Canadian Dairy Commission
Commission canadienne du lait

CANADIAN DAIRY COMMISSION

Annual Report 18-19

Canada

Mandate of the Canadian Dairy Commission

Under the *Canadian Dairy Commission Act*, the CDC's legislated objectives are:

- to provide efficient producers of milk and cream with the opportunity to obtain a fair return for their labour and investment; and
- to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality.

Mission statement

To provide leadership to enhance the vitality of the Canadian dairy industry for the benefit of Canadians.

Values

Excellence | Integrity | Leadership | Respect

Commission staff is available to serve you, in either official language, from 8 a.m. to 4:30 p.m. Eastern time, Monday to Friday (statutory holidays excluded).

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Message from the Acting Chair

I am pleased to present the Canadian Dairy Commission's (CDC) Annual Report for the 2018-2019 dairy year. The CDC is in a sound financial position and has achieved most of its objectives.

The dairy industry continues to strive for excellence and to provide Canadians with quality dairy products. The many successes and challenges in the past year, both domestically and on the world stage, were handled with professionalism and dedication by CDC staff in co-operation with industry partners. From rising demand for dairy products to the widespread support for supply management, the Canadian dairy industry is a key contributor to the Canadian economy, and it remains important to Canadians. The CDC is proud to contribute to the successes of the dairy industry through the programs and services it offers.

With the new trade deals that have been signed and that have come into effect over the past year, the dairy industry is facing new market realities. The CDC continues to encourage the Canadian dairy industry to grow the market, innovate and adapt to these new realities by offering programs and services that benefit the industry.

The CDC has supported projects that have introduced new products using Canadian milk or dairy ingredients through the Matching Investment Fund, which provides non-repayable contributions for innovative projects and products that increase the use of dairy ingredients and the Dairy Innovation Program, which provides milk to processors manufacturing innovative dairy products.

The Milk Access for Growth Program (MAG) encourages new investments in the dairy sector to grow the overall Canadian demand for milk and dairy products. Always striving to offer programs that are relevant to the current market conditions, the CDC has decided to review the MAG program to better serve the needs of the dairy industry and ensure its relevance in future years.

Also important to the CDC is supporting the establishment of a highly skilled,

diverse workforce that is well adapted to meet the current and future needs of the dairy production and processing sectors. The Workplace Development Initiative (WDI), launched in April 2018, includes elements such as post-secondary curricula and certified continuous training and development. This initiative provides funding to organizations and institutions for the development and training of skilled employees in dairy production and manufacturing to improve productivity and competitiveness. It also promotes graduate studies in dairy and animal science to support research and help introduce new products, technologies, and markets to the dairy industry. In addition, it includes a Career Promotion Program to attract people into this industry.

The first year of the program resulted in the funding of a total of 8 Ph.D.s and 8 master's degrees. In addition, the CDC approved a project under the Education Program to develop a college-level program in cheese making in both official languages. As well, two projects were approved under the Continuing Education Program. The Continuing Education projects focus on developing training for dairy farm employees. There was a second round of applications during the summer of 2019.

In addition, the CDC funded two master's degrees in economic analysis under the Federal government's Research Affiliate Program.

In November 2018, a consultant conducted a self-assessment survey for the Canadian Milk Supply Management Committee (CMSMC). The survey assessed the CMSMC in several key areas including efficiency in carrying out its purpose and in decision-making; transparency, accountability and fairness; administration of meetings and of pooling and federal-provincial agreements; and long-term strategic planning. The results were presented in May 2019 and overall, the self-assessment was positive. Going forward, it was recommended that the committee focus on building a national cohesion; strengthening its governance; updating its tools and modernizing its structures; and finally, adapting and planning for the future. The recommendations were generally well received, and the CDC will accompany the CMSMC as it considers its implementation options.

The CDC's commitment to helping the industry is ongoing. It offers guidance through its chairmanship of several industry committees and by lending its industry knowledge to resolve ongoing issues. During the negotiations of the Canada-United States-Mexico Agreement (CUSMA), the CDC provided expertise and support throughout the process and continues to lend its cooperation in preparation for a potential ratification of this agreement.

On behalf of the industry, I would like to take this opportunity to recognize outgoing Chairman, Alistair Johnston, and thank him for his dedication to the organization and to the industry.

As Acting CDC Chair, I would like to offer my sincere gratitude to industry stakeholders, provincial governments, the Minister's Office and our colleagues at Agriculture and Agri-Food Canada and the other Agriculture and Agri-Food Portfolio organizations for their constant co-operation and support. I also applaud the invaluable contributions of the CDC employees who run our operations with efficiency and passion, and who demonstrate on a daily basis their dedication to this dynamic industry.

J Hayes

Jennifer Hayes

Message from the CEO

The Canadian dairy industry is characterized by dedication, collaboration, and a desire to continuously improve. The Canadian Dairy Commission (CDC) is proud to partner with Canadian dairy producer and processor organizations that aim to ensure that Canadians have access to a continuous and adequate supply of high quality, nutritious dairy products. I am honoured to be part of an organization that supports such a vibrant sector. What follows are some of the highlights of the 2018-2019 dairy year.

Several new trade agreements that have come into effect or that are in the ratification process have had, and will continue to have, an impact on all sectors of the dairy industry.

The Canada-European Union Comprehensive Economic and Trade Agreement (CETA) came into effect on September 21, 2017. It sets new standards in the trade in goods and services, non-tariff barriers, investment, government procurement, as well as other areas like labour, and the environment. It also increases access to the Canadian market for foreign dairy products.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a free-trade agreement between Canada and 10 other countries in the Asia-Pacific region, entered into force among the first six countries to ratify the agreement, which included Canada, on December 30, 2018.

On November 30, 2018, Canada, the United States and Mexico signed the new Canada-United States-Mexico Agreement. Participating countries are in the process of ratifying this agreement. Implementation will depend on when the ratification process in each country is completed.

These trade agreements have the potential to change the dairy industry. We understand that a strong dairy sector is vital to Canada's prosperity, creating good jobs, supporting rural communities and bringing high-quality products to Canadian consumers at affordable prices. We are committed to helping the industry as it adapts to a different future.

The creation of a working group on mitigation for the dairy industry has allowed the industry and the federal government to assess the implications of CETA and the CPTPP. The industry made recommendations to the Minister of Agriculture and Agri-Food. It subsequently announced the creation of the Dairy Direct Payment Program for dairy farmers.

The dairy industry strategic working group has taken over from the first working group and will now focus on a vision for the dairy industry. According to the mandate that guides this working group, government and industry will work together to develop a vision to ensure that the dairy industry is well positioned in the sustainable economy of the future and that it adapts to new trends in consumption. The group will provide advice on what government and industry can do to keep our industry strong.

I am honoured to have participated in these working groups and I continue to lend my support to ensure that the Canadian supply-managed dairy industry remains a strong contributor to the Canadian economy.

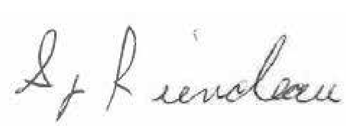
WORKPLACE TRENDS

The CDC continues to follow and contribute to Beyond 2020 initiatives and implement relevant Government of Canada policies. I continue to meet with all staff at least four times a year to discuss changes in the workplace and industry orientation. Directors formally meet with their staff at least twice a year to discuss priorities and to give staff an opportunity to present concerns and ask questions. Employees also have the chance to contribute during the CDC's yearly strategic planning exercise.

As part of the CDC's Strategy on Mental Health in the Workplace, the CDC Wellness Centre was launched in May 2019. The CDC is committed to making sure that its workplace is psychologically healthy and safe. Building a supportive work environment that promotes mental well-being has benefits for everyone and keeps our workforce strong and competitive. The CDC Wellness Centre offers employees a safe space to physically and mentally recharge. It includes exercise equipment, as well as information on mental health resources and on nutrition. In addition, the CDC's Occupational Safety and Health Committee ensures that employees have a safe workplace. The committee regularly assesses the workplace for hazards, whether physical or psychological, and develops plans to mitigate those hazards.

In 2018, as part of an ongoing workplace assessment exercise, the CDC participated in the Public Service Employee Survey. With an overall satisfaction rate of 95%, the CDC's results were better than those of some other small organizations in the public service. This demonstrates that the overall health of the organization is excellent. Over the next year, the CDC will implement an action plan to address concerns identified by the survey.

In closing, I would like to thank CDC employees for their dedication and professionalism in running our operations with efficiency and integrity. It is a pleasure to be part of an organization that is committed to helping the Canadian dairy industry innovate and advance for a better future.



Serge Riendeau

The Canadian Dairy Commission

The Canadian Dairy Commission (CDC) is a Crown corporation created in 1966 by the *Canadian Dairy Commission Act*. The CDC reports to Parliament through the Minister of Agriculture and Agri-Food to whom it serves as an advisor on matters related to the dairy industry. The CDC plays a central facilitating role for the dairy industry. In addition to operating elements of the milk supply management system, managing milk price setting for producers, and ensuring milk production meets demand, the CDC administers several programs on behalf of the industry and encourages the industry to grow the market and innovate. Activities such as audits, pooling calculations, imports, and setting quota are also part of the CDC's role and are progressing as per the CDC Strategic Plan.

The CDC is part of the Agriculture and Agri-Food Portfolio along with Agriculture and Agri-Food Canada, the Canadian Grain Commission, Farm Credit Canada, the Farm Products Council of Canada, and the Canada Agricultural Review Tribunal. The CDC also works in partnership with the Canadian Food Inspection Agency.

The federal government funds about half of the CDC's administrative costs. Other costs, including marketing activities, are funded by dairy producers, the CDC's commercial operations, and the marketplace. The CDC borrows money from the Consolidated Revenue Fund and from a line of credit to finance the programs it administers on behalf of the dairy industry.

Since supply management was first applied to the dairy sector, the CDC has been in charge of two critical parts of the system: managing milk price setting and recommending milk production quota. Through its many roles and central facilitating function in the dairy industry, the CDC ensures that Canadian dairy farmers have the opportunity to obtain a fair return for their labour and investment.

The CDC monitors national production and demand and recommends the necessary adjustments to the national production target for milk. It ensures that milk production in Canada matches demand from Canadian consumers. It is important to avoid any shortage of dairy products and just as important to avoid production surpluses that are costly to handle, store and market.

To achieve its mandate, the CDC works with provincial governments and dairy industry stakeholders such as dairy producers, processors, further processors and consumers. On behalf of the dairy industry, it administers the revenue and market pooling agreements and develops, implements, and administers major programs such as the Special Milk Class Permit Program, the Dairy Innovation Program, the Domestic Seasonality Program, the Dairy Marketing Program, the Dairy Export Program and the Milk Access for Growth[1] program.

1 A description of CDC's programs is presented in the section of this report entitled *Activities and Programs*.

The CDC chairs the Canadian Milk Supply Management Committee (CMSMC)[2] and in this capacity, apprises the committee on matters that require resolution and, when necessary, proposes various solutions, alternatives or recommendations to enhance orderly and efficient marketing with an eye to avoiding deficit or surplus milk production. The CDC performs a similar role for the Eastern Canadian Milk Pool (P5) and the Western Milk Pool (WMP)[3].

THE CANADIAN DAIRY INDUSTRY

At the Farm

In 2018, 10,679 dairy farms were shipping milk in Canada. The average farm had 91 cows and an average annual production of 35,611 kg of butterfat[4], a production per farm higher than that of 2017. Quebec and Ontario had the greatest percentage of dairy farms at 81%, followed by 13% in the Western provinces, and 6% in the Atlantic Provinces. Dairy farms generated $6.64 billion in total farm cash receipts.

2 The CMSMC is the main national decision-making body of the dairy industry.

3 See p. 17 for more information on these pools.

4 Milk production in Canada is expressed in kg of butterfat.

Milk Processing

In 2018, the dairy processing industry generated $14.8 billion worth of products, accounting for 12.8% of all processing sales in the food and beverage industry. As a key contributor to the Canadian economy in 2018, dairy production ranked second behind meats in terms of the value of its manufactured shipments. The dairy processing sector employed approximately 25,000 workers.

Milk Markets

Provincial marketing boards and agencies purchase milk from producers and sell it to processors on behalf of producers for the manufacture of dairy products. The milk sold to processors in Canada is classified according to its end use based on the Harmonized Milk Classification System[5]. The price paid for milk by processors varies according to the milk class.

In the 2018-2019 dairy year, the fluid milk sales accounted for approximately 27% of total sales or 102.7 million kg of butterfat. The industrial milk market accounted for the remaining 73% of total sales or 275.6 million kg of butterfat.

5 Harmonized Milk Classification System (http://www.cdc-ccl.gc.ca/CDC/index-eng.php?id=3811)

DAIRY INDUSTRY TRENDS

Production

In 2018, the number of dairy farms in Canada decreased by 2.5% compared to 2017. As a result, the remaining farms produce more milk and generate more revenue per farm. National milk production decreased slightly by 0.3% to 379.1 million kg of butterfat over the course of the 2018-2019 dairy year. This reduction was planned in response to market trends.

