcare Liaison Team

A Healthcare Liaison Team was created prior to the transition date. During the summer of 1998, meetings were held across Canada involving medical, technical and administrative personnel from blood centres and from the healthcare system. Six priority areas were identified:

1. Provincial/Territorial Blood Reference Groups:
   Developing an effective ongoing consultation mechanism with provincial and territorial health systems.

2. Scope of Services Survey:
   Identifying the variations in the scope of services currently provided by blood centres as a basis for

“...”

Mattie Rodgers,
Secretary to Business/Project Manager
Unrelated Bone Marrow Donor Registry,
Head Office, Ottawa
determining future service provision by CBS (basic, special and specific costing models).

3. **Professional Services:**
Identifying the variation in professional services currently provided by blood centres.

4. **Education:**
Determining educational needs and providing formal medical education and support for hospitals and patients.

5. **Lookback/Traceback:**
Describing current approaches to Lookback/Traceback and identifying options to improve processes and to ensure consistency for the future.

6. **Indate Exchange:**
Examining current arrangements for indate returns to reduce wastage of blood products and recommending options for the future.

### House of Commons Standing Committee on Health

In late March 1999, the Chief Executive Officer and the Vice-President, Medical, Scientific and Clinical Management appeared before the House of Commons Standing Committee on Health following an invitation from the Committee to participate in the Committee's review of the state of organ and tissue donations in Canada. The CBS brief focused on CBS governance and on the Unrelated Bone Marrow Donor Registry (UBMDR). Questions related to regulations, enforcement and compliance, UBMDR, and mechanisms and priorities to organ and tissue transplants.

### Information Systems and Technologies

When CBS took over from the Canadian Red Cross, very little preparatory work had been done on year 2000 compliance. In fact, what many organizations have undertaken over a two-year period, CBS has had to complete in less than a year.

BLIS 2000, the Year 2000 solution for the existing Blood Information System (BLIS), was successfully implemented in the Ottawa Blood Centre. Following regulatory approval, BLIS 2000 will be implemented in all blood centres by August 1999.

The fourth quarter of 1998 saw intense activity in planning and deploying Systems, Applications and Products in Data Processing (SAP), CBS's new enterprise resource planning system using the SAP Accelerated Solution model, a financial system to replace AIMS.

All CBS major locations have been re-wired, new local area networks and wide area networks were brought online, new Year 2000 compliant personal computers and servers were deployed, and new messaging, workflow and office suite software was implemented.

Finally, negotiations continued on developing a contract with MAK System for the implementation of their Progesa software, which CBS is committed to do once year 2000 compliance is assured.

### Uncertainty Due to the Year 2000 Issue

The Year 2000 issue arises because many computerized systems use two
digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000. If not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure that could affect the Corporation’s ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Inventory Status
Shortages are often reported in the larger urban centres, such as Vancouver and Toronto, which continue to be net importers of blood, while overall national inventories remain within acceptable (four-day target) limits. A new standardized process for reporting and tracking inventory levels is being developed, with standard indicators of inventory levels, and order filling. In addition, a system for inter-centre transfers of components is being developed. These new initiatives will help CBS meet hospital needs better.

Leukoreduction
At its October 1998 meeting, the Board of Directors decided that CBS would implement pre-storage leukoreduction (the removal of white cells). On November 2, 1998, CBS received a letter from Health Canada’s Therapeutics Products Programme requiring CBS to implement leukoreduction for all blood components by June 30, 1999. CBS spent the fourth quarter of 1998 intensively planning the implementation of this new process, with a view to full implementation by June 1999, to meet Health Canada’s deadline.

Nucleic Acid Amplification Testing (NAT)
In January 1999, the Board of Directors announced its intention to implement Nucleic Acid Amplification Testing initially for hepatitis C virus (HCV), and subsequently for Human Immunodeficiency Virus (HIV), beginning in the fall of 1999. The implementation of this new technology is in keeping with international developments in Europe and the U.S., and will initially be conducted as an investigational procedure. This initiative will offer opportunities for research, development and education and will serve as the platform for a universal testing spectrum for the detection of existing and new transfusion transmissible diseases. Testing facilities will be located in Vancouver, Toronto, Halifax, Winnipeg and in the National Testing Laboratory at Head Office in Ottawa. It is anticipated that this new and more sensitive technology will be put into place in the fall of 1999.

Organizational Model and Service Delivery System
CBS is currently reviewing the structure of its organization to determine
the best organizational model in order to meet CBS's vision “to provide a safe, secure, cost-effective and accessible supply of quality blood, blood products and their alternatives to Canadians.” A number of factors will influence CBS's organization and service delivery, including:

1. The need to identify core and specialty programs. CBS provides a number of programs in each of its facilities. Some of these are offered in response to Provincial Ministry of Health requirements and are designed to respond to specific needs and therefore differ from province to province. For instance, while core programs include donor recruitment, collection, testing, manufacturing and distribution of blood and blood products, as well as autologous and directed blood donations, specialty programs include cross-matching of blood for hospitals, pre-natal, HLA and platelet testing. Specialty programs are provided through some, but not all, blood centres.

2. The need to assess the impact of new technologies and products. What are these technologies and products? Will they dramatically affect the demand for blood and blood products? Over what timeframe? To what extent will they affect the structure and size of CBS?

3. The need for Canada to be more self-sufficient in plasma. What is the most effective way to achieve this objective?

4. The number and location of blood centres. Are blood and plasma centres located in the most convenient places for donors and volunteers? Are we locating production and distribution close to our hospital customers?

5. The need for cost-effectiveness. Provincial Ministries of Health are faced with continuing funding pressures. CBS must be structured to deliver blood services in the most cost-effective way possible without compromising safety.

6. Ensuring the right role for Head Office. Blood and plasma centres work well within the communities they service. Head Office must continue to establish the direction CBS will take and put in place a framework that will assist centres in accomplishing their day-to-day tasks.

As a new entity, it is appropriate to evaluate and establish, if necessary, a new organizational model and service delivery system. Timing is critical given the many challenges and opportunities that will be addressed over the next few years.

Public and Donor Opinion Research

As part of the transition, CBS conducted two surveys: a general public survey of 1000 adult Canadians and a donor survey.

The general public survey asked questions regarding their views on the safety of the blood system. Some highlights of the survey include:

- two-thirds of respondents had seen, read or heard about blood system issues over the years.
• one-third had seen, read or heard about the transition from the Canadian Red Cross to CBS;
• 57 per cent of respondents rated receiving a blood transfusion as “somewhat” safe;
• the transition seems to have had a positive effect on the perception of Canadians as to the safety of the blood program, with 53 per cent of respondents theoretically agreeing to receive a blood transfusion to speed up their recovery, up from 46 per cent in May, 1998;
• 48 per cent of respondents believed that all collected blood is tested for its safety; and
• 47 per cent of respondents believed donating blood is completely safe.

The overall intent of the donor survey was to track reactions to the transition and to find out if donors were comfortable donating blood through CBS. The baseline survey took place in May 1998 and interviewed 500 donors. It was followed by a tracking survey that took place in October 1998 and involved interviews with a random sample of 300 donors. Some of the findings follow:
• 39 per cent in May (87 per cent in October) were aware that some other organization had taken over responsibility for the collection and distribution of blood;
• while 25 per cent in May (48 per cent in October) expressed support for CBS, another 5 per cent in May (25 per cent in October) expressed “strong support”; and
• in May, 72 per cent reported that they were “very likely” to donate through CBS, 89 per cent in October.

