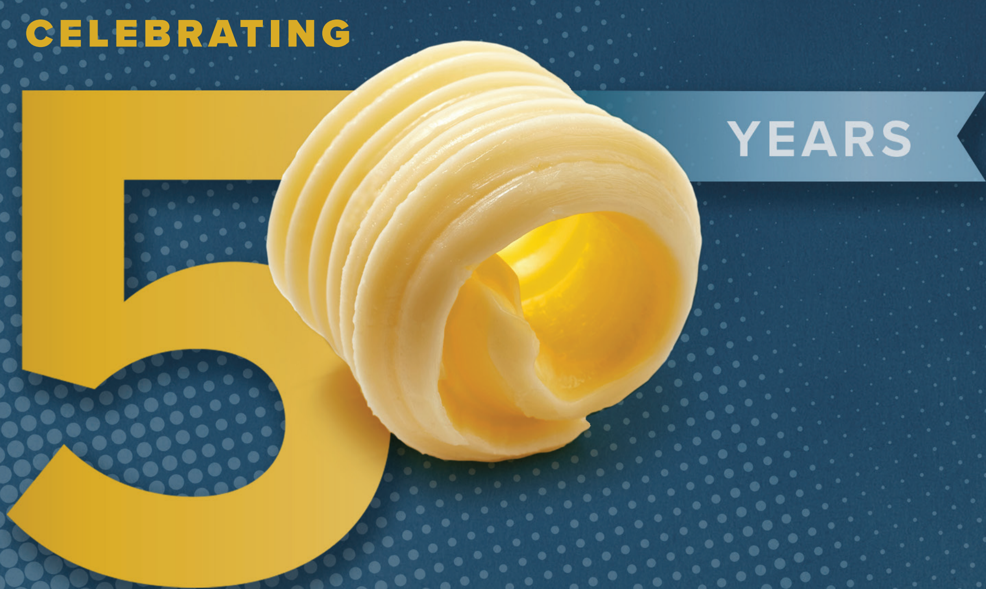
Canadian Dairy Commission | Commission canadienne du lait

CANADIAN DAIRY COMMISSION

Annual Report 16-17



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 Chairman

I am pleased to present the Canadian Dairy Commission's (CDC) Annual Report for the 2016-2017 dairy year, especially since this year marks the CDC's 50th anniversary. The first 50 years spanned an era of unparalleled technological, organizational and even cultural change in Canadian dairying and milk-related industries. Since its founding in 1966, the CDC has been witness, participant and sometimes a driving force in the modernization of the milk industry in Canada. The CDC is proud of its accomplishments over the last 50 years and in particular over the last year for which it is in a sound financial position and has achieved most of its objectives.

The CDC continues to encourage the Canadian dairy industry to grow the market, innovate and adapt to new market realities. The CDC offers programs and services for the benefit of the industry. The Milk Access for Growth program, launched in 2015, promotes investments in milk processing facilities by guaranteeing milk supply. The Matching Investment Fund, renewed in 2016, provides non-repayable contributions for innovative projects and products that increase the use of dairy ingredients. It has funded projects that have introduced many new products using Canadian milk or dairy ingredients. The Dairy Innovation Program continues to provide milk to processors manufacturing innovative dairy products.

On the research and development side, the CDC is committed to supporting initiatives that benefit all Canadian dairy industry stakeholders. Although the CDC Scholarship Program, in its current format, ended on July 31, 2017, an inclusive consultation process with dairy industry and academia partners was conducted to assist the CDC Board in exploring its options to expand its financial support beyond scholarships. A new comprehensive education program is being considered, which would include additional elements such as post-secondary curricula and certified continuous training and development. This new initiative would provide funding to the Canadian dairy industry for the development and training of skilled employees in dairy manufacturing to improve productivity and competitiveness as well as promote graduate studies in dairy and animal science to support research and help introduce new products, technologies, and markets to the dairy industry.