Consumption

Over the last year, Canadian consumers reduced their per capita consumption of fluid milk and yogurt. However, consumption of higher-fat milk products such as homogenized milk, cheeses and butter increased.

Canada produces over 1,450 cheeses, most of which are made with cow's milk. Innovation programs administered by the CDC have contributed to the development of several of these new products. For example, since the beginning of the Dairy Innovation Program 30 years ago, over 382 projects to create new cheeses, yogurt products and other dairy products used close to 131 million litres of milk. The Matching Investment Fund, launched in 2009, has financed 27 innovation projects. Cheese, skim milk powder, and fluid milk are the main ingredients involved in these projects for the development or reformulation of dairy desserts, cheese-based and nutraceutical[6] products, and dairy-based confectionery products.

6 Nutraceutical refers to foods thought to have a beneficial effect on human health. The classic example is yogurt with probiotics. Some specific milk proteins could also have benefits but more research is needed.

CDC AT A GLANCE

Created in 1966

72 employees (as of July 31, 2019)

Location: Ottawa

Web site: www.cdc-ccl.gc.ca

Administrative budget 2018-2019 (dairy year): $9.15 million

Dairy year: August 1 to July 31

Mission

To provide leadership to enhance the vitality of the Canadian dairy industry for the benefit of Canadians.

Values

Excellence, integrity, leadership and respect

In 2018-2019, retail sales of dairy products were strong for most categories. Demand for butter and especially cream remained robust with a respective 2.2% and 5.7% rate of increase at the retail level. In addition, growth in per capita cheese consumption has persisted, particularly for mozzarella and other everyday cheeses.

The trend related to a steady increase in demand for higher butterfat dairy products continued. This required a 3.1% year over year increase in quota to serve the Canadian market. Last year's strong production created high butter stocks. Production control measures stabilized milk production this year, which enabled CDC and private butter inventories to remain at stable levels while still meeting demand.

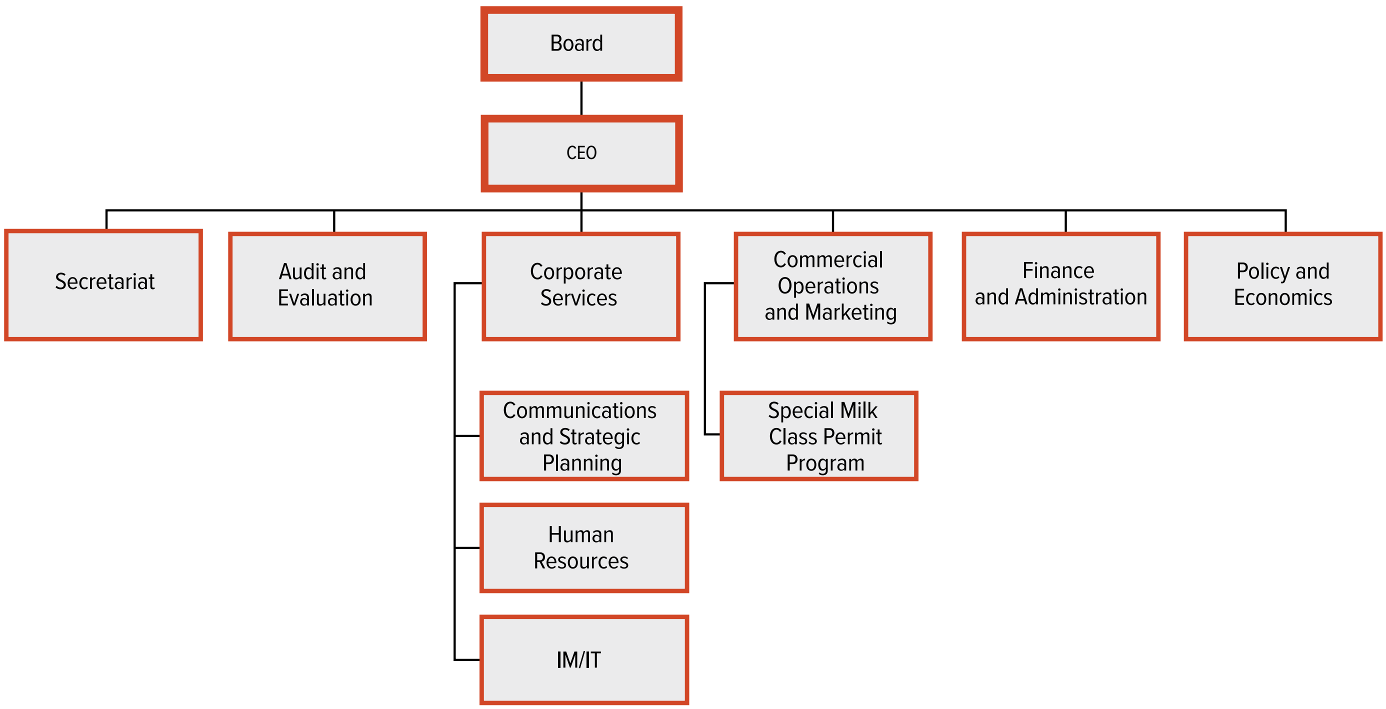
Governance

The Canadian Dairy Commission (CDC) is governed by the *Canadian Dairy Commission Act*, the *Financial Administration Act*, and the *Federal Public Sector Labour Relations Act*. It is also governed by the following regulations:

- the *Dairy Products Marketing Regulations*
- the *EEC Aged Cheddar Cheese Export Regulations*
- the *Safe Food for Canadians Regulations*.

It reports to Parliament through the Minister of Agriculture and Agri-Food.

Structure of the Canadian Dairy Commission



Jennifer Hayes, Commissioner
Alistair Johnston, Chairman
Serge Riendeau, Chief Executive Officer

GOVERNING BOARD

The governing board of the CDC is made up of a chairperson, a commissioner, and a chief executive officer (CEO). The CDC Board members are appointed by the Governor in Council and fulfill their mandates on a part-time basis. Members of the Board have a lengthy and varied experience in the dairy industry and together, they bring a balanced approach to decision-making.

The governing board is responsible for the overall stewardship of the organization. It approves the CDC's corporate plan, annual report, strategic plan, budget and financial statements. It develops policies for the CDC and ensures that the principal business risks are identified and that appropriate systems to manage these risks are in place. It also receives and addresses the annual audit and the special examination reports of the Office of the Auditor General (OAG).

BOARD MEMBERS

Chairman (appointed on May 28, 2015, for a four-year term effective August 1, 2015)

Alistair Johnston

Alistair Johnston arrived in Canada in 1988 and joined the Northern Alberta Dairy Pool as Director, Operations, subsequently holding leadership roles within Dairyworld Foods and the Vanderpol Food Group. For the past several years he has provided technical and strategic assistance to dairy and food manufacturing enterprises domestically and internationally. He has extensive board experience with the BC Chicken Marketing Board, BC Investment Agriculture Foundation, BC and Alberta Dairy Associations, and the BC Food Processors Association.

Mr. Johnston's term as Chairman of the CDC ended on July 31, 2019. A new Chair has not yet been appointed. After the end of the Chairman's term, the Commissioner will act as the Chair as per the CDC bylaws until the appointment of a new chairperson is announced.

Commissioner (appointed on January 3, 2017, for a three-year term)

Jennifer Hayes

Jennifer Hayes is a dairy and beef farmer on Quebec's Gaspé Peninsula. She is the third generation to farm at Pine Crest Farms in Shigawake, which she co-owns with her father and uncle. Her farm is the most eastern dairy farm on the mainland in Quebec. Ms. Hayes has extensive governance experience as an active member of the UPA (Union des producteurs agricoles). In addition to her position as a regional elected board member for Les Producteurs de lait de la Gaspésie-Les-Îles, Ms. Hayes was regional vice president for the beef producers' association, and an executive member of the provincial cull cattle and bob calf marketing committee.

Chief Executive Officer (appointed May 14, 2018, for a three-year term)

Serge Riendeau

Serge Riendeau is a leading figure of the Canadian dairy industry. He has occupied a position on the board of the Agropur cooperative for 26 years and was its president for 15 years. In 2017, Mr. Riendeau retired and left his position as president of the cooperative. His management experience is rich and varied. From 1991 to 1997, Mr. Riendeau was involved in municipal politics as a counselor and mayor of the town of Barnston in Quebec. Mr. Riendeau has been operating a 700-acre dairy farm for 42 years: Riendeau et Gendron inc. The dairy farm is located between Coaticook in Quebec and the American border. The herd has 400 heads.

BOARD COMMITTEES

Audit Committee

The Audit Committee ensures proper accountability over CDC operations as required by the *Financial Administration Act.* It reviews and approves the annual audit plan of the Auditor General and actively solicits the OAG's expertise regarding the corporation's accounting principles and financial reporting. The committee meets quarterly to review the financial statements and receive internal audit and program evaluation reports.

Members

- Commissioner (chair)
- Chairperson
- Chief Executive Officer

Senior Management Team

The Senior Management Team (SMT) meets approximately every two weeks to discuss the daily operations of the CDC and to make the required decisions. It is supported by four advisory committees that develop plans and priorities, and advise management on human resources, internal audits and program evaluation, security, and occupational health and safety.

The SMT creates and amends CDC policies and reviews the administrative budget before it is presented to the Board. It also addresses issues relating to human resources, audit, evaluation, and governance, and acts as a sounding board for the CEO on industry-related matters and on recommendations to be presented to the Board.

Members

As of July 31, 2019, in addition to the CEO, the following people make up the SMT.

- Senior Director, Commercial Operations and Marketing
- Director, Audit and Evaluation
- Director, Corporate Services
- Director, Finance and Administration
- Director, Policy and Economics
- Corporate Secretary
- Chief Security Officer

Chantal Laframboise, Director, Finance and Administration; **Danie Cousineau,** Corporate Secretary; **Christine Boutin,** Senior Director, Commercial Operations and Marketing; **Hossein Behzadi,** Director, Audit and Evaluation; **Benoit Basillais,** Director, Policy and Economics; **Chantal Paul,** Director, Corporate Services

MANAGEMENT COMMITTEES

Human Resources Advisory Committee

The Human Resources Advisory Committee's mandate is to provide advice to the SMT on human resources priorities and initiatives. It meets twice a year or at the request of the chair.

Members

- Director, Corporate Services (chair)
- Manager, Human Resources Programs
- Advisor, Human Resources (secretary)
- A representative of employees in each service
- A representative of managers

Internal Audit and Program Evaluation Advisory Committee

This committee develops internal audit and program evaluation plans for the review of CDC's systems, programs, policies, and practices. It is also responsible for monitoring the progress of internal audits and program evaluations as per the approved plans and of the resulting management actions. It meets at least three times per year and at the request of the chair.

Members

- Chief Executive Officer (chair)
- Senior Director, Commercial Operations and Marketing
- Director, Audit and Evaluation
- Director, Corporate Services
- Director, Finance and Administration
- Director, Policy and Economics
- Manager, Audit
- Senior Financial Officer

OCCUPATIONAL SAFETY AND HEALTH COMMITTEE

The Occupational Safety and Health Committee (OSH) serves as an advisory body to the SMT for all matters relating to the health and safety of CDC employees as mandated by the Canada Labour Code and associated regulations.

Members

- 1 employee representative (co-chair)
- 1 employer representative (co-chair)
- 1 secretary
- 1 employee representative
- Champion of Mental Health (ex officio)

RISK AND SECURITY COMMITTEE

The Risk and Security Committee's mandate is to assist the SMT in meeting the security requirements of the Government of Canada related to the CDC's employees, information and assets, as well as in identifying and monitoring corporate risks and controls.

Members

- Chief Security Officer
- Director, Corporate Services
- Audit Manager

Cyber Security Committee

The Cyber Security Committee (CSC) has been formed to manage all aspects of cyber security for the CDC. It evaluates incoming cyber security threats as they affect the assets and infrastructure, provides a forum to discuss emerging cyber-related risks and applies and maintains security policies on all IT security tools used at the CDC.

Members

- Chief Security Officer
- Information Technology Security Coordinator
- Database Manager

GOVERNANCE AT THE CDC

In the fall of 2018, the Board approved the Annual Report and Financial Statements of the CDC for the 2017-2018 dairy year. In April 2019, the Board also approved the CDC's Corporate Plan for the period starting in 2019-2020 and ending in 2023-2024. The Corporate Plan contains all the major directions of the corporation as well as its forecasted budgets and borrowing plan. It was approved by Treasury Board on May 16, 2019.

The CDC updated its Corporate Risk Profile in January 2019. The profile defines each risk, describes the existing measures for managing the risk and the group responsible for implementing these strategies, and it is considered when performing the environmental analysis during the strategic planning process. The Audit Committee approves the measures contained in the Corporate Risk Profile and these measures are monitored by the Internal Audit and Program Evaluation Advisory Committee on a regular basis.