Quality Systems Plan
Blood has been regulated as a drug product in Canada since 1989. The Federal regulator in that year added “blood and its derivatives” to Schedule D of the Canadian Food and Drugs Act and in so doing rendered blood subject to all the requirements of drug regulation, including current Good Manufacturing Practices (cGMP) requirements. These requirements impose on the manufacturer the now internationally accepted standards of manufacturing practice that have evolved in a manner designed to minimize the risk and maximize the benefit that the finished product should represent to the consuming public, as labelled.

Over the last three decades cGMP have come to symbolize a standard of quality applicable to the international pharmaceutical industry and are universally applied in that industry in Canada and elsewhere in the industrialized world.

To ensure regulatory compliance, CBS must concretely demonstrate that it is managing risk and ensuring a safe product. To achieve this, a firm commitment to quality must be inherent in all CBS processes and the staff who perform them.

To establish quality systems, new staff experienced in quality systems management will be hired and existing CBS staff will have expanded training in cGMP.

“My goal is to contribute in a tangible way to the success of CBS.”

Carol Najm, Senior Internal Auditor, Head Office, Ottawa
Unrelated Bone Marrow Donor Registry (UBMDR)
The purpose of the UBMDR program is to secure HLA-compatible, committed, healthy, and unrelated donors for Canadian or foreign patients who need a bone marrow transplant. In 1989, the Canadian Red Cross began managing the UBMDR as a pilot project. The program stayed with the Canadian Red Cross until September 1998 when it was transferred to Canadian Blood Services. An organizational review of this program has been undertaken to determine how it might be more effectively structured and managed.

Variant Creutzfeldt-Jakob Disease (vCJD)
In October 1998, Bayer's Advisory Committee on Bioethics released a report on variant Creutzfeldt-Jakob Disease (vCJD) which, among others, recommended that blood donors who had resided in Britain since 1980 be deferred from donating because they may have been exposed to vCJD. Following a meeting with blood experts at Health Canada in late October 1998, CBS and Héma-Québec decided to undertake a survey of their donors in early 1999 to determine their exposure to certain geographic areas where BSE has been reported. This survey has served as a model for a similar survey conducted in the U.S., and has yielded data important to a possible deferral of donors who have been exposed to these areas.

To date, there is no evidence that vCJD has ever been transmitted by blood or blood products; the risk is only theoretical. CBS has been asked by Health Canada to provide recommendations on a deferral policy. The Board of Directors formed an Ad Hoc Advisory Committee to study the issue.

The known risks in terms of impact to the supply of blood and the introduction of higher risks of known infections due to the influx of new donors must be balanced against the potential benefits of reducing the impact of the theoretical risk of vCJD.

This is a very difficult issue to deal with and we believe it is being handled in a manner consistent with Mr. Justice Krever’s recommendations and in the interest of all Canadians. Krever stated, “Preventive action should be taken when there is evidence that a potentially disease-causing agent is or may be blood borne, even when there is no evidence that recipients have been affected... If there are no measures that will entirely prevent the harm, measures that may only partially prevent transmission should be taken.”

Marketing and Public Awareness Strategies
Technically, CBS has four “customer” groups: donors, hospitals to which we supply blood and blood products, patients who use blood and blood products, and consumer groups who represent them.

Research data indicate that our donor base is aging and that CBS must attract younger donors in a more aggressive way. Over half of our donors are now over the age of forty and nearly three out of four donors started giving blood before the age of 25,
therefore making youth the future of the blood system. While the number of donors has remained static over the past two years, the national total for excluded donors increased dramatically in 1997 and 1998 because of new restrictions and new criteria established by Health Canada. In major centres such as Toronto, the size of the blood donor base is actually declining.

Without donors there would be no blood supply to be managed, protected and cared for. Building a large base of reliable repeat donors is an important mandate over the coming year.

Program Planning and Implementation
Several national strategies and programs are being implemented in fiscal year 1999–2000.

1. The “What’s Your Type?” marketing program has been launched.
   This initiative is a mall or consumer show based blood typing promotion to raise the profile of CBS among young donors and families. Once an individual finds out their blood type, a new level of understanding and involvement with blood products is attained. In some Blood Centres, cell phones are used to book appointments on the spot; in others, names of newly “typed” individuals are captured for later telemarketing follow up. Our preliminary results indicate that 20 per cent of people who have been “blood-typed” became blood donors.

2. The basis for a national youth program has been established through special event sponsorship and television advertising.
   CBS sponsored the YTV Youth Achievement Awards in the band/musical group category. This sponsorship also involved the production of a television commercial that aired on the YTV English network.

3. A national advertising campaign was launched using the existing YTV television creative.
   Based on positive response to the YTV television commercial and event, a recommendation was made to take advantage of the existing television ad. A national advertising strategy and plan involving television and Cineplex-Odeon theatres was developed and implemented.

4. A media promotion using Toronto Blood Centre relationships with the Toronto Blue Jays has been organised for launch in Ontario in the summer of 1999.
   This campaign leverages a spokesperson for the Toronto Blue Jays who delivers CBS’s message and promotes local clinic information. Media partnerships have been developed with the CHUM group (broadcaster of Jays games), and media support has been purchased on radio and in out-of-home media vehicles in Toronto, Sudbury, Thunder Bay, Hamilton, Ottawa and London.
The Foundation of our Commitment

Our Employees: Dedicated, Loyal and Hardworking

Our employees know that their work has a direct impact on the health of all Canadians. They are dedicated, loyal and hardworking. Employees from all sectors of the organization understand and accept their role in the blood delivery system and work diligently to ensure that optimal services are provided. This commitment and dedication demonstrates why we believe that our employees are our most valuable asset.

As a means to foster this dedication, the Executive Management Team has implemented a number of initiatives, including the following:

• the establishment of the Leadership Council as a communication tool for leaders within the organization;
• consultation with employees on the new organizational model;
• the implementation of a health and safety system review to identify areas of strength and weakness as a means of ensuring a safe and healthy workplace for all employees;
• a redesign of the compensation plan to provide employees with a more contemporary and competitive model;
• a review of the employee benefit portfolio to allow more flexibility and service;
• a facilities and centre review to address the work environment; and
• the development of recruitment and retention strategies.

We accept the fact that these are busy times and that employees are working hard to “keep up” with new initiatives, such as leukoreduction and NAT testing. However, at the onset and completion of each new venture, employees are recognized as key players in the project planning, development and implementation. We believe that this provides them with ownership and demonstrates our confidence that they know what would work best in their workplace.

As we continue to establish CBS as the new operator of the blood supply system in Canada, we will strive to ensure that our employees are recognized for their ongoing achievements and dedication to the organization.

Our Donors and Volunteers: The Heart of our Blood Supply

Canada’s blood supply system is founded on the principle of gratuity. Just as recipients need not pay for the blood products they receive, donors are not paid for the blood or plasma they give.