The CDC is committed to continuing its support to the industry. As such, it conducted a survey of dairy industry stakeholders in the fall of 2016 to obtain their opinion of the CDC's level of success in accomplishing its role and responsibilities; identify changes in the industry over the next decade that will have an impact on the sector and the work of the CDC; assist the CDC in identifying areas for improvement; and gather stakeholder insights and observations to help inform the CDC's strategic and business planning. The level of participation was high. Some adjustments are needed to adapt to recent developments and changes in the environment so that the CDC can remain a responsive and effective body in the future. Nevertheless, the survey revealed that the CDC remains an important and vital institution in the Canadian dairy sector and continues to play a key role in ensuring the supply management system runs smoothly.

As part of the global open government movement, departments seek to broaden access to data and information, ensure transparency and accountability, and strengthen citizen engagement in the activities of government and in the democratic process. Canada joined the Open Government Partnership (OGP) in April 2012, and remains committed to the principles of the OGP's Open Government Declaration. Canada's Action Plan on Open Government included the implementation of GCDOCS, an e-government system created to meet directives for effective recordkeeping practices and information management and to meet the mandate to retain any data created after 2017 in digital format. The CDC's transition to the GDDOCS record management system was completed in February 2017. In addition, the CDC Board started using a decision-making tool for some of its most important decisions such as the creation of new programs. This tool is called SAFETI and documents how the Board decisions are strategic, accountable, fair, effective, transparent and inclusive.

In January 2017, Ms. Jennifer Hayes joined the CDC Board as the new Commissioner. Ms. Hayes is a dairy and beef farmer on Quebec's Gaspé Peninsula and has extensive governance experience and a broad understanding of the dairy industry. We are pleased to welcome Ms. Hayes to the CDC. Her skills and experience will be an asset to the dairy industry.

I would like to take this opportunity to recognize outgoing Commissioner, Mr. Henricus Bos. Mr. Bos was a leader in the Alberta dairy industry for many years, taking an active role on various committees before joining the CDC in October 2013. In his role as Commissioner, Mr. Bos was a dedicated member of the Board, contributing innovative ideas, leadership and expertise. On behalf of the CDC Board, I would like to extend my sincere thanks to Mr. Bos for his many contributions to the CDC and to the industry.

The past year has been a challenging one for the dairy industry as a whole. As CDC Chairman, I would like to express my deep appreciation 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 co-operation and support. We are also indebted to the CDC employees who run our operations with efficiency and passion.

Finally, thank you to everyone who has contributed their knowledge and expertise to the CDC over the last 50 years. We are proud to be a part of this exciting and dynamic industry.

Alistair Johnston

Message from the CEO

The Canadian Dairy Commission (CDC) is proud to partner with the Canadian dairy industry, an industry characterized by a spirit of collaboration and a desire to continuously improve. Each link of the value chain endeavours to ensure that Canadians have access to a continuous and adequate supply of high quality, nutritious dairy products. 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 also administers several programs and encourages the industry to grow the market and innovate. Activities such as audits, pooling calculations, exports, imports, and setting quota are also part of the CDC's role and are progressing as per the CDC Strategic Plan.

DAIRY INDUSTRY TRENDS

Production

In 2016, Canada lost 403 dairy farms, a 3.5% reduction over 2015[1]. This attrition rate is close to the rate for non supply-managed commodities and slightly lower than for United States or European dairy farms[2]. This trend is expected to continue. As a result, the remaining farms produce more milk.

Despite this reduction in the number of farms, milk production increased to 358.2 million kg of butterfat over the course of the 2016-2017 dairy year, an increase of 5.7%.

Following an agreement in principle between dairy farmers and processors in July 2016, the CDC stopped buying surplus skim milk powder in February 2017. As a result, its skim milk powder stocks decreased over the course of the year from 59,378 tonnes to 38,190 tonnes. These remaining stocks will be sold on the animal feed market over the next two years.

1 Despite having fewer farms, Canada produces 9% more milk than 5 years ago to respond to domestic demand.

2 US dairy farms declined 4% between 2012 and 2014 and EU28 dairy farms by 5.5% between 2012 and 2014 (International Dairy Federation); overall farms in Canada declined by 10% between 2006 and 2011 (Statistics Canada).