The Audit and Evaluation division started a program evaluation of the Special Milk Class Permit Program to determine whether it is meeting its fundamental objective to keep the dairy sector competitive as an ingredient supplier in the domestic markets. The objective of the evaluation was to assess the relevance, performance and continued need for this program and determine whether the desired outcomes were achieved. The evaluation has been completed and the SMT received the final report at the end of July 2019. This report highlights the relevance and usefulness of the program for the industry. It suggests simplifying the administration and better communicating with current and potential participants. In addition, it proposes to improve research and analysis using program data.

The CDC held its annual public meeting in January 2019 in Ottawa. This meeting is open to the public but is generally attended by about 50 representatives of the dairy industry. It gave the CDC the opportunity to report on its financial statements and strategic objectives for the past and current dairy years and to answer any questions from participants.

Activities and Programs

The Canadian Dairy Commission (CDC) monitors demand and adjusts the supply of milk, ensures a fair return to producers, encourages market development, provides auditing services, and supports the industry by providing many technical and administrative services and administering various programs.

SUPPLY MANAGEMENT

Determining and Adjusting Quota

The CDC monitors trends in total demand[7] and milk production (supply) monthly. This allows it to adjust the national production quota every month to reflect changes in the demand for milk products. The objective when establishing production quota is to minimize the possibility of shortages or surpluses in the domestic market. Any surplus that occurs is managed by adjusting the quota, by temporarily storing surpluses at the expense of producers or, as a last resort, by exporting dairy products within Canada's trade commitments. The CDC also monitors butter stocks levels to ensure that markets can be served in periods of low production.

From August 1, 2018, to July 31, 2019, total milk demand increased by 3.1% from the previous year, to reach 383.4 million kg of butterfat. During the same period, the total quota also increased by 3.1%. Last year's strong production created high butter stocks. Production control measures stabilized milk production this year, which enabled the CDC and private butter inventories to remain at stable levels, while still meeting demand.

Supplying Growth

The CMSMC has changed the methodology used to calculate the quota in order to respond more rapidly to variations in demand. Mainly, the Total Requirements and the Total Quota are now calculated monthly using solely monthly figures (as opposed to 12 month rolling). Additionally, the total quota is now tied to the total requirements by using the latter as a starting point for the quota calculation. These changes assure that quota does not deviate from demand. Finally, the continuous quota was adapted in order to allow some flexibility to provincial marketing boards while at the same time maintaining a discipline at the national level.

In addition to a more responsive total quota system, the CDC has developed forecasting tools to help marketing boards with quota issuance. The CDC forecast performed well within the expected precision range. For the dairy year 2018-2019, the CDC had forecasted the total requirements at 388.9 million kg BF, and the actual total requirements were at 383.4 million kg BF. This represents a margin of error of 1.4%.

7 The quantity of butterfat required to fulfill domestic demand and planned exports for dairy products.

In addition to domestic production, the market has been supplied with 3,274 tonnes of butter comprised of the tariff rate quota that the CDC imports in any normal year and 472 tonnes of butter that the industry imports from the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) tariff rate quota.

Removing Surplus

The CMSMC directs the CDC in the operation of the Surplus Removal Program. The program ensures that milk surplus to the domestic market is removed in the appropriate region and in a timely fashion. Returns from this program are shared among all Canadian producers through the Comprehensive Agreement on Pooling of Milk Revenues. The CDC exported a small quantity of butter (150 tonnes), within Canada's trade commitments, under this program this year due to changing market conditions.

As planned, CDC inventories of skim milk powder (SMP) for animal feed for the domestic market were depleted during the year.

Adjusting Supply

The Domestic Seasonality Programs allow the industry to cope with the seasonal demand for dairy products. The industry has mandated the CDC to operate these programs in co-operation with the private sector. Generally, the CDC buys and stores products when consumption is low and sells them to processors when consumption rises.

Imports

Under the terms of the 1995 WTO Agreement on Agriculture, Canada has established tariff rate quotas (TRQ) for a number of dairy products. TRQs are the quantities of products that can enter Canada with little or no tariff. With the support of the industry, the CDC has acted as the receiver of butter imports under federal permit since 1995 and has directed this product to the food sector through butter manufacturers. The TRQ for butter is 3,274 tonnes. Of this, approximately two thirds (2,000 tonnes) is specifically allocated to New Zealand.

During the 2018-2019 dairy year, the CDC imported its full TRQ commitment of butter, including more than 2,000 tonnes from New Zealand. Since production was sufficient to meet demand for butter, Supplementary Import Permits were not required.

Summary of transactions under the Domestic Seasonality Programs

	Opening inventory	Purchases	Sales	Closing inventory
		tonnes		
Butter	25,071	33,935	38,420	20,586

PRODUCER REVENUES

Pricing

As part of the supply management system, the price that producers get for their milk is regulated and varies depending on the end use of the milk. Price adjustments at the farm level for milk classes 1 to 4 are based on a combination of annual changes in the cost of production and the consumer price index. The cost of production is measured annually by the CDC and the consumer price index is obtained from Statistics Canada.

Following the last price adjustment in September 2018, it was agreed that there would be no further support price adjustment until February 1, 2020. The CDC is working on the latest study on the cost of producing milk in Canada and will undertake consultations in the fall on the application of the pricing formula.

Pooling of Markets and Producer Returns

In its role as a national industry facilitator, the CDC administers the three federal-provincial agreements that frame the sharing of revenues and markets among Canadian milk producers on behalf of the dairy industry.

Comprehensive Agreement on Pooling of Milk Revenues (P10 Agreement)

The Comprehensive Agreement on Pooling of Milk Revenues provides a means for the market returns from the sale of milk to processors under the Special Milk Class Permit Program (SMCPP) to be shared among the dairy producers of all ten provinces. Based on this agreement, the CDC administers the SMCPP on behalf of the industry.

Under the SMCPP, implemented in 1995, competitively priced milk is made available for use in processed products containing dairy ingredients. Further processors access these dairy ingredients by means of a Special Class permit issued by the CDC.

Further processors used the equivalent of 36.1 million kg of butterfat in the 2018-2019 dairy year, an increase of 17.7% over the previous year. The increase is mostly explained by additional sales of Canadian butter for further processing. The average revenue obtained by producers from these three classes amounted to $45.56/standard hl compared to $43.00/standard hl for the previous year. The number of active program participants on July 31, 2019, amounted to 1,826.

REGIONAL POOLING AGREEMENTS

Agreement on the Eastern Canadian Milk Pooling (P5 Agreement)

The Agreement on the Eastern Canadian Milk Pooling provides a means for revenues from all milk sales, transportation costs, markets, and the responsibility for skim-off[8] to be pooled among dairy producers in Ontario, Quebec, New Brunswick, Nova Scotia and Prince Edward Island. The CDC chairs the meetings of the Supervisory Body of the pool, administers the pooling agreement, completes pooling calculations, and provides technical expertise and secretariat services to the P5.

8 Excess butterfat from the fluid milk market

Western Milk Pooling Agreement

Since 1997, Manitoba, Saskatchewan, Alberta and British Columbia form the Western Milk Pool (WMP) which shares revenues and markets for all milk classes. The CDC chairs the WMP Coordinating Committee and administers the pooling agreement, performs the pooling calculations and provides technical expertise and secretariat services.

Activities of Regional Pools

During the 2018-2019 dairy year, P5 technical working groups addressed challenges related to the reconciliation of the P5 growth reserve. The growth

SMCPP – Volume of milk sold (million kg butterfat) and average producer revenue ($/standard hl)*

Class		2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
5(a) (cheese)	Volume	8.09	7.96	8.56	8.58	9.32
	Price	$50.42	$44.18	$47.49	$44.00	$45.25
5(b) (other ingredients)	Volume	16.05	11.82	13.79	19.16	23.85
	Price	$46.88	$40.66	$43.26	$41.42	$48.10
5(c) (confectionery)	Volume	5.86	5.31	4.67	2.91	2.91
	Price	$33.35	$27.68	$37.94	$40.13	$41.62
Total	**Volume**	**30.00**	**25.09**	**27.02**	**30.65**	**36.08**
	Price	**$44.89**	**$38.99**	**$44.56**	**$43.00**	**$45.56**

*Prices are calculated at 3.6 kg of butterfat per hectolitre, using the latest compositional standards for all dairy years.

reserve is used to encourage processing in certain classes. Beginning in the 2016-2017 dairy year, the CDC has provided technical expertise to the P5 in a more effective way to balance the sum of milk required for this activity. The CDC also assisted signatories to the P5 agreement to complete a mandatory review of the agreement, conducted every five years. The review was successful, and no changes were required. The P5 technical working groups also successfully developed a P5 policy for sharing surplus cream related to the Milk Access for Growth Program.

During the 2018-2019 dairy year, the CDC continued to provide technical support to the WMP technical groups at their request.

Harmonization of policies and activities between P5 and WMP provinces continues to progress. P5 and WMP technical working groups addressed challenges related to pricing throughout the dairy year.

Milk deliveries (million kg of butterfat)

	P5	WMP
Fluid milk	75.13	38.03
Industrial milk	204.65	59.18
Total	**279.78**	**97.21**

MARKET DEVELOPMENT

Class 3(d)

Class 3(d) was created to encourage restaurants to use Mozzarella on fresh pizzas. In 2018-2019, 998 additional restaurants joined the program for a total of 12,276 restaurants. Consequently, the total amount of Mozzarella used in the program for this dairy year amounted to 52 million kg compared to 51 million kg in 2017-2018.

Dairy Marketing Program

The CDC continues to encourage growth and innovation in the manufacture and use of dairy products and components. The Dairy Marketing Program, through the Matching Investment Fund (described below), helps manufacturers and food science centres access the technical support and expertise they need to develop innovative dairy and food products and to bring them to market. Through the MILKingredients.ca web site, dairy processors and further processors can apply for programs, and find up-to-date information on milk prices and dairy ingredients.

In 2018-2019, the CDC participated in the Restaurants Canada trade show and other food science and industry events to promote the Dairy Innovation Program, the Matching Investment Fund, the Special Milk Class Permit Program as well as other services the CDC offers to dairy processors and food manufacturers.

Matching Investment Fund

The Matching Investment Fund (MIF) is designed to help eligible companies and food technology centres with product development initiatives that help stimulate demand for Canadian dairy products and ingredients. During the 2018-2019 dairy year, the MIF received 4 applications, and as of July 31, 2019, two applications were approved. Approved projects include activities such as consultation services, recipe formulation, product testing and technology transfer.

Dairy Innovation Program

The Dairy Innovation Program (DIP) encourages the manufacture of new and innovative products on the domestic market. It allows for the addition of specific volumes of milk to provincial quotas to ensure that the milk supply needed to produce innovative products is available to successful applicants. During the 2018-2019 dairy year, dairy processing companies across Canada used 5 million litres of milk under the DIP compared to 11.3 million litres in 2017-2018. This decrease is due to the completion of projects under DIP. The milk required to manufacture those successful products is still produced, but not under the program.

This year, 23 applications were received under the DIP. As of July 31, 2019, two applications were approved by the selection committee. The others are still under review.

Exports

During the 2018-2019 dairy year, there were no exports of skim milk powder in Class 5(d). Due to changing market conditions, Canada exported approximately 150 tonnes of butter. The CDC also issued Class 5(d) permits to Canadian exporters for 1,695 tonnes of cheese in addition to the cheese exported under the Dairy Export Program (DEP). All exports in class 5(d) were within Canada's trade commitments.

Dairy Export Program

The Dairy Export Program (DEP) aims to support the export of up to 3,000 tonnes of cheese per dairy year as well as the export of other dairy products. Applicants must be federally licensed plants or exporters and all exports are within Canada's trade commitments. In 2018-2019, 2,696 tonnes of cheese and 2.4 million litres of milk were exported under the DEP.

Milk Access for Growth Program

The Milk Access for Growth (MAG) program guarantees a sufficient supply of milk to encourage new investments in the dairy sector to grow the overall Canadian demand for milk and milk products. These investments include expansion and/or establishment of plants by Canadian dairy processors, further processors of food or any other products, or Canadian or foreign investors seeking to establish a business in Canada. The program may be used for new as well as existing products (dairy or other products containing dairy ingredients), with the emphasis being placed on growth. In 2018-2019, the program received one application which is under review. Agreements for projects previously approved are being finalized. These approved projects have not begun production. New facilities are expected to start production in late 2019.

Export limits and products exported

	Subsidy limit (million kg)	Quantity of products exported (million kg)	Subsidy limit (million $)	Subsidy value on exported products (million $)
Butter	**0.905**	0.150	11.025	0.684
Cheese	**6.041**	4.391	16.228	9.663
Skim milk powder	**18.147**	0	31.149	0
Other dairy products	**14.189**	2.430	22.505	0.232
Incorporated products	**n/a**	0	20.276	0

In March 2019, the CDC decided to suspend new applications while the program is being evaluated to ensure its relevance in future years.