Donors and volunteers are the heart of our blood supply system, the lifeline to hundreds of thousands of Canadians each year who need blood or blood products. Without their generosity and commitment, there simply would be no blood system in Canada. CBS is grateful to donors and volunteers for the commitment they have made by being a part of Canada’s blood system. In turn, CBS has made a commitment to donors and volunteers.

“I like to refer to the combination of change, quality and compliance we face at CBS as a highwire balancing act.”

Dr. Carlos Izaguirre, Senior Director, Quality and Standards, Head Office, Ottawa
Our Commitment to Donors and Volunteers
CBS is deeply appreciative of what donors and volunteers have done to help, and for all they will do in the future. CBS values their contributions, and will work hard to earn their trust and support. That's why CBS is committed to making the donor and volunteer experience the best that it can possibly be.

What Donors and Volunteers Can Expect from CBS:

Respect
- We will treat them with the respect and the courtesy that they deserve.
- We will listen to their advice and will always strive to answer their queries fully and promptly.
- We will never bring undue pressure of any kind to bear upon them; their contributions must always be voluntary.
- We will never discriminate against them or anyone else; the only criterion we will ever have for excluding a donor or volunteer will be the safety of the blood supply system.
- We will advise them of the risks connected with any activities or procedures which they voluntarily agree to undertake.
- We will have a donor or volunteer’s name removed from all CBS call lists upon request.

Convenience
- We will do our best to accommodate their availability as donors through appointments and more convenient hours of operation.
- We will do our best to take account of their preferences when assigning or scheduling volunteer tasks.

Safety
- We will always strive to meet or exceed recognized international standards relating to donor safety.
- We will provide appropriate training to all our volunteers so that they can be confident that their donation experience will be as safe, positive, convenient and confidential as possible.

Confidentiality
- We will make sure that when they donate or register as volunteers, the information we require from them is obtained as sensitively and as unobtrusively as possible.
- We are committed to meeting the highest possible standards of accountability in safeguarding the confidentiality of information we obtain from all donors and all volunteers.
- We will use our best efforts to maintain donor or volunteer records, and any associated documentation, in strict and absolute confidence, consistent with existing laws and regulations governing the release of such information.

“I got involved by walking into a clinic in Vancouver and hanging up coats for donors. Since then I’ve been a volunteer in Halifax and Toronto for 30 years now — it’s a great thing to do!”

Marjorie Fritz, Volunteer, Toronto
“Having received the “gift of life” in many ways, this is one way in which I can make a difference with the rest of my life. I would like to say thanks to all the donors and volunteers who made this life possible.”

Linda Rankin, CBS Board Member
Financial Report

Highlights
The start up of any new organization is always important from a financial perspective; however, being part of the start up of a new blood system for Canadians is a tremendous challenge and an exciting opportunity. For the first six months of operations, transactions were recorded in the old Canadian Red Cross legacy system, AIMS. Meaningful analysis of the financial data for the first three months of results was delayed as we were actually sharing the same system as the Canadian Red Cross. Therefore, until they were able to close off their books, CBS had to wait. The balance sheet was a moving target while negotiations were conducted on the acquisition agreement, which still has a number of outstanding items to be resolved. We expect the first meaningful balance sheet to be available in August 1999 when the first audit will be completed.

While business was being conducted using the AIMS financial system, a project team made up of consultants from SAP, financial and operations staff representing Head Office, Blood Centres and regions worked on the implementation of the SAP financial accounting, controlling, asset accounting, materials and purchasing modules. Some business processes were re-engineered to accommodate the new system, to strengthen internal controls and to reduce duplication of efforts. Accounts payable and purchasing were centralized at Head Office to obtain the greatest benefit through consolidation of functions. The project commenced in December and by the beginning of March the system was up and running. Training took place over the next six weeks and the official “go-live” date was set for April 6, 1999.

Transition from the Canadian Red Cross
Effective September 28, 1998, CBS purchased substantially all of the assets comprising Canada’s blood supply system (except Québec) for $154,217,000. The purchase price was based on the fair value of tangible and intangible assets acquired and liabilities assumed.

The Acquisition Agreement made on July 10, 1998, between the Canadian Red Cross, Canadian Blood Services, and CBS includes terms that provide for a phased approach to the integration of the Canadian Blood Services operations within the Canadian Red Cross. It is expected that the two organizations will be fully integrated by the end of 1999.

“I began working in the Toronto labs in 1985, testing blood samples for transmissible diseases. I now run Blood Product Management, which works with the hospitals to ensure they have the blood products they need. I enjoy the constant contact with hospitals and doctors, and know I’m helping with patient care.”

Irene Muntz, Charge Technologist in Blood Product Management, Toronto Blood Centre
and Héma-Québec is almost complete. The Vancouver Blood Centre remains an unconfirmed property with discussions continuing between CRC and the Province of British Columbia. The outstanding issue is related to the province's contribution to the expansion of the facility (approximately $10 million) and the amount that CRC should actually receive from the sale to CBS. In addition, negotiations are continuing with respect to the transfer of pension funds and the accrued benefit obligations for employee service provided prior to September 28, 1998. In relation to the transfer of the pension assets and obligations an escrow fund was established to cover certain potential liabilities identified during the due diligence process surrounding the acquisition.

**Funding Provided to CBS from the Members**

The Provincial and Territorial Ministers of Health provide operational funding to CBS. Budgets include measures to ensure that appropriate arrangements exist to indemnify CBS, its officers and directors and members of advisory bodies for uninsured liabilities and approved borrowing, and to maintain the capacity within CBS to respond in a timely manner to health and safety emergencies.

The Federal/Provincial/Territorial Memorandum of Understanding provides that the Members are responsible for the approval of Business Plans submitted by the Board of Directors. Business plans are approved in September of each year.

**CBS Insurance**

The Corporation has established a wholly-owned captive insurance company. CBS Insurance Company Limited (CBSI) provides insurance coverage up to $250,000,000 with respect to risks associated with the operation of the blood system. Coverage in excess of this amount, to a limit of $1,000,000,000, has been arranged by CBSI through reinsurance markets.

Members passed a resolution at their meeting of August 24, 1998, authorizing CBS to borrow funds or establish a credit facility to capitalize CBS Insurance to the extent necessary to meet all legal and regulatory requirements. The authorized borrowing is limited to $200,000,000 for the year commencing October 1, 1998, with a scheduled reduction in the facility of $35,000,000 in each of the next four years.

**Winnipeg Blood Transfusion Service Centre Inc.**

The Winnipeg Blood Transfusion Service Centre Inc. is a not-for-profit corporation incorporated on May 1, 1995, under the Corporations Act of Manitoba. It was created to construct and own a new blood centre in Winnipeg, Manitoba. In September 1997, the Canadian Blood Agency approved the construction of the Winnipeg Blood Transfusion Service Centre at a total estimated cost of $24 million. The Centre will be ready for occupancy in October 1999, at which time debt financing must be arranged by CBS. The Members of CBS are required to authorize such borrowings.

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*“The donors are the best part of this job; they’re almost like family.”*

Ruth Mahler, Registered Nurse in the Apheresis Clinic, Toronto Blood Centre
Consolidated Financial Statements from September 28, 1998 to March 31, 1999

The consolidated financial statements of CBS include the results of operations of the blood system from September 28, 1998, and include the accounts of the Corporation's wholly owned insurance company, CBS Insurance Company Limited (CBSI). Ongoing transition and start-up activities are separately disclosed in the consolidated statement of operations.