In July 2016, the CDC announced an increase in the support prices of butter and skim milk powder that was effective September 1, 2016. These adjustments in support prices were meant to offset the significant reduction in producer revenues in that year. This revenue reduction, partly due to a decrease in world prices and partly due to larger sales of surplus milk protein in low-priced markets, was partially compensated by a declining cost of production.

Processing

In 2016, Canada's dairy processing sector contributed $17.73 billion and approximately 22,900 jobs to Canada's economy.

Consumption

Over the last 10 years, Canadian consumers reduced their per capita consumption of fluid milk and ice cream but increased their consumption of cream, cheeses and yogurt[3]. Manufacturers have responded to these trends. Canada now produces over 1,050 cheeses, most of which are made with cow milk. Innovation programs administered by the CDC have certainly been a factor in the development of some of these new products. For example, since the beginning of the Dairy Innovation Program[4] in 1989, 383 projects to create new cheeses, yogurt products and other dairy products used close to 114.6 million litres of milk. The Matching Investment Fund, launched in 2009, has financed 22 innovation projects that have received a total of almost $885,000. 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[5] products, and dairy-based confectionery products.

3 Source: www.dairyinfo.gc.ca

4 Previously known as the Domestic Dairy Product Innovation Program which was replaced by the Dairy Innovation Program on August 1, 2013. Program parameters are essentially the same.

5 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.

In 2016-2017, retail sales of dairy products were strong for most categories. Demand for butter and cream remained strong with a respective 4.2% and 4.3% rate of increase at the retail level. In addition, growth in cheese consumption has persisted, particularly for cheddar, everyday cheeses like Mozzarella, Feta, and Havarti, and fine cheeses such as Brie and Camembert.

The trend related to a steady increase in demand for higher butterfat dairy products continued. This required a 5.6% year over year increase in quota to serve the Canadian market. Repeated quota increases along with a 5% growth allowance boosted milk production which enabled CDC and private butter inventories to rebuild and reach sufficient levels. To ensure proper supply of the butterfat market while production was catching up, the CDC imported more than 11,200 tonnes of butter this year, in addition to the 3,274 tonnes of butter comprised of the tariff rate quota that the CDC imports in any normal year.

Market Development

Over the course of the year, the CDC continued to encourage investments in processing that would either add value to the solids non fat or increase demand for Canadian milk. The Milk Access for Growth program, which 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, received five applications, three of which were accepted and for which agreements are being finalized.

Trade

Canada and the European Union (EU) reached an agreement in August 2014 towards the Comprehensive Economic and Trade Agreement (CETA). CETA will enter into provisional application on September 21, 2017. This agreement gradually increases the EU access to the Canadian cheese market by 17,700 tonnes. In comparison, Canadian cheese production in 2016 was 476,641 tonnes. The CDC will take these additional imports into account when calculating production quota.

WORKPLACE TRENDS

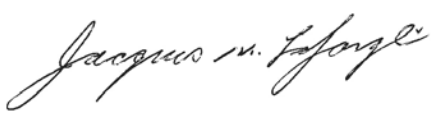
The CDC continues to follow and contribute to Blueprint 2020 initiatives. I continue to meet with all staff at least four times a year to discuss changes in the workplace and industry orientation. Directors meet with their staff at least twice a year to discuss priorities and answer questions. Also, employees are being consulted at the outset of the CDC's yearly strategic planning exercise.

In 2017, as part of an ongoing workplace assessment exercise, the CDC conducted its fourth annual employee satisfaction survey. The objective of the survey is to provide a snapshot of a number of themes and issues relevant to the CDC. The response rate this year was 87%, similar to what it was in 2016. The overall satisfaction rate remained at 92% in 2017. This demonstrates that the overall health of the organization remains positive. The CDC is committed to addressing any organizational concerns identified by the survey over the next year.