AUDITING

The table on page 21 explains the various audit roles of the CDC.

Most external audits cover companies participating in the Special Milk Class Permit Program (SMCPP). Risk assessment is used to identify higher-risk companies among program participants. In conjunction with SMCPP audits, the CDC also audits companies participating in the Import for Re-export Program (IREP) which is administered by Global Affairs Canada. Audit activities also included participants in Class 4(m) program, which was in place for skim milk and liquid milk protein concentrate (MPC) until January 2017. During the 2018-2019 dairy year, a total of 40 audits were conducted of SMCPP, 4(m), and IREP participants, compared to 88 audits the previous year. The decrease was mainly due to the end of the Class 4(m) program.

Audits for Milk Class 3(d) (Mozzarella for fresh pizzas) were performed and covered selected independent pizzerias and distributors. During the 2018-2019 dairy year, a total of 325 pizzeria restaurants and distributors were audited, which was much higher than the projected target of 45. The high number of audits is due to the inclusion of a pizzeria chain however, the focus was mainly on distributors. Targets were reduced based on audit results of prior years, as this was considered a low-risk area.

Audits of Class 7 activities are underway in collaboration with provincial auditors. A total of 32 joint audits were conducted during 2018-2019, which is lower than our projected target, mainly due to system updates required of the provinces and implementation of other initiatives. During the joint audits, the CDC contributed valuable expertise and supported harmonization of audit practices. Overall audit results were positive in this regard.

The CDC also performs the milk plant utilization audits in Newfoundland and Labrador, Prince Edward Island, Nova Scotia, New Brunswick, Manitoba and Saskatchewan (31 plants in 6 provinces) on a cost-recovery basis. Utilization audits cover procedures specific to each class as well as other CDC and provincial programs (i.e. DIP, School Milk Program, etc.).

As of July 31, 2019, routine audit recoveries in the SMCPP totaled $392,917. These funds were returned to producers. These recoveries are slightly lower than historical averages due to improved understanding of program requirements by long-term participants, as compared to previous years.

National Milk Utilization Audit Standards and Harmonization of Practices

In parallel with its auditing work, the CDC provides audit expertise and promotes the harmonization of procedures through the National Milk Audit Advisory Committee (NMAAC). This committee brings together CDC auditors, provincial auditors, as well as representatives from milk marketing boards and the dairy processing industry twice a year. Meetings were held in September 2018 and March 2019.

The CDC continued to play a coordinating and training role relative to the implementation of CMSMC policy decisions having audit implications. This includes ensuring Milk Utilization Verification systems (MUV and Syslait) are properly implemented and certifying the accuracy of their calculations. The CDC also monitors key industry changes and trends and shares information with auditors of other jurisdictions to continually improve audit outcomes for all provinces.

Type of audit	Auditee	Purpose of audit
Revenue Sharing	Provincial boards	Verify completeness of pooled revenues from all 10 provinces
Milk Utilization	Processors	Verify accuracy and completeness of milk components reported in utilization classes and related programs (i.e. School Milk Program, DIP, etc.) in 6 provinces (NL, PE, NB, NS, MB, SK)
IREP	IREP participants	Verify compliance with program requirements on behalf of Global Affairs Canada
Milk Class 3(d)	Distributors and restaurants using Mozzarella on fresh pizza	Verify compliance with class requirements
Special Milk Class Permit Program (Classes 5(a), (b), (c))	Distributors and further processors	Verify compliance with program requirements
Class 7	Class 7 participants	Verify compliance with class requirements

INDUSTRY SUPPORT

Canadian Milk Supply Management Committee

The Canadian Milk Supply Management Committee (CMSMC) is a national body for policy development and discussions in the sectors of dairy production and processing. It includes milk marketing boards and government representatives from all provinces and non-voting representatives from national consumer, processor and producer organizations. As chair of the CMSMC, the CDC provides ongoing leadership, advice, and analysis to the Canadian dairy industry, in close co-operation with national and provincial stakeholders.

Secretariat, IT and Translation Services

The CDC coordinated close to 135 meetings, webinars and conference calls and translated approximately 800 documents in support of the regional pools, the CMSMC, and several working groups and national committees.

Workforce Development Initiative

The CDC supports the establishment of a highly skilled, diverse workforce that is well adapted to meet the current and future needs of the dairy producing and processing sectors. Following an inclusive consultation process with dairy industry and academia partners, the CDC launched the Workforce Development Initiative (WDI) in April 2018. The WDI encourages productivity, competitiveness and innovation by supporting the education and recruitment of a dynamic workforce. It is composed of four funding programs:

1. Scholarship Program: scholarships for graduate students in fields related to the dairy industry

2. Career Promotion Program: promotion of careers in the dairy industry

3. Education Program: creation of government-certified, full-time education programs in order to train qualified staff to work in dairy plants

4. Continuing Education Program: opportunities for continuing education of current dairy plant and farm staff

A total of $5 million is available for a 3-year period (subject to availability of funds).

Under the Scholarship Program, $284,167 was disbursed in the fall of 2018 for a total of 8 Ph.D.s and 8 master's degrees. The University of Alberta received $129,167 and the University of Calgary received $155,000 in scholarship funding for projects approved by the CDC. In addition, Novalait and the University of Guelph each received $500,000 for administering the program for their respective institutions on behalf of the CDC.

There were no applications received under the Career Promotion Program in 2018.

There was one application under the Education Program that was accepted. It is a partnership between the Ontario Dairy Council, Collège La Cité and Conestoga College in Ontario to develop a program in cheese production in both official languages.

There were five applications under the Continuing Education Program, two of which were accepted. Agri-Carrières in Quebec, in collaboration with the UPA, updated and distributed a program to train high-school students so they can work part-time milking cows on farms and Lakeland College in Alberta, in collaboration with Alberta Milk, is developing training for dairy farm employees.

There was a second round of applications during the summer of 2019. The CDC received seven applications from five organizations

Performance and Goals

ACHIEVEMENTS FOR 2018-2019

The CDC has achieved most of its objectives. However, changing industry priorities and market forces have hindered the achievement of some of them.

Investment, innovation and growth in the Canadian dairy sector

5-year objective	Performance measure for 2018-2019	Target	Results	% complete
Investment and innovation have led to continuous market growth.	Number of litres of milk used in the Milk Access for Growth Program (MAG)	160 million litres	0 (agreements still being finalized)	0
	Market growth rate	4% (cumulative)	MAG projects approved are expected to create growth starting in late 2019.	0
	Number of innovative dairy products introduced through the Dairy Innovation Program	10 (cumulative)	As of July 31, 2019, two applications were approved by the selection committee.	100

The role of the CDC in the industry

5-year objective	Performance measure for 2018-2019	Target	Results	% complete
The CDC is valued as an effective facilitator and key contributor in the dairy industry.	% CDC-led recommendations to industry committees that are accepted	85%	Six recommendations were proposed and accepted including a monthly total quota system, refund to producers (pooling related), clarification on protein loss, and creation of P10 technical quota committee.	100
	Number of invitations to speak/facilitate/train at non-CDC meetings (excluding reports to provincial boards' AGMs)	20 per year	20 invitations received in 2018-2019	100
	Number of registrations to CDC online training modules	15 per year	The CDC received 20 requests for the online training modules.	100

Administration of the milk supply management system

5-year objective	Performance measure for 2018-2019	Target	Results	% complete
A well-administered, responsive and well-understood supply management system	Time from receipt of pooling data to quota allocation and money transfers	8 days maximum	Calculation and fund and data transfers on target.	100
	Number of audits	31 Milk Utilization Audits	31 Milk Utilization Audits	100
		40 audits of Special Milk Class Permit Program participants	35 audits of Special Milk Class Permit Program participants	87.5
		40 audits of class 7	27 audits of class 7	67.5
		3 audits of IREP participants	5 audits of IREP participants	100
		10 revenue sharing	6 revenue sharing	60
		45 audits of Class 3d participants	325 audits of Class 3d participants	100
		1 internal audit	0 internal audit	0
		1 program evaluation	2 program evaluations	100
	Total producer revenues increase driven by growth	1%	4.6% increase	100
	Quota as a percentage of demand	Quota is between 99% and 101% of demand	99.29%	100

A well-managed CDC

5-year objective	Performance measure for 2018-2019	Target	Results	% complete
The CDC is organized and resourced to support the dairy industry into the future.	Level of staff satisfaction as measured by an annual survey	Satisfaction rate of 90% or more	Satisfaction rate reached 95%	100
	Number of tools or policies developed and adapted to better support the industry	4 per year	Four tools or policies were developed: Continued adjustments to demand forecasting model Continued adjustments to monthly quota management model Continued adjustments to pooling models Review of Audit Manual (ongoing)	100

PERFORMANCE GOALS FOR 2019-2020

The CDC's performance objectives for 2019-2020 are based on the strategic themes and 5-year goals identified in its Corporate Plan.

Theme: Innovation, investment, and growth in the Canadian dairy sector
5-year goal – Investments and innovation have contributed to the growth and sustainability of the Canadian dairy industry.

Performance indicators	5-year Target
Number of litres of milk used in the Milk Access for Growth Program (MAG)	160 million litres
Percentage of butterfat used in MAG and DIP vs quota	0.5% per year
Number of innovative dairy products introduced through the Dairy Innovation Program (DIP)	2 per year

Strategy	2019-2020 objective
Maximize markets for dairy products and ingredients.	Acquire better expertise on current markets and regulations and share this information with industry.
Support and fund innovation through existing programs.	Companies increase their use of CDC programs.

Theme: The role of the CDC
5-year goal – The CDC is known for its leadership and its support of the industry in promoting a common approach.

Performance indicators	5-year Target
% CDC-led recommendations to industry committees that have been accepted	75%
Number of invitations to speak/facilitate/train at non-CDC meetings (excluding reports to provincial boards' AGMs)	12 per year
Number of registrations to CDC online training modules	8 per year

Strategy	2019-2020 objective
Produce reliable data and analyses for dairy industry stakeholders, including government agencies.	CDC is considered a reliable source of information.
Facilitate industry committees while encouraging stakeholder participation and a common approach.	Improve the operation of the industry committees chaired by the CDC. Promote a common and national approach to issues and solutions.

Theme: Administration of the milk supply management system

5-year goal – A well-administered, responsive and well-understood supply management system

Performance indicators	5-year Target
Time from receipt of pooling data to quota allocation and money transfers	8 days maximum
Number of audits	31 Milk Utilization Audits 40 audits of Special Milk Class Permit Program participants 45 audits of class 7 participants 5 audits of IREP participants 10 audits of revenue sharing 35 audits of Class 3d participants 2 internal audits 2 program evaluations
CDC demand forecasts vs. actual demand	Within 2% of actual demand
Difference between the COP and the expected producer revenues	A maximum of +/-3.5%

Strategy	2019-2020 objective
Promote more market-responsive management of milk supply.	The new quota management system responds to market trends.
Ensure the respect of federal-provincial and international agreements.	Start the modernization of the P10 and NMMP to reflect changes to the industry.
Ensure that efficient producers receive fair returns.	Measures are taken to ensure that efficient producers receive fair returns. Revenue pooling calculations are timely and accurate.
Ensure Canadian production meets demand.	There is timely and sufficient supply of dairy products in the Canadian market. There is timely and accurate allocation of quota to meet demand.

Theme: Functioning of the CDC

5-year goal – The CDC is organized and has the resources to continue to support the dairy industry into the future.

Performance indicators	5-year Target
Level of staff satisfaction as measured by an annual survey	80% or more
Number of tools or policies developed and adapted to better support the industry	4 per year
Turnover rate	Maximum 10%
Assessment of employees' performance	90% of employees have satisfactory performance or higher in their end-of-year evaluation (fall 2019)

Strategy	2019-2020 objective
Fully staffed with the right people with the right skills to advance CDC performance and to serve the industry.	Employee retention is improved. Generic skills of employees are increased.
Adapt the IT systems to the industry's evolving needs.	IT services are improved.
Implement new or updated government policies.	Requirements of the new government policies are assessed.
Raise the profile of environmental issues within the CDC.	Environmental issues become part of internal decision-making.

Financial Report

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis of the operating results and financial position of the Canadian Dairy Commission (CDC) for the year ending July 31, 2019, should be read in conjunction with the financial statements of the CDC enclosed and the annual report.

Selected Key Results of Operations

Domestic activities

The CDC purchases and sells butter to regulate the supply of dairy products in the domestic market throughout the year. Furthermore, during the year, the CDC sold its remaining skim milk powder (SMP) inventories through domestic sales.