Financial Results for the Period

Operating contributions were received from the Provinces and Territories in the amount of $227,752,000, including a contingency of $19,000,000 that has been deferred to cover restricted expenses of future years. Using the deferral method of accounting, total operating revenues recognized in the period ended March 31, 1999, were $234,646,000, which included $203,647,000 of operating contributions applicable to the period. Total operating expenses before insurance expense were $239,584,000. Insurance expense of $12,800,000 includes $11,250,000 of accrued liabilities for potential insurance claims based on actuarial estimates.

Fractionated product accounts for approximately 50 per cent of CBS operating costs. Fractionated product costs of $100,063,000 exceeded the six-month budget of $85,000,000 by $15,063,000 or 17.7 per cent. The increasing demand across the country for fractionated products and the spiralling cost of the product are putting pressure on the system. CBS must carefully monitor the impact of demand and cost on operating cash flows.

The operating results for CBS before the insurance expense of $12,800,000 show a deficit of $4,938,000. The deficit relates to certain accruals that were required to cover liabilities for expenses relating to property taxes, costs resulting from inconsistent enrolment of Canadian Red Cross employees in the pension plan, and other expenses. Consolidated results of operations for the period show a deficit of $17,738,000.

Cash from operations is in a deficit position at year-end due to increasing inventory safety stocks and contributions receivable at year-end from the provinces, primarily relating to fractionated product usage. Cash in the transition accounts offsets this deficit. To support ongoing working capital requirements the Members authorized CBS to establish an operating line of credit of $25,000,000.

Effective September 28, 1998, CBS established, jointly with a number of participating unions, a defined benefit pension plan for its employees. A CBS sponsored defined contribution pension plan was established on the same date.
Consolidated Financial Statements
of Canadian Blood Services

Period from September 28, 1998 to March 31, 1999

Management Report to the
Members of Canadian Blood Services

The consolidated financial statements contained in this report have been prepared by management in accordance with generally accepted accounting principles. The integrity and reliability of the data in these financial statements are management's responsibility. Management is also responsible for ensuring that all other information in this report is consistent, where appropriate, with the financial statements.

Management maintains a system of internal control to provide reasonable assurance as to the reliability of the financial information and the safeguarding of assets. The Corporation has an internal audit department whose functions include reviewing internal controls and their application, on an ongoing basis.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Finance and Audit Committee of the Board, which is composed of directors who are not employees of the Corporation. The Finance and Audit Committee meets periodically during the year with management and the internal and external auditors.

The external auditors, KPMG LLP, conduct an independent audit, in accordance with generally accepted auditing standards, and express an opinion on the financial statements. The external auditors, whose report follows, have full and free access to the Finance and Audit Committee of the Board and meet with it on a regular basis.

Lynda Cranston
Chief Executive Officer

June Bain
Chief Financial Officer

July 28, 1999
Auditors' Report to the Members

We have audited the consolidated statement of financial position of Canadian Blood Services as at March 31, 1999, and the consolidated statements of operations, changes in net assets and cash flows for the period from September 28, 1998 to March 31, 1999. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1999 and the results of its operations and its cash flows for the period from September 28, 1998 to March 31, 1999 in accordance with generally accepted accounting principles.

We have relied on the work of other auditors with respect to the activities of Canadian Blood Services Transition Bureau from inception on October 15, 1997, to September 27, 1998, as disclosed in note 12.

KPMG LLP
Chartered Accountants
Ottawa, Canada
July 28, 1999
## Canadian Blood Services

### Consolidated Statement of Financial Position

**March 31, 1999**

(In thousands of dollars)

### Assets

**Current assets:**
- Cash and cash equivalents (note 4) $37,205
- Members’ contributions receivable (note 5) 42,204
- Other amounts receivable 17,280
- Inventory 60,907
- Prepaid expenses 16,549

**Total Current Assets:** $174,145

**Capital assets (note 6):**
- Land, buildings, software and equipment 90,358
- Blood supply system right (note 3) 34,764

**Total Capital Assets:** $125,122

**Total Assets:** $299,267

### Liabilities, Deferred Contributions and Net Assets

**Current liabilities:**
- Accounts payable and accrued liabilities $60,485

**Deferred contributions (note 7):**
- Expenses of future periods 81,398
- Capital assets 116,114

**Total Deferred Contributions:** $197,512

**Net assets:**
- Invested in capital assets (note 8a) 9,008
- Restricted for captive insurance purposes (note 8b) 37,200
- Unrestricted net assets (liabilities) (4,938)

**Total Net Assets:** $41,270

**Total Liabilities, Deferred Contributions and Net Assets:** $299,267

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Mary Collins, Director  
Kenneth J. Fyke, Director
## Canadian Blood Services
### Consolidated Statement of Operations

Period from September 28, 1998 to March 31, 1999
(In thousands of dollars)

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<th>Revenue:</th>
<th>Transition and start-up</th>
<th>Operations</th>
<th>Total</th>
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<td>Contributions</td>
<td>$ 15,211</td>
<td>$ 203,647</td>
<td>$ 218,858</td>
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<td>Amortization of deferred contributions related to capital assets (note 7b)</td>
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<td>Héma-Québec, fractionated product</td>
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<td>25,134</td>
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<td>Investment income</td>
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<td>2,362</td>
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<td><strong>Total Revenue</strong></td>
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<table>
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<th>Expenses:</th>
<th>Transition and start-up</th>
<th>Operations</th>
<th>Total</th>
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<tbody>
<tr>
<td>Cost of fractionated product</td>
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<tr>
<td>Medical supplies</td>
<td>-</td>
<td>23,125</td>
<td>23,125</td>
</tr>
<tr>
<td>Administrative</td>
<td>1,288</td>
<td>10,906</td>
<td>12,194</td>
</tr>
<tr>
<td>Professional fees</td>
<td>6,006</td>
<td>2,344</td>
<td>8,350</td>
</tr>
<tr>
<td>Projects</td>
<td>5,423</td>
<td>1,964</td>
<td>7,387</td>
</tr>
<tr>
<td>Building and property</td>
<td>180</td>
<td>5,277</td>
<td>5,457</td>
</tr>
<tr>
<td>Clinic and donor recruitment</td>
<td>-</td>
<td>2,188</td>
<td>2,188</td>
</tr>
<tr>
<td>Other</td>
<td>205</td>
<td>2,388</td>
<td>2,593</td>
</tr>
<tr>
<td>Blood purchased from Héma-Québec</td>
<td>-</td>
<td>913</td>
<td>913</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$16,281</td>
<td>211,714</td>
<td>227,995</td>
</tr>
<tr>
<td>Héma-Québec, cost of fractionated product</td>
<td>-</td>
<td>24,770</td>
<td>24,770</td>
</tr>
<tr>
<td>Amortization of capital assets</td>
<td>-</td>
<td>3,100</td>
<td>3,100</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$16,281</td>
<td>239,584</td>
<td>255,865</td>
</tr>
</tbody>
</table>

| Excess (deficiency) of revenue over expenses before insurance expense | 80                   | (4,938)    | (4,858)    |
| Insurance expense (note 11c)                      | 80                   | 12,800     | 12,880     |
| **Deficiency of revenue over expenses**         | $ -                   | $(17,738)  | $(17,738)  |