Natasha Dénommé, Human Resources Programs

The CDC reviewed its workforce needs following the agreement in principle between producers and processors on elements of an ingredient strategy. Given that this strategy will require more work on the part of the CDC, especially in the area of audits, the CDC Board decided to increase the number of employees.

In closing, I would like to thank all the dedicated CDC employees for their professionalism in running our operations with efficiency and integrity. It is an honour to be part of an organization that is committed to the advancement and betterment of the Canadian dairy industry.



Jacques Laforge

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 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 also 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 Dairy Marketing Program, the Dairy Export Program and the Milk Access for Growth[6].

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

CDC AT A GLANCE

Created in 1966

63 employees (as of July 31, 2017)

Location: Ottawa

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

Administrative budget 2016-2017 (dairy year): $8.15 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

The CDC chairs the Canadian Milk Supply Management Committee (CMSMC)[7] 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)[8].

THE CANADIAN DAIRY INDUSTRY

At the Farm

In 2016, 11,280 dairy farms were shipping milk in Canada. The average farm had 85 cows and an average annual production of 30,544 kg of butterfat[9], a production higher than that of 2015. Quebec and Ontario had the greatest percentage of dairy farms at 82%, followed by 13% in the Western provinces, and 5% in the Atlantic Provinces. Dairy farms generated $6.17 billion in total farm cash receipts.

Milk Processing

In 2016, the dairy processing industry generated $17.7 billion worth of products shipped from 471 processing plants (270 of which were federally registered) accounting for 16% of all processing sales in the food and beverage industry. As a key contributor to the Canadian economy in 2016, dairy production ranked second behind meats in terms of the value of its manufactured shipments. The dairy processing sector employed approximately 22,900 workers.

Milk Markets

Provincial marketing boards and agencies purchase milk from producers and sell it to processors 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[10]. The price paid for milk by processors varies according to the milk class.

In the 2016-2017 dairy year, the fluid milk sales accounted for approximately 28% of total sales or 99.1 million kg of butterfat. The industrial milk market accounted for the remaining 72% of total sales or 258.4 million kg of butterfat.