In the 2018-2019 dairy year, total revenues from domestic sales increased by $52.5 million, or 17%, compared to the previous year. This is mainly explained by an increase in butter sales as a result of higher levels of inventories at the end of the previous year. However gross profits decreased as a result of the lower sales of skim milk powder which more than offset the increase in gross margin associated with the butter sales.

The CDC purchases butter in bulk under Plan A through the Domestic Seasonality Programs. This butter is resold to processors when domestic seasonal demand increases. The CDC sold 1,085 tonnes of Plan A butter compared to 464 tonnes in the previous year, which translated into an increase in revenues of $5.4 million.

The CDC also purchases Plan B butter through the Domestic Seasonality Programs from processors who must repurchase it within a predetermined period. This year, the CDC sold 37,411 tonnes of Plan B butter compared to 29,429 tonnes last year, representing an increase in revenues of $71.5 million. The increased volume of sales is due to higher Plan B inventory levels at the beginning of the year compared to last year, resulting in a higher volume of repurchases from processors. Plan B butter is purchased and resold at the prevailing support price and therefore has minimal impact on gross profit.

The CDC continues to import 3,274 tonnes of butter as part of Canada's commitments under the World Trade Organization Agreement on Agriculture. This year, revenues from the sale of imported butter amounted to $21.9 million, which represents a decrease of $2.9 million compared to last year. These products are purchased by the CDC at prevailing world prices

Domestic activities

For the year ended July 31

(in thousands)	2019	2018	$ change
Domestic sales revenue	$358,442	$305,942	$52,500
Cost of goods sold - domestic	$350,397	$291,887	$58,510
Transport and carrying charges	$4,245	$6,138	$(1,893)
Finance costs	$1,287	$985	$302
Gross profit on domestic sales	**$2,513**	**$6,932**	**$(4,419)**

and they are mostly directed to the further processing industry through butter manufacturers.

The CDC has depleted the SMP inventory it had on hand at the beginning of the year, which resulted in 12,706 tonnes of SMP sold to animal feed manufacturers compared to 25,484 tonnes sold in the previous year. As a result, revenues decreased by $21.5 million compared to the previous year. The gross profit generated from this activity decreased by $5.6 million.

Export activities

Export activities in both years are comprised of the sale of a small amount of surplus butter. Sales revenues are higher this year as a result of selling 100 tonnes more of butter than in the previous year.

Transport, carrying, and finance costs

Transport, carrying, and finance costs consists mainly of transport expenses, interest expenses on loans, handling and storage charges, and insurance costs. Transport and carrying charges for domestic activities decreased by $1.9 million in 2019 compared to 2018, mainly due to lower levels of SMP inventories throughout the year. In the case of export activities, these costs remain negligible.

Total finance costs for domestic activities have increased by $0.3 million compared to the previous year. This increase is due to higher levels of butter inventories throughout the year, combined with an increase in borrowing rates. Overall, borrowing rates are expected to increase slightly in the 2019-2020 dairy year.

Other income

Funding from milk pools represents the revenues obtained from producers and the marketplace to finance a portion of the CDC's administrative expenses, the cost of the annual production study, the costs related to the Storage Assistance Program for Cheese (SAPC), the carrying charges associated with CDC butter stocks, and any recoverable industry committee expenses. The funding increased slightly compared to the previous year mainly as a result of higher carrying charges for butter recovered from milk pools.

Parliamentary appropriations are used to partially fund the CDC's administrative expenses. The remainder of the CDC's administrative expenses are funded by dairy producers, commercial operations, and the market place. Funding from the Government of Canada is recognized in the Statement of Operations and Comprehensive Loss based on eligible government-funded administrative expenses incurred.

Audit services revenues relate to the milk plant utilization audits performed by the CDC in 6 provinces on a cost-recovery basis.

Export Activities

For the year ended July 31

(in thousands)	2019	2018	$ change
Export sales revenue	$839	$278	$561
Cost of goods sold - exports	$685	$229	$456
Transport and carrying charges	$7	$3	$4
Finance costs	$-	$-	$-
Gross profit on export sales	**$147**	**$46**	**$101**

Other Income

(in thousands)	2019	2018	$ change
	For the year ended July 31		
Funding from milk pools	$9,231	$9,069	$162
Funding from the Government of Canada	$3,778	$3,881	$(103)
Audit services	$177	$168	$9
Total other income	**$13,186**	**$13,118**	**$68**

Operating and Administrative Expenses

Operating Expenses

"*Industry initiatives*" includes expenses relating to various CDC programs that provide benefits to the industry such as research, the Matching Investment Fund, and the Workforce Development Initiative. Contributions made to these initiatives increased by $7.4 million as a result of additional projects approved under these programs.

"*Cost of production study*" includes expenses relating to the annual survey on costs of production. The CDC uses the survey's results when it sets support prices. The study's funding increased slightly to reflect inflation.

"Other charges" is mainly comprised of credits from the CDC's contribution to the cost of the production study, charges incurred by the CDC on behalf of the milk pools, and bank charges from the milk pool account.

Administrative Expenses

The 2018-2019 administrative expenses totalled $9.4 million compared to $8.8 million in the previous year. The difference in salary costs is mainly attributable to fewer positions being vacant during the year and new collective agreements with higher salaries. Salaries and benefits of $7.2 million make up the bulk of the administrative expenses. The remaining significant administrative expenses relate to rent, travel, and administrative support.

Distribution to provincial boards and agencies

The distribution to provincial boards and agencies represents a refund of surplus generated from the Domestic Seasonality and Surplus Removal Programs. As milk producers are responsible to finance these programs, any surpluses are reimbursed to provincial milk marketing boards and agencies, who in turn redirect these funds to milk producers. The 2018-2019

Operating and Administrative Expenses

(in thousands)	2019	2018	$ change
	For the year ended July 31		
Operating expenses			
Industry initiatives	$8,171	$735	$7,436
Cost of Production study	$850	$838	$12
Other charges	$122	$176	$(54)
Total operating expenses	$9,143	$1,749	$7,394
Administrative expenses			
Salaries and employee benefits	$7,154	$6,608	$546
Other administrative expenses	$2,264	$2,216	$48
Total administrative expenses	$9,418	$8,824	$594
Total operating and administrative expenses	**$18,561**	**$10,573**	**$7,988**

refund is $5.8 million, which represents a decrease of $5.1 million that resulted from lower sales of SMP. In the past, these surpluses came mostly from the sale of skim milk powder, which stopped in March 2019 after stocks were depleted. This distribution is therefore expected to decrease even further in the 2019-2020 dairy year.

Total comprehensive loss and retained earnings

Total comprehensive loss in 2018-2019 was $8.5 million compared to $1.4 million in 2017-2018. Losses for both years were budgeted as the CDC continues to use its retained earnings to fund initiatives that benefit the industry such as research, the Matching Investment Fund, and the Workforce Development Initiative. Retained earnings are governed by policies that clearly identify the activities that can be financed by these funds and the CDC Board is responsible for applying these policies and approving any new initiative funded by retained earnings. As the CDC plans to continue to fund industry initiatives using the capital available in its retained earnings, comprehensive losses are expected over the next few years. This will translate into a reduction of overall retained earnings. The CDC will not approve funding for industry initiatives that would completely deplete retained earnings.

Inventories and loans

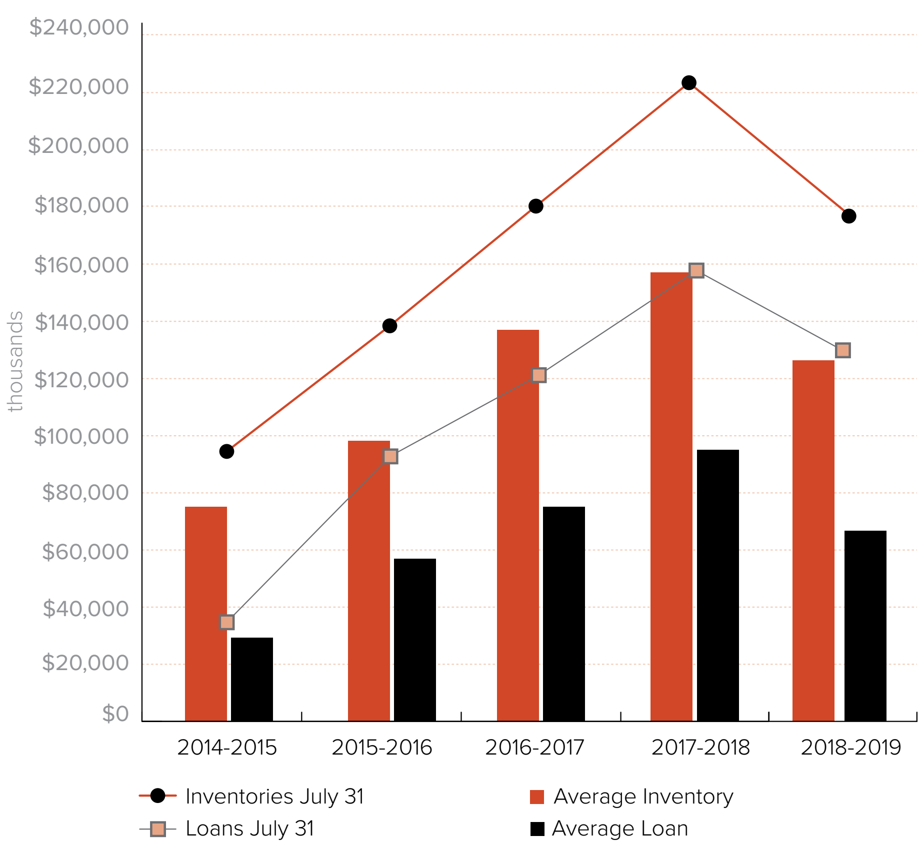
The value of inventory at the end of the year was $178.2 million, compared to an inventory value of $222.0 million at the end of the previous year.

CDC butter stocks at the end of the year totalled 21,683 tonnes, which represents a decrease of 4,218 tonnes compared to last year. As a result of measures taken to reduce production, butter stocks are slowly returning to more normal levels.

Since February 2017, the CDC no longer purchases SMP under the Surplus Removal and Domestic Seasonality Programs, following the implementation of some elements of the National Ingredient Strategy. The CDC depleted the remainder of its SMP stocks in March 2019 by selling it to the domestic animal feed market. Therefore, the inventory on hand as at July 31, 2019, is only comprised of butter.

There is usually a direct correlation between variations in the balance of inventory and the balance of these outstanding loans, because the inventories are financed by the loans from

Inventories and Loans



the Government of Canada. As such, the lower balance of inventory in the current year resulted in lower loan requirements, decreasing the loans from the Government of Canada to $127.6 million by the end of the year, compared to $152.9 million at the end of the previous year. The average inventory value for 2018-2019 is down 16.0% compared to the previous year, resulting in a decrease in the average loan value.

The CDC, in consultation with the Minister of Finance, has increased its loan limit to $250 million for the 2019-2020 dairy year. This increase in the limit was required to maintain its capacity to respond to unforeseen circumstances brought on by changing market conditions. Lending rates are in accordance with Government of Canada's lending rates for Crown Corporations.

Risk management

As is the case for any business enterprises, the CDC is subject to risks in its ongoing operations. The CDC has identified the key risk factors to which it is exposed and has established policies and procedures to manage and mitigate these risks.

The CDC has prepared a Corporate Risk Profile which is reviewed and updated at least once per year by management. It is updated during the year as needed with the latest review completed in January 2019. It identifies the key risks associated with CDC business and activities. It also evaluates the probability and potential impact of risk occurrences and defines mitigation measures to avoid or reduce risk. The organization's annual planning process is aligned with the Profile to ensure that higher-risk program areas and activities receive special consideration. The Board and the Senior Management

Team (SMT) share the responsibility for risk management. Each plays an integral role in the risk management process at the CDC. The Board ensures that management identifies, monitors, and manages the CDC's corporate risks. It is responsible for providing a clear direction on risk tolerance and approving the Corporate Risk Profile. The Board is kept apprised of any changes to the risk profile through quarterly briefings. At least once every quarter, the CDC Audit Committee monitors these risks as well as the progress in the implementation of the various mitigation measures. The SMT is responsible for assessing the CDC's key risk areas and ensuring that appropriate controls and other mitigation strategies are carried out to effectively manage these risks. This includes supporting risk awareness and communication throughout the organization.

Market risk is difficult to manage due to its unpredictability. The operations of the CDC are affected by many external factors such as world market conditions, developments in trade negotiations on agriculture, domestic market trends, and fluctuations in supply and demand. The CDC addresses these risks by instituting sound management practices, hiring and maintaining a competent and skillful workforce, and staying abreast of any market or political development that may affect its operations. Because the CDC deals with supply-managed products such as butter and SMP, the export activity is a relatively small percentage of its overall revenues. Nonetheless, the CDC manages the volatility of world markets by strategically selling its products, mostly by tender, to reliable exporters who seek value-added products, ensuring best returns from its commercial operations. As far as butter imports are concerned, the CDC applies the same prudent rules by buying its products by tenders or competitive offers from reliable importers.