See accompanying notes to consolidated financial statements.
**Canadian Blood Services**  
**Consolidated Statement of Changes in Net Assets**

Period from September 28, 1998 to March 31, 1999
(In thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Invested in capital assets</th>
<th>Restricted for captive insurance (note 11)</th>
<th>Unrestricted</th>
<th>1999 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of period</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Deficiency of revenue over expenses</td>
<td>-</td>
<td>(12,800)</td>
<td>(4,938)</td>
<td>(17,738)</td>
</tr>
<tr>
<td>Restricted contributions</td>
<td>-</td>
<td>50,000</td>
<td>-</td>
<td>50,000</td>
</tr>
<tr>
<td>Change in investment in capital assets (note 8a)</td>
<td>9,008</td>
<td>-</td>
<td>-</td>
<td>9,008</td>
</tr>
<tr>
<td>Balance, end of period (note 8b)</td>
<td>$ 9,008</td>
<td>$ 37,200</td>
<td>$ (4,938)</td>
<td>$ 41,270</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
## Canadian Blood Services
### Consolidated Statement of Cash Flows

Period from September 28, 1998 to March 31, 1999
(In thousands of dollars)

<table>
<thead>
<tr>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash and cash equivalents provided by (used for):</strong></td>
</tr>
<tr>
<td><strong>Operating activities:</strong></td>
</tr>
<tr>
<td>Deficiency of revenue over expenses</td>
</tr>
<tr>
<td>Items not involving cash and cash equivalents:</td>
</tr>
<tr>
<td>Amortization of capital assets</td>
</tr>
<tr>
<td>Amortization of deferred contributions related to capital assets</td>
</tr>
<tr>
<td>Insurance claims reserve expense (note 11c)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Increase in accounts payable and accrued liabilities</td>
</tr>
<tr>
<td>Increase in Members' contributions receivable</td>
</tr>
<tr>
<td>Increase in other amounts receivable</td>
</tr>
<tr>
<td>Increase in inventory</td>
</tr>
<tr>
<td>Increase in prepaid expenses</td>
</tr>
<tr>
<td>Net decrease in deferred contributions related to expenses of future periods</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Financing and investing activities:</strong></td>
</tr>
<tr>
<td>Insurance captive contributions</td>
</tr>
<tr>
<td>Increase in deferred contributions related to capital assets</td>
</tr>
<tr>
<td>Contributions related to land</td>
</tr>
<tr>
<td>Acquisition of blood supply system (note 3)</td>
</tr>
<tr>
<td>Capital assets acquired during the remainder of period</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Decrease in cash and cash equivalents</strong></td>
</tr>
<tr>
<td><strong>Cash and cash equivalents, beginning of period (note 4)</strong></td>
</tr>
<tr>
<td><strong>Cash and cash equivalents, end of period (note 4)</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
Canadian Blood Services
Notes to Consolidated Financial Statements

Period from September 28, 1998 to March 31, 1999
(In thousands of dollars)

1. Nature of the organization and operations:

Canadian Blood Services/Société canadienne du sang (“CBS” or the “Corporation”) owns and operates the national blood supply system for Canada, except Québec, and is responsible for the collection, testing, processing and distribution of blood and blood products as well as the recruitment and management of blood donors.

CBS was incorporated on February 16, 1998, under Part II of the Canada Corporations Act. It is a corporation without share capital and qualifies for tax-exempt status as a registered charity under paragraph 149(1)(f) of the Income Tax Act (Canada). The Members of the Corporation are the Ministers of Health of the Provinces and Territories of Canada, except Québec. The Members provide start-up contributions to the Corporation as well as contributions to fund the operation of the blood supply system. CBS operates in a regulated environment, pursuant to the requirements of the Federal Food and Drugs Act, with licensing required from the Bureau of Biologics and Radiopharmaceuticals of Health Canada.

As a result of the Krever Commission of Inquiry on the Blood System of Canada, the Federal, Provincial and Territorial Ministers of Health agreed in 1996 to create CBS as the new national authority to operate Canada’s blood system. On October 15, 1997, Canadian Blood Services Transition Bureau was established to manage the process of transition to CBS, with funding provided by the Minister of Health Canada. On September 28, 1998, Héma-Québec, for Québec, and CBS for the balance of Canada, acquired the blood system assets from the Canadian Red Cross Society and from this date, assumed their respective responsibilities for the management of further transition and start-up activities and the operation of the blood system. Funding for the acquisition of the blood system was provided by the Provincial and Territorial Ministers of Health.

2. Significant accounting policies:

(a) Financial statement presentation:

The consolidated financial statements of CBS include the results of operations of the blood system from September 28, 1998, and include the accounts of the Corporation’s wholly-owned insurance company, CBS Insurance Company Limited (CBSI). Contributions received from the Members to fund capital requirements of CBSI are recorded as direct increases in net assets restricted for captive insurance purposes. Investment income earned on these capital contributions together with other components of the captive insurance operations are included on a net basis as insurance expense in the consolidated statement of operations and separately disclosed in the consolidated statement of net assets.

The transition and start-up activities of Canadian Blood Services Transition Bureau for the period from October 15, 1997, to September 27, 1998, are disclosed in note 12. These activities were continued under the management of CBS in the period from September 28, 1998, to March 31, 1999, and are separately disclosed in the consolidated statement of operations.

(b) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses in the financial statements. Estimates and assumptions also may affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates (note 11c).
2. Significant accounting policies (continued):

(c) Revenue recognition:
The Corporation follows the deferral method of accounting for contributions, which include donations and government contributions.

Operating contributions are recorded as revenue in the period to which they relate. Amounts approved but not received at the end of an accounting period are accrued. Where a portion of a contribution relates to a future period, it is deferred and recognized in the subsequent period.

Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets other than land are initially deferred and then amortized to revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets. Contributions restricted for the purchase of land are recognized as direct increases in net assets invested in capital assets.

Unrestricted funding or donations are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted investment income is recognized as revenue in the year in which the related expenses are recognized. Unrestricted investment income is recognized as revenue when earned.

Revenue from fees and contracts is recognized when the services are provided or the goods are sold.

(d) Donated goods and services:
Donors are not paid for the blood or plasma collected in Canada. Additionally, a substantial number of volunteers contribute a significant amount of time each year in support of the activities of CBS. The value of such contributed goods and services is not quantified in the financial statements.

(e) Inventory:
Inventory consists of fractionated blood and blood products and supplies related to the collection of blood. Inventory is recorded at average cost, and is charged to expense upon distribution to hospitals.

(f) Capital assets:
Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expense. Betterments, which extend the estimated life of an asset, are capitalized. When a capital asset no longer contributes to the Corporation’s ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized on a straight-line basis using the following annual rates:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Useful life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>40 years</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>10 years</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>8 years</td>
</tr>
<tr>
<td>Furniture and office equipment</td>
<td>10 years</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>3 years</td>
</tr>
<tr>
<td>Computer software</td>
<td>2 to 5 years</td>
</tr>
</tbody>
</table>
2. Significant accounting policies (continued):

(f) Capital assets (continued):

Equipment purchased on acquisition of the blood supply system on September 28, 1998, is being amortized on a straight-line basis over 5 years.

Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or their estimated useful lives.

The blood supply system right, which represents the excess of the purchase price over the fair value of the tangible net assets acquired, is being amortized on a straight-line basis over 40 years.

(g) Employee entitlements

The Corporation currently provides certain post-employment benefits to its employees, including extended health care benefits and limited life insurance coverage. Costs associated with post-employment benefits are recognized as incurred.

Vacation pay is accrued when entitlement to these benefits is earned.

(h) Pension costs

The Corporation sponsors, jointly with a number of participating unions, a defined benefit pension plan for its employees. The pension expense and obligation is determined using the projected benefit method pro-rated on service and based on the Plan's Board of Trustees' best estimate assumptions. The plan is funded as determined by an actuary in accordance with the terms of the Plan. Under the terms of the Trust Agreement, the pension expense also includes adjustments for the Corporation's share of the cost of plan amendments, experience gains and losses and changes in assumptions which are amortized on a straight-line basis. The Corporation's share of the cumulative difference between the amounts funded and expensed is reflected in accounts payable and accrued liabilities on the balance sheet.

The Corporation also sponsors a defined contribution pension plan for certain employees. Pension expense reflects the Corporation's required funding in accordance with the terms of the plan.

3. Acquisition of blood supply system:

Effective September 28, 1998, CBS purchased substantially all of the assets comprising Canada's blood supply system (except Québec) for $154,217. This acquisition has been accounted for using estimates of fair values to CBS. The cost was allocated to the identifiable tangible and intangible assets acquired and liabilities assumed as follows:

Net assets acquired, at assigned values:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$9,008</td>
</tr>
<tr>
<td>Buildings</td>
<td>57,149</td>
</tr>
<tr>
<td>Equipment</td>
<td>17,115</td>
</tr>
<tr>
<td>Inventory</td>
<td>33,673</td>
</tr>
<tr>
<td>Prepaid rent and operating costs</td>
<td>6,975</td>
</tr>
<tr>
<td></td>
<td>123,920</td>
</tr>
<tr>
<td>Less liabilities</td>
<td>4,906</td>
</tr>
<tr>
<td></td>
<td>119,014</td>
</tr>
<tr>
<td>Blood supply system right</td>
<td>35,203</td>
</tr>
<tr>
<td>Consideration given</td>
<td>154,217</td>
</tr>
</tbody>
</table>

Land and buildings include $295 and $10,325 respectively with respect to a property for which title has not yet been formally transferred.
4. Cash and cash equivalents:
Cash equivalents include deposits with financial institutions that can be withdrawn without prior notice or penalty and short-term deposits with an original maturity of ninety days or less.

Cash and cash equivalents include $38,413 that is restricted for captive insurance operations.

Cash and cash equivalents of $239,737 at the beginning of period represents the balance carried forward from Canadian Blood Services Transition Bureau. This balance includes contributions received with respect to the acquisition of the blood supply system, contributions related to captive insurance operations and contributions related to transition and start-up activities.

5. Members’ contributions receivable:

<table>
<thead>
<tr>
<th>Province</th>
<th>Operations/ Fractionation</th>
<th>Justice Blair Award</th>
<th>Acquisition Funding</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alberta</td>
<td>$ 3,362</td>
<td>$ 197</td>
<td>$ 1,163</td>
<td>$ 4,722</td>
</tr>
<tr>
<td>British Columbia</td>
<td>1,191</td>
<td>273</td>
<td>1,617</td>
<td>3,081</td>
</tr>
<tr>
<td>Manitoba</td>
<td>1,262</td>
<td>81</td>
<td>479</td>
<td>1,822</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>–</td>
<td>54</td>
<td>321</td>
<td>375</td>
</tr>
<tr>
<td>Newfoundland</td>
<td>–</td>
<td>41</td>
<td>242</td>
<td>283</td>
</tr>
<tr>
<td>Northwest Territories</td>
<td>128</td>
<td>5</td>
<td>27</td>
<td>160</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>617</td>
<td>66</td>
<td>393</td>
<td>1,076</td>
</tr>
<tr>
<td>Ontario</td>
<td>24,547</td>
<td>799</td>
<td>4,725</td>
<td>30,071</td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td>–</td>
<td>10</td>
<td>58</td>
<td>68</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>7</td>
<td>72</td>
<td>425</td>
<td>504</td>
</tr>
<tr>
<td>Yukon</td>
<td>27</td>
<td>2</td>
<td>13</td>
<td>42</td>
</tr>
</tbody>
</table>

|                      | $ 31,141                   | $ 1,600             | $ 9,463             | $ 42,204  |

The contributions receivable relating to the Justice Blair Award represent non-recurring contributions to fund acquisition court proceedings.

6. Capital assets:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Cost</th>
<th>Accumulated amortization</th>
<th>Net book value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$ 9,008</td>
<td></td>
<td>$ 9,008</td>
</tr>
<tr>
<td>Buildings</td>
<td>57,174</td>
<td>718</td>
<td>56,456</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>11,685</td>
<td>1,086</td>
<td>10,599</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>2,226</td>
<td>190</td>
<td>2,036</td>
</tr>
<tr>
<td>Furniture and office equipment</td>
<td>3,477</td>
<td>310</td>
<td>3,167</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>6,502</td>
<td>222</td>
<td>6,280</td>
</tr>
<tr>
<td>Computer software</td>
<td>2,636</td>
<td>103</td>
<td>2,533</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>311</td>
<td>32</td>
<td>279</td>
</tr>
</tbody>
</table>

|                      | $ 93,019 | 2,661                   | $ 90,358        |

The cost and accumulated amortization of the blood system supply right are $35,203 and $439 respectively at March 31, 1999.
7. Deferred contributions:

(a) Expenses of future periods:

Deferred contributions represent unspent externally restricted contributions for acquisition, transition and start-up costs, emergency contingency funding and restricted operating contributions related principally to blood fractionation expenses of future periods.

<table>
<thead>
<tr>
<th>Contributions from (note 4):</th>
<th>Acquisition</th>
<th>Transition and start-up</th>
<th>Contingency</th>
<th>Operations/fractionation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>$154,217</td>
<td>$89,965</td>
<td>$19,000</td>
<td>$208,753</td>
<td>$471,935</td>
</tr>
<tr>
<td>Health Canada</td>
<td>–</td>
<td>3,000</td>
<td>–</td>
<td>–</td>
<td>3,000</td>
</tr>
<tr>
<td>Deferred contributions, operations of CBS</td>
<td>–</td>
<td>1,575</td>
<td>–</td>
<td>–</td>
<td>1,575</td>
</tr>
<tr>
<td>Less amount recognized as revenue in the period</td>
<td>(32,294)</td>
<td>(15,411)</td>
<td>–</td>
<td>(174,253)</td>
<td>(221,958)</td>
</tr>
<tr>
<td>Less amount invested in capital assets</td>
<td>(9,008)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(9,008)</td>
</tr>
<tr>
<td>Less amount restricted for captive insurance purposes</td>
<td>–</td>
<td>(50,000)</td>
<td>–</td>
<td>–</td>
<td>(50,000)</td>
</tr>
<tr>
<td></td>
<td>112,915</td>
<td>29,129</td>
<td>19,000</td>
<td>34,500</td>
<td>195,544</td>
</tr>
<tr>
<td>Less deferred contributions relating to capital assets</td>
<td>(109,466)</td>
<td>(8,190)</td>
<td>–</td>
<td>(1,558)</td>
<td>(119,214)</td>
</tr>
<tr>
<td>Amortization of deferred contributions relating to capital assets</td>
<td>2,837</td>
<td>200</td>
<td>–</td>
<td>63</td>
<td>3,100</td>
</tr>
<tr>
<td></td>
<td>(106,629)</td>
<td>(7,990)</td>
<td>–</td>
<td>(1,495)</td>
<td>(116,114)</td>
</tr>
<tr>
<td>Other amounts deferred</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1,968</td>
<td>1,968</td>
</tr>
<tr>
<td></td>
<td>$6,286</td>
<td>$21,139</td>
<td>$19,000</td>
<td>$34,973</td>
<td>$81,398</td>
</tr>
</tbody>
</table>