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

8 See p. 19 for more information on these pools.

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

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

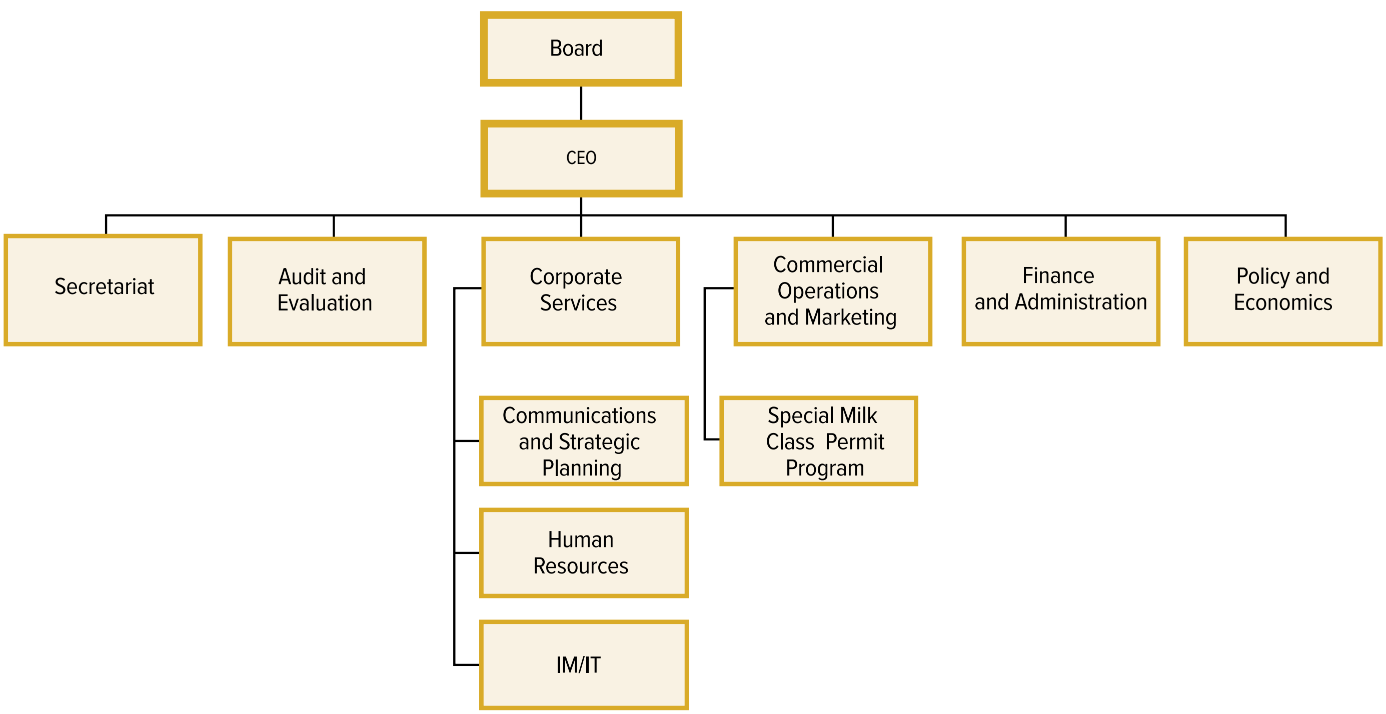
Governance

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

- the Dairy Products Marketing Regulations
- the EEC Aged Cheddar Cheese Export Regulations.

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

Structure of the Canadian Dairy Commission



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.

BOARD MEMBERS

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

Alistair Johnston

Mr. 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 and BC Investment Agriculture Foundation, BC and Alberta Dairy Associations, and the BC Food Processors Association.

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

Jennifer Hayes

Ms. 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.

Ms. Hayes holds an MBA from Concordia University and has professional networks in the fields of agriculture and rural development.

Jacques Laforge, Chief Executive Officer; **Alistair Johnston,** Chairman; **Jennifer Hayes,** Commissioner

Chief Executive Officer (reappointed February 2, 2015, for a second three-year term)

◯ Jacques Laforge

Mr. Laforge is well known for his leadership in agriculture both nationally and in his home province of New Brunswick, where he and his wife operate a successful 1,000-acre mixed farming operation. Throughout his farming career, Mr. Laforge has shown a strong dedication to serving his fellow farmers. He served as an executive on the Dairy Farmers of New Brunswick Board of directors for 10 years before taking on the role of chairman from 1995 to 2000. From 1997 to 2000, he also served as chairman of the Atlantic Dairy and Forage Institute, an organization which provided a venue for on-farm research trials to producers and manufacturers. Having served on the Board of directors of Dairy Farmers of Canada since the 1980s, he joined the executive committee in 1999. In 2004, he took on the role of president, a title he held until 2011.

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 Office of the Auditor General'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 five advisory committees that develop plans and priorities, and advise management on human resources, internal audits

Andre Berckmans, Finance and Administration and program evaluation, information technology, 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 recommendations to be presented to the Board.

Members

On May 15, 2016, the COO position was terminated following the departure of the incumbent. This led to a change in the organizational structure of the CDC which had an effect on the membership of the SMT. A Director of Policy and Economics was appointed in July 2016 and a new position, Director, Corporate Services, was created to oversee Communications and Strategic Planning, Information Technology and Information Management and Human Resources. An appointment process was conducted and the position was staffed at the end of November 2016.

As of July 31, 2017, 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

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 chairperson.

Members

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

Information Technology Advisory Committee

This committee helps prioritize the various information technology projects of the CDC. It meets four times a year, or as needed, to review priorities.