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The CDC manages this risk by only contracting in US and Canadian dollars and uses foreign exchange forward contracts to lock future exchange rates on certain sales and purchases in foreign currency (US dollars). The CDC does not use foreign exchange forward contracts or any other freestanding derivative financial instruments for trading or speculative purposes.

Credit risk is the risk of financial loss for one party due to another party failing to meet its financial obligations. The CDC manages its credit risk from customers by selling product on a "payment first" basis, securing bank guarantees and obtaining letters of credit. Other strategies include carrying out business with creditworthy customers only. The CDC can also be exposed to credit risk when it holds foreign exchange contracts, which it manages by only entering into foreign exchange contracts with major Canadian financial institutions.

Future accounting standard changes

The *International Accounting Standards Board* has several projects underway, some of which may affect International Financial Reporting Standards (IFRS) applicable to the CDC. Management will continue to monitor all proposed and ongoing projects and consider whether any changes are expected to impact the CDC's reporting of financial information. The only accounting standard change the CDC has identified as having an impact on the CDC's financial statements is the introduction of *IFRS 16 Leases* for which the initial date of application for the CDC will be August 1, 2019. A more detailed discussion of future financial reporting standard changes can be found in Note 3 of the financial statements.

Looking to the future

The CDC is following closely the implementation of the Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union, as well as of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), as they both have an impact on the imports of dairy products into Canada. The potential ratification of the Canada-United States-Mexico Agreement (CUSMA) would also increase access to the Canadian market for imported dairy products. These trade agreements change the environment in which the CDC forecasts demand for Canadian milk to help provincial milk marketing boards set producer quota. This could present a challenge for the CDC and the industry when comes the time to align production with demand. Precise production and demand forecasts will be very important, as well as stock management. The CDC is currently working with the industry and other government organizations to have access to relevant data and adapt its forecasting models to this new reality.

The Minister of Agriculture and Agri-food Canada (AAFC) announced a funding package of $1.75 billion over 8 years for milk producers under supply management. It provides payments to dairy producers due to losses incurred as a result of two recent trade agreements (CETA and CPTPP). The program allocates $345 million in the first year in the form of direct payments to eligible dairy producers in Canada. The CDC has been mandated to administer the first year of these direct payments. The CDC will be working closely with AAFC and provincial milk marketing boards until the end of March 2020 to deliver this funding.

Recruiting employees with specialized knowledge in the fields of agricultural economics and the dairy industry remains a challenge due to the small number of potential candidates. The CDC has already put measures in place to increase retention, such as development plans and a supportive training policy, and continues to look for best practices in that regard.

The Treasury Board Secretariat has announced changes in the classification of many positions in the Federal Public Service. This initiative, which aims to simplify classification and better reflect current jobs, will affect over half of the CDC's workforce. It will require additional work on the part of the HR team, as well as managers, up to 2022. It is unknown at this time if these changes will have an impact on the salary expenses of the CDC.

Management Responsibility for Financial Statements

The financial statements of the Canadian Dairy Commission and all information in this Annual Report are the responsibility of management. Those statements have been prepared in accordance with International Financial Reporting Standards, using management's best estimates and judgments where appropriate. Financial information presented elsewhere in the Annual Report is consistent with the statements provided.

In discharging its responsibility for financial reporting, management maintains and relies on financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. These controls and practices ensure the orderly conduct of business, the accuracy of accounting records, the timely preparation of reliable financial information and the adherence to CDC policies and statutory requirements. This process includes the communication and ongoing practice of the CDC's Code of Ethics.

The Audit Committee of the Canadian Dairy Commission, made up of the commissioners, oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting. The CDC's internal and external auditors have free access to the Audit Committee to discuss the results of their work and to express their concerns and opinions.

The financial statements of the CDC have been audited by the Auditor General of Canada, the independent auditor for the Government of Canada.

Serge Riendeau, CEO

Chantal Laframboise, Director
Finance and Administration

Ottawa, Canada
September 19, 2019

Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

Independent Auditor's Report

To the Minister of Agriculture and Agri-Food

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Canadian Dairy Commission (the CDC), which comprise the statement of financial position as at 31 July 2019, and the statement of operations and comprehensive loss, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the CDC as at 31 July 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the CDC in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the CDC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the CDC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the CDC financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CDC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the CDC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the CDC to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the financial statements, we have audited transactions of the Canadian Dairy Commission coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Canadian Dairy Commission Act* and regulations, the by-laws of the Canadian Dairy Commission, and the directive issued pursuant to section 89 of the *Financial Administration Act*.

In our opinion, the transactions of the Canadian Dairy Commission that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Canadian Dairy Commission's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Canadian Dairy Commission to comply with the specified authorities.

Auditor's Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.

Dusan Duvnjak, CPA, CMA
Principal
for the Interim Auditor General
of Canada

Ottawa, Canada
19 September 2019

Canadian Dairy Commission
Statement of Financial Position

(in thousands of Canadian dollars)

	As at July 31, 2019	As at July 31, 2018
Assets		
Current		
Cash	$ 2,610	$ 6,925
Trade and other receivables		
Trade receivables	436	467
Advance to provincial milk boards and agencies	5,976	7,582
Milk pools	1,820	1,985
Inventory (Note 4)	178,157	221,970
	188,999	238,929
Non-Current		
Equipment	96	120
Intangible asset	137	170
	$ 189,232	**$ 239,219**
Liabilities		
Current		
Bank overdraft (Note 5)	$ 5,976	$ 7,582
Trade and other payables		
Trade payables and accruals	19,962	15,558
Distribution to provincial milk boards and agencies	5,750	10,900
Other liabilities	1,100	936
Deferred revenue (Note 6)	2,715	16,800
Derivative liability - foreign exchange contracts	3	-
Loans from the Government of Canada (Note 7)	127,600	152,852
	163,106	204,628
Equity		
Retained earnings	26,126	34,591
	$ 189,232	**$ 239,219**

Commitments (Note 13)

The accompanying notes are an integral part of these financial statements.

These financial statements were approved and authorized for issue on September 19, 2019.

Serge Riendeau
Chief Executive Officer

Jennifer Hayes
Chairperson (Acting)

Chantal Laframboise
Director, Finance and Administration

Canadian Dairy Commission
Statement of Operations and Comprehensive Loss

(in thousands of Canadian dollars)

	For the year ended July 31, 2019	For the year ended July 31, 2018
Sales and cost of sales		
Domestic sales revenue (Note 9)	$ 358,442	$ 305,942
Cost of goods sold - domestic	350,397	291,887
Transport and carrying charges	4,245	6,138
Finance costs	1,287	985
Gross profit on domestic sales	2,513	6,932
Export sales revenue (Note 9)	839	278
Cost of goods sold - exports	685	229
Transport and carrying charges	7	3
Finance costs	-	-
Gross profit on export sales	147	46
Total gross profit	2,660	6,978
Other income		
Funding from milk pools (Note 9)	9,231	9,069
Funding from the Government of Canada (Note 10)	3,778	3,881
Audit services (Note 9)	177	168
	13,186	13,118
Total gross profit and other income	**15,846**	**20,096**
Operating expenses		
Industry initiatives (Note 13)	8,171	735
Cost of Production study	850	838
Other charges	122	176
	9,143	1,749
Administrative expenses		
Salaries and employee benefits (Note 11)	7,154	6,608
Other administrative expenses	2,264	2,216
	9,418	8,824
Total operating and administrative expenses	**18,561**	**10,573**
Profit before distribution to provincial milk boards and agencies	**(2,715)**	**9,523**
Distribution to provincial milk boards and agencies	5,750	10,900
Total comprehensive loss	**$ (8,465)**	**$ (1,377)**

The accompanying notes are an integral part of these financial statements.

Canadian Dairy Commission
Statement of Changes in Equity

(in thousands of Canadian dollars)

	For the year ended July 31, 2019	For the year ended July 31, 2018
Retained earnings, beginning of the year	$ 34,591	$ 35,968
Total comprehensive loss for the year	(8,465)	(1,377)
Retained earnings, end of the year	**$ 26,126**	**$ 34,591**

The accompanying notes are an integral part of these financial statements.

Canadian Dairy Commission
Statement of Cash Flows

(in thousands of Canadian dollars)

	For the year ended July 31, 2019	For the year ended July 31, 2018
Cash flows from (used in) operating activities		
Cash receipts from sales of goods and services	$ 346,539	$ 320,253
Cash paid to suppliers and others	(326,706)	(351,211)
Cash receipts from provincial milk boards and agencies (pooling)	11,002	7,231
Cash paid to provincial milk boards and agencies	(10,900)	(8,400)
Cash receipts from the Government of Canada	3,778	3,881
Interest paid on loans	(1,170)	(765)
Net cash flows from (used in) operating activities	**22,543**	**(29,011)**
Cash flows from (used in) financing activities		
New loans from the Government of Canada	253,718	297,330
Loan repayments to the Government of Canada	(278,970)	(263,192)
Net cash flows from (used in) financing activities	**(25,252)**	**34,138**
Net increase (decrease) in net bank overdraft	(2,709)	5,127
Net bank overdraft at the beginning of the year	(657)	(5,784)
Net bank overdraft at the end of the year	$ **(3,366)**	$ **(657)**
Components:		
Cash	$ 2,610	$ 6,925
Bank overdraft	(5,976)	(7,582)
Net bank overdraft	**$ (3,366)**	**$ (657)**

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Authority and objectives

The Canadian Dairy Commission (CDC) was established in 1966 through the *Canadian Dairy Commission Act*. It is a federal Crown corporation named in Part I, Schedule III and Schedule IV to the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*. It is an agent of Her Majesty the Queen in right of Canada and reports to Parliament through the Minister of Agriculture and Agri-Food.

The objectives of the CDC are to provide efficient producers of milk with the opportunity to obtain a fair return for their labour and investment, and to provide consumers with a continuous and adequate supply of dairy products. To achieve its objectives, the CDC works closely with the Canadian Milk Supply Management Committee (CMSMC), which it chairs, as well as with provincial governments and provincial milk marketing boards and agencies. This collaboration is framed by federal-provincial agreements.

The CDC is partly funded by parliamentary appropriations. This is supplemented by funding from milk producers and the market, as well as by the CDC's own commercial operations.

Directive on Travel, Hospitality, Conference and Event Expenditures

In July 2015, the CDC was issued a directive (P.C. 2015-1104) pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of this directive in the CDC's next Corporate Plan. As at July 31, 2019, the CDC continues to meet the requirements of this directive.

2. Basis of preparation

Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements were approved and authorized for issue by the CDC Board on September 19, 2019.

Basis of presentation

The financial statements are prepared on a historical cost basis, as set out in the accounting policies below, except as permitted by IFRS and otherwise indicated within these notes.

Reporting period

The CDC reports on a dairy year basis which starts August 1 and ends July 31.

Key accounting judgments, estimates and assumptions

The preparation of financial statements in accordance with IFRS requires management to exercise judgment and make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the year. Areas where management has exercised judgment and made significant use of estimates and assumptions are discussed below.

Judgments in determining the timing of satisfaction of performance obligations and incremental costs in contracts with customers

The CDC's contracts each contain a single performance obligation, the majority of which are satisfied at a point in time within a year. The CDC's only contract with a performance obligation satisfied over time pertains to the administration of the pooling agreements. Management has concluded that the satisfaction of this performance obligation is achieved on a monthly basis as pooling calculations are conducted.

Given that the CDC's contracts' performance obligations are satisfied within a year, the CDC recognizes the incremental contract costs as an expense when incurred.

Key sources of estimation uncertainty

The CDC has no key sources of estimation uncertainty relating to revenue for the reporting period.

Plan B Butter Inventory

Under section 9(1) of the *Canadian Dairy Commission Act*, the CDC operates domestic seasonality programs, which includes the purchase of Plan B butter inventory from manufacturers who are contractually obligated to repurchase the inventory.

Although the CDC customarily honours manufacturers' requests for repurchase, the CDC has determined that the significant risks and rewards of ownership of the asset are transferred to the CDC when the inventory is initially purchased (until it is sold), given conditions set out in the purchase agreements do not obligate the CDC to sell the inventory to the manufacturers, and the CDC bears all costs of holding the inventory, including theft and damage.

Allowance for inventory write-down

Management determines the allowance for inventory write-down through the use of assumptions. The net realizable value of inventory on hand at year-end is estimated using the price of milk on the international market as well as the price of existing contracts at or around year-end. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the Statement of Operations and Comprehensive Loss of the period in which they become known.

Functional and presentation currency

These financial statements are reported in Canadian dollars, which is the functional and presentation currency of the CDC.

3. Significant accounting policies

Cash

Cash includes funds on deposit at financial institutions.

Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value. The exception is trade receivables that do not contain a significant financing component, which is initially measured at the transaction price. The classification and subsequent measurement model of financial instrument categories are described below.