Included in transition and start-up contributions recognized as revenue in the period is an amount of $200 of capital asset funding which has been allocated to operations/fractionation in the consolidated statement of operations to correspond with the amortization of related capital assets.
7. Deferred contributions (continued):

(b) Capital assets:
Deferred capital asset contributions represent the unamortized amount and unspent amount of contributions received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

<table>
<thead>
<tr>
<th>Description</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members' contributions received on acquisition of blood supply system</td>
<td>$109,466</td>
</tr>
<tr>
<td>Members' contributions received during the period</td>
<td>9,748</td>
</tr>
<tr>
<td>Less amounts amortized to revenue</td>
<td>(3,100)</td>
</tr>
<tr>
<td></td>
<td>$116,114</td>
</tr>
</tbody>
</table>

8. Net assets:
(a) The change in investment in capital assets represents $9,008 of restricted contributions related to the purchase of land.
(b) All of the net assets restricted for captive insurance purposes are subject to externally imposed restrictions stipulating that they be used to provide insurance coverage with respect to risks associated with the operation of the blood system. Investment income earned on the assets restricted for insurance captive purposes is also externally restricted for these purposes (note 11).

9. Defined benefit pension plan:
Effective September 28, 1998, the Corporation established, jointly with a number of participating unions, a defined benefit pension plan. For the defined benefit plan, the accrued benefit obligation is approximately $1,820 at March 31, 1999. The actuarial present value of the accrued benefit obligation is measured using management's best estimates based on assumptions that reflect the most probable set of economic circumstances and planned courses of action. The market value of the assets in the plan is approximately $1,820. With respect to the pension assets and obligations sponsored by the Canadian Red Cross, negotiations are continuing with respect to the transfer of funds and the accrued benefit obligations for employee service provided prior to September 28, 1998.

10. Credit facilities:
CBS has entered into the following credit facilities that are secured by the assets of the Corporation:
(a) Operating line of credit:
A bank line of credit of $25,000 has been arranged for working capital purposes. At March 31, 1999, no amounts had been borrowed under this facility.
(b) Letter of credit:
To meet certain regulatory capital requirements related to its captive insurance operation, the Corporation has established a committed, stand-by letter of credit facility of $200,000. Under the terms of this credit arrangement, the facility is to be reduced by $35,000 prior to its initial maturity in March 2000, which corresponds with additional capital contributions by the Members (note 11b).
11. Insurance:
(a) The Corporation has established a wholly-owned captive insurance company, CBS Insurance Company Limited (CBSI), to provide insurance coverage up to $250,000 with respect to risks associated with the operation of the blood system. Coverage in excess of this amount, to a limit of $1,000,000, has been arranged by CBSI through reinsurance markets.
(b) The Members of CBS have agreed to provide additional capital contributions of $200,000 over a period ending in 2003. A bank letter of credit facility, renewable on an annual basis, has been arranged to provide standby bridge financing of that amount of the capital contributions which remains to be funded by the Members (note 10b).
(c) Insurance expense includes the results of operations of CBSI on a net basis which are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims reserve expense</td>
<td>$11,250</td>
</tr>
<tr>
<td>Net reinsurance costs</td>
<td>2,044</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>523</td>
</tr>
<tr>
<td>Investment income</td>
<td>(1,017)</td>
</tr>
<tr>
<td></td>
<td>$12,800</td>
</tr>
</tbody>
</table>

Claims reserve expense is an actuarially based estimate of the cost of settling claims relating to insured events (both reported and unreported) that have occurred to March 31, 1999. A significant proportion of both claims reserve expense for the period and the related cumulative estimated liability at March 31, 1999 of $11,250 covers the manifestation of blood diseases which is inherently difficult to assess and quantify. It is reasonably possible that changes in future conditions in the near term could require a change in the amount estimated.

12. Canadian Blood Services - Transition Bureau:
The transition and start-up activities of Canadian Blood Services Transition Bureau from inception on October 15, 1997, to September 27, 1998, were as follows:

Revenue:
- Contributions $39,792
- Interest 185

Total Revenue $39,977

Expenses:
- Canadian Red Cross transition costs 15,500
- Professional fees 11,979
- Communications 6,552
- Administrative 2,777
- Salaries and benefits 1,354
- Building and property 142
- Insurance 98

Total Expenses 38,402

Excess of revenue over expenses (note 7a) $1,575
13. Contingencies:
The Corporation is party to legal proceedings in the ordinary course of its operations. In the opinion of management, the outcome of such proceedings will not have a material adverse effect on the Corporation's financial statements or its activities. Claims and obligations related to the operation of the blood supply system prior to September 28, 1998, are not the responsibility of CBS.

14. Commitments:
At March 31, 1999, the Corporation had the following contractual commitments:
(a) Future minimum payments under operating leases of approximately $7,900, with payments in each of the next five years of: 2000 - $2,300; 2001 - $1,800; 2002 - $1,300; 2003 - $1,100; 2004 - $700; and thereafter - $700.
(b) Research and development project grants of approximately $2,950.
(c) Acquisition of the Winnipeg Blood Transfusion Service Centre Inc. for an amount not to exceed $24,000. The Members have affirmed their obligation to provide additional funding of an equal amount.

15. Related party transactions:
Members of the Corporation are the Ministers of Health within the provincial and territorial governments of Canada, except Québec. The Members provide funding for the operating budgets of CBS and have provided funding for the acquisition of the blood supply system. The Corporation enters into other transactions with these related parties in the normal course of business.

16. Uncertainty due to the Year 2000 Issue:
The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Corporation's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.
Appointed by Provincial and Territorial Ministers on March 27, 1998, the thirteen-person Board held its inaugural meeting on April 27, 1998, in Vancouver. They meet monthly to debate policy and set priorities.