Members

- Director, Corporate Services (chair)
- Director, Finance and Administration
- Director, Policy and Economics
- Chief, Commercial Operations and Marketing
- Chief, Information Technology and Management
- Manager, Audit

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

- Departmental Security Officer
- Director, Corporate Services
- Senior Financial Officer

Governance at the CDC

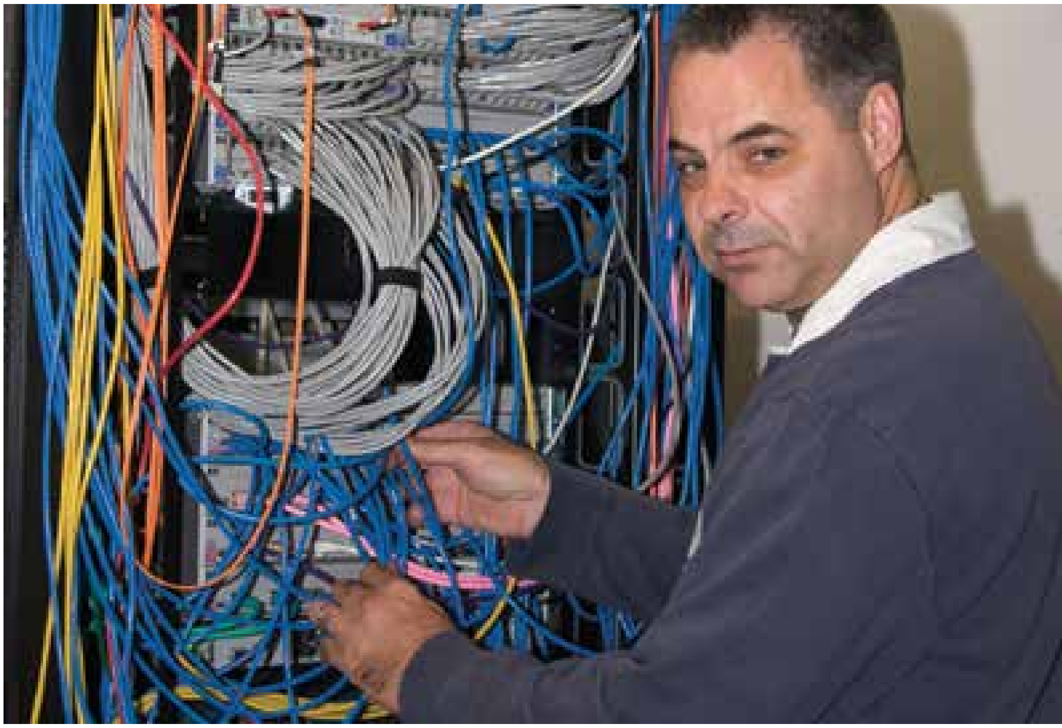
In the fall of 2016, the Board approved the Annual Report and Financial Statements of the CDC for the 2015-2016 dairy year. In April 2017, the Board also approved the CDC's Corporate Plan for the period starting in 2017-2018 and ending in 2021-2022. The Corporate Plan contains all the major directions of the corporation as well as its forecasted budgets and borrowing plan. It was approved by Treasury Board on May 11, 2017.

The CDC updated its Corporate Risk Profile in February 2017. The profile defines each risk, describes the existing measures for managing the risk and the group responsible for implementing these strategies, and it is taken into account 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 completed an internal audit on Core Controls which was approved by the Audit Committee. Recommendations and management actions were also approved as part of this process. This audit consists of two phases (Core Controls I in 2016-2017 and Core Controls II in 2017-2018) and mainly assesses the CDC's effective and efficient management of its resources, both financial and non-financial. This internal audit has been a priority among various government departments with the Office of the Comptroller General placing a great importance on the prudent stewardship of public resources.

The CDC held its annual public meeting in January 2017 in Ottawa. This meeting is open to the public but is generally attended by about 50 representatives of the dairy industry. It gives 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.



François Pellerin, Information Technology and Information Management

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

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 through the many technical and administrative services it provides, as well as the various programs to which it contributes.

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 producer 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.

SUPPLY MANAGEMENT

Determining and Adjusting Quota

The CDC monitors trends in total demand[11] and milk production (supply) on a monthly basis. This allows it to adjust the national production quota every month to reflect changes in the domestic demand for milk products, as well as changes in planned exports. 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 by exporting dairy products within Canada's trade commitments.