Classifications and subsequent measurements:

Trade and other receivables	Financial asset measured at amortized cost
Bank overdraft	Financial liability measured at amortized cost
Trade and other payables	Financial liability measured at amortized cost
Loans from the Government of Canada	Financial liability measured at amortized cost
Derivative assets and liabilities	Financial assets or financial liabilities measured at fair value through profit or loss (FVTPL)

Financial assets and financial liabilities measured at amortized cost
Financial assets and financial liabilities measured at amortized cost are measured using the effective interest method.

Financial assets or financial liabilities measured at FVTPL
Financial assets or financial liabilities classified as FVTPL are measured at fair value at the Statement of Financial Position date with changes in fair value recorded in profit or loss on the Statement of Operations and Comprehensive Loss.

Transaction costs

All transaction costs in respect of financial instruments classified as and subsequently measured at amortized cost are capitalized in the period in which they are incurred including at initial recognition. All transaction costs in respect of financial instruments classified as financial assets or financial liabilities measured at FVTPL are expensed in the period in which they are incurred.

Impairment
As the CDC's trade and other receivables' payment terms do not include significant financing components, the simplified approach for trade receivables must be applied when determining an impairment provision for trade and other receivables. Under the simplified approach, the CDC measures the loss allowance at an amount equal to lifetime expected credit losses.

Derivative financial instruments
The CDC uses derivative financial instruments such as foreign exchange forward contracts to counter the adverse changes in foreign exchange related to purchases and sales denominated in foreign currencies, including anticipated transactions, as well as to manage its cash balances and requirements. The CDC does not use freestanding derivative financial instruments for trading or speculative purposes.

The CDC does not designate its foreign exchange forward contracts as hedges of underlying assets, liabilities, firm commitments or anticipated transactions and accordingly, does not apply hedge accounting. As a result, foreign exchange forward contracts, when held, are reported on the Statement of Financial Position at fair value as an asset when the contracts are in a gain position and as a liability when the contracts are in a loss position. Changes in fair value are recognized as gains or losses in "Other charges" on the Statement of Operations and Comprehensive Loss.

Inventory

Inventory is reported at the lower of cost, which is purchase cost, or estimated net realizable value. Cost is determined on a first-in, first-out basis except for Plan B butter inventories where cost is determined based on specific identification. Write-downs to net realizable value are reversed when there is a subsequent increase in the value of inventory up to a maximum of the purchase cost. The reversal is recognized as a reduction to cost of sales and an increase to the net value of inventory in the year in which it occurs.

Equipment

Equipment is reported at cost less accumulated depreciation. Cost includes all measurable expenditures directly attributable to the acquisition and installation of the equipment.

Depreciation is reported in "Other charges" on the Statement of Operations and Comprehensive Loss and begins when the equipment is available for use by the CDC. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset less estimated residual value as follows:

Generator	10 years
Computer equipment	3-5 years

Equipment is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such impairments or changes exist, the carrying value is adjusted accordingly.

Intangible asset

Software

Internally developed application software is reported at cost less accumulated amortization. Cost includes all measurable expenditures directly attributable to the development of the software including employees' salaries, consultant fees and other identifiable costs specific to the project.

Depreciation is reported in "Other charges" on the Statement of Operations and Comprehensive Loss and is calculated on a straight-line basis over its estimated useful life of ten years.

Software is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such impairments or changes exist, the carrying value is adjusted accordingly.

Distribution to provincial milk boards and agencies and recovery from provincial milk boards and agencies

The CDC administers the Surplus Removal Program and the Domestic Seasonality Program throughout the year, but operating surplus or deficits generated by these programs are respectively returned to or recovered from the provincial milk marketing boards and agencies on an annual basis at year-end. In both cases, they are reported on the Statement of Operations and Comprehensive Loss in the year that they are determined. In the event of an operating surplus at year-end, the return is reported under "Distribution to provincial milk boards and agencies". For an operating deficit, the recovery is reported under "Recovery from provincial milk boards and agencies".

Revenue from contract with customers

Sales revenues

Domestic and export sales of dairy products are recognized as revenue at a point in time when control of the asset is transferred to a customer. Control is typically transferred when the product is loaded into the customer's transportation equipment at the CDC's warehouse facilities – the customer being responsible for the transportation of the product. The transaction prices are based on the Canadian support price or other prices established by the CDC.

Payments received in advance for the sale of dairy products not transferred to the purchaser as at the end of the reporting period are reported in "Deferred revenue" on the Statement of Financial Position. Deferred revenue is recognized as revenue when control is transferred as described above.

Funding from milk pools

As acting agent in carrying out administrative functions of the Comprehensive Agreement on Pooling of Milk Revenues (a federal-provincial agreement), the CDC collects and redistributes producer market returns as the intermediary of the provincial milk marketing boards and agencies. For these services, the CDC receives from producers an annual fixed fee which offsets the costs associated with the administration of the agreement as well as the estimated carrying charges for normal levels of butter inventory. Furthermore, the CDC is reimbursed for other direct costs as set out in the agreement, including carrying charges for surplus butter inventories. Funding from milk pools is recognized as revenue over time, which typically occurs on a monthly basis when pooling calculations are completed and producer market returns are collected and redistributed among the provincial milk marketing boards and agencies.

Audit services

Revenues from audit services are recognized at a point in time when the audit reports are delivered. The transaction price for audit services is based on individual service contracts.

Performance Obligation

The CDC has elected to apply the practical expedient to not disclose the information about its remaining performance obligations at the end of the reporting period given they are part of contracts that have an original expected duration of one year or less.

Funding from the Government of Canada

Funding from the Government of Canada is recognized as revenue in the period the expenses are incurred.

Cost of sales

All butter and skim milk powder sold were purchased by the CDC at either the Canadian support price or at other prices established by the CDC, depending on the intended resale markets, except for a portion of butter imported by the CDC at international market prices. These costs are recognized as expense under cost of sales when the goods are shipped to customers.

Other expenses

All other expenses are recognized in the period in which they are incurred. Estimates for accruals are made at the end of each period.

Foreign currency translation

All foreign currency transactions are translated into Canadian dollars at the exchange rate in effect on the transaction date.

Trade receivables and trade payables in foreign currencies are adjusted to reflect the exchange rate in effect as at the Statement of Financial Position date. Any ensuing exchange gains or losses are recognized in "Export sales revenue" for receivables and "Cost of goods sold – domestic" for payables on the Statement of Operations and Comprehensive Loss.

For derivative foreign exchange contracts, changes in fair value are recognized in "Other charges" on the Statement of Operations and Comprehensive Loss.

Employee benefits

Pension benefits

Eligible CDC employees are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the CDC to cover current service cost. Pursuant to legislation currently in place, the CDC has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the CDC.

Application of new accounting standards

The adoption of the following new accounting standards, issued by the International Accounting Standards Board (IASB), is required for annual accounting periods beginning on or after January 1, 2018. Given the CDC's year-end is July 31, the initial date of application for the new standards was August 1, 2018. The transition impacted the financial statements as follows:

IFRS 15 – Revenue from Contracts with Customers

This new standard, which replaces *IAS 18 – Revenue*, establishes principles that apply to contracts with customers and introduces two approaches to recognizing revenue, either at a point in time or over time. The revenues that fall under the scope of the standard are limited to sales revenues, funding from milk pools and audit services.

The standard impacted the rationale for the recognition of revenue, but it did not change when CDC specific revenue streams are recognized. As such, the adoption of this new standard did not have a significant impact on the recognition and measurement of revenue, resulting in no requirement to restate comparative figures.

The CDC modified the wording of its accounting policies to align with the requirements of the standard and modified the presentation of the Statement of Financial Position to present deferred revenues separately from other liabilities because it meets the definition of a contract liability. In the prior reporting period, other liabilities and deferred revenues were presented under "Other liabilities" (July 31, 2018: $17,736) on the Statement of Financial Position and broken down in Note 6. "Deferred revenues" (July 31, 2018: $16,800) and "Other liabilities" (July 18, 2018: $936) are now separately presented on the Statement of Financial Position. Note 6 to the financial statements has been replaced with a note that addresses disclosure requirements on contract liability balances as set out in the new standard.

The adoption of this standard also resulted in additional disclosure requirements in relation to the use of judgments (Note 2) and revenue recognition (Note 3). The standard also introduces requirements with respect to the disaggregation of revenue (Note 9).

IFRS 9 – Financial Instruments

This new standard, which replaces *IAS 39 – Financial Instruments: Recognition and Measurements,* was issued to introduce new classification and measurement requirements, a new hedge accounting model, as well as a single forward-looking expected credit loss impairment model.

The CDC has identified a change in the measurement of trade receivable financial instruments which were previously measured at fair value when initially recognized. Under the new standard, this type of financial asset is initially measured at the transaction price, as it does not contain a significant financing component, which in practice is equal to the fair value for this type of transaction. Additionally, the standard requires the measurement and recognition of expected impairment losses on financial assets. Under these requirements, a simplified model must be applied when determining an impairment loss for trade receivables with no significant financing component. This applies to the CDC's "Trade and other receivables" for which the loss allowance is measured at an amount equal to lifetime expected credit losses. Other alterations to the CDC's accounting policies are limited to terminology changes (Note 3).

The adoption of this new standard had no impact on the amounts reported in the financial statements.

Accounting standards issued but not yet applied

A number of new accounting standards and amendments applicable for annual accounting periods beginning on or after January 1, 2019 were issued by the IASB. Given the CDC's year-end is July 31, the initial date of application for the new standards will be August 1, 2019. As at the date of the financial statements, the following applicable standard has been assessed as having an impact in the CDC's financial statements:

IFRS 16 – Leases

This new standard, which replaces *IAS 17 – Leases* and *IFRIC 4 – Determining Whether an Arrangement Contains a Lease,* provides a single lessee accounting model, requiring assets and liabilities to be recognized for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. The CDC has completed its assessment of IFRS 16. The new IFRS will require the recognition of a lease asset and a lease liability on the Statement of Financial Position for the CDC's office space lease currently classified as an operating lease (see Note 13 – *Commitments*). Based on preliminary estimates, the lease asset and lease liability on transition will both be valued at approximately $2.7 million. Additional disclosures will also be required in the notes to the financial statements.

4. Inventory

The CDC's inventory as at July 31, 2019 includes butter purchased under the domestic seasonality and surplus removal programs. Since February 1, 2017, in accordance with the National Ingredient Strategy, the CDC no longer purchases skim milk powder under the domestic seasonality and surplus removal programs, and all the skim milk powder inventories on hand as at July 31, 2018 were sold in 2019. The CDC also imports butter under the World Trade Organization (WTO) Agreement on Agriculture.

(In thousands of Canadian dollars, unless otherwise indicated)

Inventory:

	July 31, 2019		July 31, 2018	
	in $	in tonnes	in $	in tonnes
Plan B Butter	$ 149,729	17,800	$ 175,254	21,818
Other butter	29,826	3,883	32,520	4,083
Skim milk powder	-	-	15,934	12,706
	179,555		223,708	
Less: allowance for inventory write-down	(1,398)		(1,738)	
Total net realizable value	$ 178,157		$ 221,970	

Inventory expensed in the current year was $351.08 million (July 31, 2018: $292.12 million) and is reported on the Statement of Operations and Comprehensive Loss in cost of goods sold (domestic and exports).

5. Bank overdraft

The CDC has established a line of credit with a member of the Canadian Payments Association. This line of credit was authorized by the Minister of Finance up to a maximum of $50 million with its intended use of advancing funds to the provincial milk marketing boards and agencies. The line of credit is provided in the form of a bank overdraft. As at July 31, 2019 the authorized credit limit from the bank is $10 million (July 31, 2018: $10 million). This loan is due on demand and bears interest calculated at the prime rate of 3.95% per annum as at July 31, 2019 (July 31, 2018: 3.70%).

6. Deferred revenue

Deferred revenue is comprised of payments received in advance for the sale of butter or skim milk powder inventories not transferred to the purchaser as at the end of the reporting period. As the CDC requires payment before the product is released to the purchaser, the balance of deferred revenue was significantly higher in the previous year due to the timing of payments received for the sale of product.

Revenue recognised in the reporting period that was included in deferred revenue at the beginning of the period is $16.80 million (July 31, 2018: $3.23 million).

7. Loans from the Government of Canada (Consolidated Revenue Fund)

Loans from the Government of Canada's Consolidated Revenue Fund are available to finance operations, up to a maximum of $225 million (July 31, 2018: $225 million). Individually, the loans mature one year after the funds are advanced. Principal and interest is paid regularly during the year when funds are available. Changes in Loans from the Government of Canada are due to financing activities, limited to changes arising from cash flows, which is reflected in the Statement of Cash Flows.