Chair
Kenneth J. Fyke, B.S.P., M.H.S.A., LLD (Hon.)
Victoria, British Columbia *†‡§

Consumer Interest Representatives
Linda M. Rankin, Ottawa, Ontario *†‡§
Durhane Wong-Rieger, Ph.D.
Windsor, Ontario †

Medical, Scientific, Technical, Business and Public Health Representatives
William H. Gleed, Vice-Chair
Toronto, Ontario *‡
T. Douglas Kinsella, CM, M.D., FRCP (C)
Calgary, Alberta *§
Rod MacLennan, B.Sc, M.B.A., LLD
Truro, Nova Scotia †
Peter H. Pinkerton, M.D., FRCP (C)
Toronto, Ontario †
Harvey Schipper, BA Sc (Eng.), M.D., FRCP (C)
Winnipeg, Manitoba §
Verna M. Skanes, Ph.D.
St. John’s, Newfoundland †§

Regional Representatives
Atlantic
Frederick E. Hyndman, Charlottetown, Prince Edward Island §
Ontario
William R. Livingston, B.Comm
Toronto, Ontario †
Alberta, Saskatchewan, Manitoba & Northwest Territories
Neil R. Wilkinson, Edmonton, Alberta †‡
British Columbia & Yukon
Honourable Mary Collins, P.C., Vancouver, British Columbia *†

Board Committee Membership
* Executive Board Committee
† Finance and Audit Board Committee
‡ Human Resources Board Committee
§ Safety, Science and Ethical Standards Board Committee
Our First Six Months

Executive Management Team
Lynda Cranston
Chief Executive Officer
Ken Anderson
Chief Information Officer
June Bain
Chief Financial Officer
John Johnston
Vice-President, Human Resources
Ian Mumford
Vice-President, Communications
John Racher
Vice-President, Operations
Wesley Rees
Vice-President, Safety and Performance Management
Sam Schwisberg
Acting/Corporate Counsel
Dr. Graham Sher
Vice-President, Medical, Scientific and Clinical Management.

Advisory Committees
In his report, Mr. Justice Krever recommended that, “in addition to the customary committees of a corporate board of directors, standing committees be created to facilitate the work of the national blood service [CBS]:

• a safety committee, consisting of persons from the fields of infectious diseases, epidemiology, public health, medicine, and blood banking, as well as consumers;

• a technical and scientific committee, to keep abreast of the frequent and rapid technical and scientific developments that affect the blood supply system; and

• a liaison committee, consisting of representatives of community and consumer organizations.”

To this end, CBS has created the following committees.

Consumer Advisory Committee
Members:
Jeremy Beaty
Hepatitis C Society of Canada, Toronto, Ontario
Rolf Calhoun
Canadian Association of Retired Persons, Ottawa, Ontario
Jim Davies
The Arthritis Society of Canada, Ottawa, Ontario
Brian Huskins
Canadian AIDS Society Calgary, Calgary, Alberta
Eleanor Pask
Candlelighters Childhood Cancer Foundation, Toronto, Ontario
Josephine Sirna
Thalassemia Foundation, Ottawa, Ontario

Purpose:
To provide advice and recommendations to CBS concerning the safety, supply and accessibility of blood, blood products and their alternatives which may have an impact on current and potential consumers of these products.

Function:
1. To ensure that information relating to consumer issues impacting on the blood system is brought to the attention of CBS.
2. To receive from CBS information relating to consumer issues.
3. To facilitate two-way communication between CBS and any pertinent external organization, including community and national organizations for recipients, public health organizations, and national and international health and blood banking organizations.
4. To identify emerging issues and bring these concerns to the attention of CBS in a timely fashion.
5. To provide information on other related issues as required by the CEO.
Scientific Advisory Committee
Members:
Dr. John Barbara
Dr. Celso Bianco
New York Blood Center, New York, New York, U.S.
Dr. Anneke Brand
Bloodbank Leiden, Leiden, The Netherlands
Dr. Michael Busch
Blood Centers of the Pacific, San Francisco, California, U.S.
Dr. G.H. Growe
Vancouver Hospital and Health Sciences Centre, Vancouver, British Columbia
Nancy Heddle
McMaster University Medical Centre, Hamilton, Ontario
Dr. Jeffrey McCullough
University of Minnesota, Minneapolis, Minnesota, U.S.
Dr. Gail Rock
The Ottawa Hospital, Ottawa, Ontario

Purpose:
To provide advice and recommendations to CBS concerning the safety and efficacy of blood, blood products and their alternatives.

Function:
1. To assist CBS in identifying any emerging risks that could compromise blood, blood products or their alternatives.
2. To provide advice to CBS on the appropriate actions to be taken to address any emerging risks.
3. To provide information and/or advice on any other related issues as required by the CEO.

Research and Development Advisory Committee
Members:
Dr. Dana Devine
Vancouver Blood Centre, Vancouver, British Columbia
Dr. Lawrence T. Goodnough
Washington University School of Medicine, St. Louis, Missouri, U.S.
Dr. William Andrew Heaton
Blood Centers of the Pacific, San Francisco, California, U.S.
Dr. Paul Hébert
The Ottawa Hospital, Ottawa, Ontario
Dr. David Lillicrap
Queen's University, Kingston, Ontario
Dr. Sherill Slichter
Puget Sound Blood Centre and Program, Seattle, Washington, U.S.
Dr. Jeremy Sugarman
Duke University Medical Centre, Durham, North Carolina, U.S.
Dr. Allan Williams
American Red Cross, Rockville, Maryland, U.S.

Purpose:
To provide advice and recommendations to CBS concerning Research & Development into blood, blood products and their alternatives.

Function:
1. To assist CBS in identifying priorities for Research and Development.
2. To advise and assist CBS in developing appropriate partnerships for research.
3. To assist in the development of criteria for research proposals.
4. To provide assistance in ensuring that resources are spent on appropriate R&D.
5. To provide advice about innovative research areas for emerging risks.
Unrelated Bone Marrow Donor Registry (UBMDR) Advisory Committee

Members:

Dave Burton
Scarborough, Ontario

Dr. Martin Champagne
Hôpital Sainte-Justine,
Montréal, Québec

Dr. Mindy Goldman
Héma-Québec,
Montréal, Québec

Kathy Greene
McMaster Medical Centre,
Hamilton, Ontario

Tilak Gunawardhane
Ottawa, Ontario

Dr. Cam Hobson
The Bruce Denniston Bone Marrow Society, Powell River, British Columbia

Ken Hornby
Calgary, Alberta

Phillipa Lue
Elizabeth Lue Memorial Foundation, Toronto, Ontario

Dr. Pran Manga
University of Ottawa,
Ottawa, Ontario

Dr. Hans Messner
Princess Margaret Hospital,
Toronto, Ontario

Eleanor G. Pask
The Candlelighters Childhood Cancer Foundation Canada,
Toronto, Ontario

Bob Rae
Toronto, Ontario

Dr. James Russell
Calgary Foothills Hospital,
Calgary, Alberta

Dr. F. Saunders
The Hospital for Sick Children,
Toronto, Ontario

Dr. Harvey Schipper
CBS Board Member,
Winnipeg, Manitoba

Dr. Jilin Yang
The Hospital for Sick Children,
Toronto, Ontario

Elaine Ziemba
Leukemia Research Fund Canada,
Toronto, Ontario

Purpose:
To provide advice to CBS regarding national and international issues relating to Unrelated Bone Marrow transplantation in Canada.

Function:

1. To determine the objectives and policies of the UBMDR and review said policies on a regular basis.

2. To review and monitor developments in bone marrow transplantation and make appropriate recommendations to CBS.

3. To monitor the development and maintenance of the UBMDR to ensure international accreditation and cooperation.