Interest on the loans is calculated at the normal rates established for Crown corporations by the government and based on the latest available yields on comparable term Treasury bills plus one-eighth of one percent at simple interest. Interest rates and interest expense were as follows:

	July 31, 2019	July 31, 2018
Interest rates		
Low	1.21%	0.64%
High	2.06%	1.45%
Interest expense	$ 1,287	$ 985

(In thousands of Canadian dollars, unless otherwise indicated)

8. Capital management

The CDC's capital consists of loans from the Government of Canada (see Note 7) and retained earnings. As at July 31, 2019 these accounts totalled $127.60 million (July 31, 2018: $152.85 million) and $29.01 million (July 31, 2018: $34.59 million) respectively. The CDC is not subject to any externally imposed capital requirements.

The CDC's capital management framework ensures sufficient liquidity to settle financial obligations and adequate funding for programs that benefit the dairy industry. The CDC does not utilize any quantitative measurements to monitor its capital, but the CDC adjusts its capital management framework on an ongoing basis as amounts fluctuate during the year. There were no adverse changes made to the capital management framework or its definition thereof.

9. Disaggregation of revenue from contracts with customers

The CDC derives most of its revenue from the transfer of goods and services to customers in the following segments:

	July 31, 2019	July 31, 2018
Domestic sales		
Plan A butter	$ 9,067	$ 3,710
Plan B butter	307,319	235,791
Imported butter	21,873	24,761
Skim milk powder	20,183	41,680
Domestic sales revenue	358,442	305,942
Export sales revenue - butter	839	278
Milk pools		
Funding for administrative expenses	4,520	4,520
Carrying charges associated to butter inventory	3,798	3,587
Other recoverable expenses	913	962
Funding from milk pools	9,231	9,069
Audit services	177	168
Total revenue from contracts with customers	$ 368,689	$ 315,457

10. Funding from the Government of Canada

Funding of the CDC's administrative expenses is shared among the federal government, dairy producers, commercial operations, and the market place.

Government of Canada funding of total administrative expenses is as follows:

	July 31, 2019	July 31, 2018
Total administrative expenses	$ 9,418	$ 8,824
Funded by Government of Canada	$ 3,778	$ 3,881

11. Salaries and employee benefits

Salaries and employee benefits includes:

	July 31, 2019	July 31, 2018
Salaries expense	$ 5,930	$ 5,506
Pension contributions	775	645
Medical insurance expense	262	264
Other expenses	187	193
Total	$ 7,154	$ 6,608

Pension plan

Substantially all CDC employees are covered by the public service pension plan (the "Plan"). Given the Plan is sponsored by the Government of Canada, the President of the Treasury Board of Canada sets the required employer contributions, which are based on a multiple of the employee's required contribution. The general contribution rate effective for the year ended July 31, 2019 was on average 1.00 times the employee's rate (1.01 times for the year ended July 31, 2018).

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2% of pensionable service multiplied by the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

12. Financial instruments

In the normal course of operation, the CDC is exposed to the following risks, which are managed and mitigated with corresponding policies and procedures.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The CDC is exposed to this risk through normal international commercial operations. The CDC mitigates this exposure by only contracting in US and Canadian dollars. Also, the CDC uses foreign exchange forward contracts to lock future exchange rates on certain foreign currency exposures. This is done to stabilize the impact of exchange on future cash flows resulting from sales and purchases on existing contracts requiring payment in US dollars.

The fair value of the CDC's derivative financial instruments is measured using the Bank of Canada's published foreign exchange rate as at the date of the Statement of Financial Position. The exchange rate from US to Canadian dollars was 1.3148 as at July 31, 2019 (July 31, 2018: 1.3017).

Based on the current net exposure, and assuming that all other variables remain constant, had the Canadian dollar appreciated or weakened 10% against the US dollar as at July 31, 2019, the impact on net loss for 2019 would not have been material (July 31, 2018: no impact).

Interest rate risk

Interest rate risk is the risk that a financial asset containing a fixed interest rate component decreases in fair value with a rise in interest rates or that a financial liability with a floating interest rate component results in increased cash outflow requirements as a result of an increase in interest rates. The line of credit, for which interest varies as a function of prime, and loans from the Government of Canada, for which interest varies as a function of the yield on comparable Treasury bills, expose the CDC to a cash flow risk. The CDC's interest rate risk is not significant given its low interest-bearing loans, for which adverse rate increases are not expected over the next twelve months.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk. The CDC is not significantly exposed to this type of risk.

Liquidity risk

Liquidity risk is the risk that the CDC will not be able to meet its financial obligations as they fall due. As at the Statement of Financial Position date, all of the CDC's financial instruments are current and the CDC has a current ratio equal to 1.18 (July 31, 2018: 1.17). In managing liquidity risk, the CDC has access to additional borrowings for commercial operations from the Government of Canada in the amount of $97.40 million (July 31, 2018: $72.15 million), as well as $4.02 million (July 31, 2018: $2.42 million) on its line of credit for the pooling of market returns, both as at July 31, 2019.

Credit risk

Credit risk is the risk of financial loss for one party due to another party failing to meet its financial obligations. The CDC's main credit risk exposure comes from the balances of trade and other receivables, net of any allowance for losses. The CDC manages the credit risk from trade receivables by selling product on a "payment first" basis, securing bank guarantees and obtaining letters of credit. The CDC considers the credit risk associated with other receivables not material given those amounts are withheld from amounts owed back to provincial milk boards and agencies. As at July 31, 2019 and July 31, 2018 the CDC does not have an allowance for doubtful accounts and all trade and other receivables are current.

The CDC is also exposed to credit risk when it holds foreign exchange contracts. This exposure is limited to the notional amount of Derivative asset – foreign exchange contracts, of which the CDC had none as at July 31, 2019 and July 31, 2018. The CDC manages this risk by only entering into foreign exchange contracts with major Canadian financial institutions. To date, no such counterparty has failed to meet its financial obligation to the CDC.

Fair values

The carrying amount of cash, trade and other receivables, bank overdraft, and trade and other payables approximate their fair value due to the immediate or short-term maturity of these financial instruments. Therefore, as at the Statement of Financial Position date, no amounts representing changes in fair value of these financial instruments are reported on the Statement of Operations and Comprehensive Loss.

Fair value hierarchy

Financial instruments reported at fair value on the Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs to valuation techniques used to measure fair value.

The fair value hierarchy, which for the CDC only applies to derivative financial instruments, has the following levels:

> Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
>
> Level 2: inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
>
> Level 3: inputs are unobservable inputs for the asset or liability (i.e. not based on observable market data).

When the CDC holds foreign exchange derivatives, their fair value is calculated using the Bank of Canada's published foreign exchange rate as at the date of the Statement of Financial Position. This input to the valuation technique used to measure fair value is classified as Level 2 on the fair value hierarchy (July 31, 2018: Level 2).

13. Commitments

Industry Initiatives

Industry initiatives are initiatives that provide benefits to the industry, such as the Matching Investment Fund and the Workforce Development Initiative.

(In thousands of Canadian dollars, unless otherwise indicated)

The expected timing of expenditures in relation to industry initiatives is as follows:

	Less than one year		More than one year and less than five years	
Summary:	July 31, 2019	July 31, 2018	July 31, 2019	July 31, 2018
Matching Investment Fund	$ 8,467	$ 7,520	$ -	$ 7,506
Workforce Development Initiative	369	-	149	-
Total commitments for industry initiatives	$ 8,836	$ 7,520	$ 149	$ 7,506

Matching Investment Fund

The CDC funds and administers the Matching Investment Fund which provides non-repayable contributions to Canadian-registered companies or food technology centres for product development, on an investment matching basis. As at July 31, 2019, the CDC has outstanding contractual commitments of up to $8.47 million.

Workforce Development Initiative

The Workforce Development Initiative encourages productivity, competitiveness, and innovation in the Canadian dairy industry by supporting the education and recruitment of a qualified workforce. The CDC Board adopted this initiative in December 2017 and has agreed to grant $5.00 million over three years to qualifying learning institutions and dairy associations (producers or processors) across Canada. This initiative includes four programs: career promotion, development of full-time education programs, development of continuing education, and graduate scholarships. As at July 31, 2019, the CDC has outstanding contractual commitments of $0.52 million.

Purchase Commitments

As at July 31, 2019, the CDC has commitments to purchase predetermined quantities of butter. These commitments amounted to approximately $1.41 million (July 31, 2018: $0.40 million) and will be fulfilled by August 2019.

WTO Tariff Rate Quotas for Butter

The Government of Canada establishes tariff rate quotas (TRQ) for a number of dairy products, limiting the quantity of product that can enter the country with little or no duty. For butter products, under the terms of the 1994 WTO Agreement, Canada is committed to providing minimum annual market access opportunities totalling 3,274 tonnes, setting the minimum TRQ on butter products at the same level. Since 1995, subject to renewal each quota year (August to July), the CDC is mandated by the Minister of International Trade to ensure that Canada's butter TRQ is fully used, and that imported butter is redistributed to the Canadian food sector through butter manufacturers.

As at July 31, 2019, the TRQ on butter is entirely used for quota year 2018-2019. The CDC is committed under the same conditions for quota year 2019-2020. The TRQ on butter for 2019-2020 remains at 3,274 tonnes. The financial impact of this commitment for the next period is affected by the price variability between countries and type of eligible butter products, as well as the foreign exchange rates.

The total cost to purchase imported butter for the year are as follows:

	July 31, 2019	July 31, 2018
Cost to purchase imported butter	$ 21,551	$ 26,346

Operating Lease

The CDC is committed under a long-term lease with Agriculture and Agri-Food Canada for office space ending in March 2022. The lease contains escalation clauses for maintenance costs and taxes. The CDC has the option to renew the lease for an additional period of five years with rates revised to reflect the rental market value pursuant to the Treasury Board's Policy on Real Property.

(In thousands of Canadian dollars, unless otherwise indicated)

The minimum lease payments are as follows:

	July 31, 2019	July 31, 2018
Less than one year	$ 370	$ 370
More than one year and less than five years	$ 616	$ 986

14. Related party transactions

Government of Canada entities

The CDC, as per the *Canadian Dairy Commission Act*, is an agent of Her Majesty the Queen in right of Canada. This effectively gives the Government of Canada significant influence over the CDC and its activities.

The CDC is related in terms of common ownership to all other Government of Canada departments, agencies and Crown corporations. The CDC enters into transactions with these entities in the normal course of operations and at normal trade terms. These related party transactions are reported at their exchange amounts.

Under IAS 24 – *Related Party Disclosures,* the CDC is exempt from certain disclosure requirements relating to transactions and outstanding balances with:

- a government that has control, joint control or significant influence over the reporting entity; and
- another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Accordingly, the CDC discloses limited information regarding transactions entered with the Government of Canada and its departments, and with all federal Crown corporations not considered to be individually or collectively significant.

The CDC's transactions with government-related entities that were individually significant relate to Loans from the Government of Canada (Note 7) and Funding from the Government of Canada (Note 10).

Other transactions with government-related entities that were collectively, but not individually, significant are:

Government-related entities	July 31, 2019	July 31, 2018
Public Service and Procurement Canada	$ 1,158	$ 1,126
Agriculture and Agri-Food Canada (mainly operating lease – Note 13)	469	455
Other Government-related entities	190	131
Total	$ 1,817	$ 1,712

Key management personnel

The CDC's key management personnel are the members of the Commission's Board and the directors.

No loans or similar transactions with key management personnel are outstanding as at July 31, 2019 or July 31, 2018. There were no transactions of this nature during either year.

Post-employment benefit liability for key management personnel reported under "Other liabilities" on the Statement of Financial Position amounts to $0.11 million as at July 31, 2019 (July 31, 2018: $0.10 million).

Compensation of key management personnel for the year are as follows:

	July 31, 2019	July 31, 2018
Compensation of key management personnel	$ 1,226	$ 1,210

Tables and Data (unaudited)

Total Requirements, Quota and Production (million kg butterfat)

	Total Requirements	Total Quota	Total Production
2014-2015	329.99	327.26	327.67
2015-2016	345.61	342.91	338.78
2016-2017	365.37	362.69	358.21
2017-2018	371.94	369.17	380.03
2018-2019	383.42	380.71	379.05

Milk Production by Province* (million kg butterfat)

Province	2017-2018	2018-2019
Newfoundland and Labrador	2.08	2.07
Prince Edward Island	5.03	4.92
Nova Scotia	8.48	8.29
New Brunswick	6.60	6.44
Quebec	139.80	138.79
Ontario	123.91	121.33
Manitoba	16.06	16.70
Saskatchewan	11.45	12.20
Alberta	33.08	33.68
British Columbia	33.55	34.63
Total	**380.03**	**379.05**

*Before pooling

Number of Farms and Cows

	Number of farms	Number of cows (thousands)
2014-2015	11,962	956.7
2015-2016	11,683	954.6
2016-2017	11,280	959.1
2017-2018	10,951	945.0
2018-2019	10,679	969,7