From August 1, 2016, to July 31, 2017, total milk demand increased by 5.6% from the previous year, to reach 364.2 million kg of butterfat. This is a significant increase. During the same period, the total quota also increased by 5.6%. As a result, milk production increased by 5.7% to 358.21 million kg of butterfat. For the first part of the year, production lagged behind demand but since January 2017, production exceeded demand. With milk production being very strong, butter stocks were back to normal by the end of dairy year 2016-2017.

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

Supplying Growth

In July 2016, the CMSMC increased the permanent growth allowance[12] from 1% to 2% from August 1, 2016, to July 31, 2017. The CMSMC also adopted an additional temporary 3% growth allowance until July 31, 2017. These measures provided additional milk which was allocated in priority to the manufacture of dairy products experiencing growth. The CMSMC is considering changes to the methodology used to adjust quota in order to respond more rapidly to variations in demand. Beyond continued robust domestic production, the market has been supplied with 11,220 tonnes of supplementary butter imports and 3,000 tonnes of butterfat in form of cream, in addition to the 3,274 tonnes of butter comprised of the tariff rate quota that the CDC imports in any normal year.

Removing Surplus

The CMSMC directs the CDC in the operation of the Surplus Removal Program.

12 The growth allowance is additional quota that is applied to the industrial milk market portion of Total Quota. It signals to producers that production must increase beyond requirements until the new target stock level is reached.

The program ensures that milk surplus to the domestic market is removed in the appropriate region and in a timely fashion. This year, the dairy industry implemented some elements of a National Ingredient Strategy that was negotiated between producers and processors. As a result, the CMSMC directed the CDC to no longer purchase the surplus of skim milk solids or issue surplus removal permits as of February 1, 2017. CDC inventories of skim milk powder (SMP) for animal feed went from 56,900 tonnes to 38,190 tonnes. Sales of SMP to the animal feed sector will continue until the inventory is fully depleted. The CDC has signed firm contracts for almost all of the powder remaining in stock.

The CDC continued to sell its accumulated stocks on the export market filling its entitlements for 2016-2017 and respecting Canada's trade commitments. Returns from this program are shared among all Canadian producers through the Comprehensive Agreement on Pooling of Milk Revenues.

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.

Summary of transactions under the Domestic Seasonality Programs

	Opening inventory	Purchases	Sales	Closing inventory
	tonnes			
Butter	8,468	26,437	18,695	16,210
Skim milk powder[13]	334	877	1,211	0

Data include imported butter and butter oil.

Imports

Under the terms of the 1994 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.

In 2016-2017, to supply demand, the CDC had to import additional quantities of butter. The CDC first imported Canada's TRQ but that quantity was not enough to supply the market. The CDC therefore asked Global Affairs Canada (GAC) for a supplementary import permit for 12,000 tonnes of butter; the permit was granted on August 30, 2016. An additional supplementary permit of 8,000 tonnes was granted in early 2017 which was not fully utilized by the end of July 2017. These permits allowed the CDC to import more butter without having to pay the tariff normally applied to over-TRQ imports. These imports were mostly directed to the further processing sector. It is to be noted that under these two supplementary permits, GAC also asked the CDC to manage the importation of approximately 3,000 tonnes of butterfat in the form of cream under GAC's Dairy Market Shortage Policy.

13 The program for skim milk powder was suspended February 1, 2017.

PRODUCER REVENUES

Pricing

Given the decline in average producer revenues per hectolitre during the year, the CDC held pricing consultations in June 2016. The CDC decided to increase the support prices of butter and skim milk powder, effective September 1, 2016. The support price of butter increased from $7.7815 to $8.0062. The support price of skim milk powder increased from $4.4176 to $4.5302/kg. These adjustments in support prices were meant to offset the significant reduction in producer revenues in the previous year. This revenue reduction was partially compensated by a declining cost of production.

For over 20 years, adjustments in farm milk prices have been aligned on the adjustments in support prices announced by the CDC. This applied to the industrial milk classes, i.e. milk being processed into yogurt, cheese, butter, etc. as opposed to milk being sold as fluid milk or cream. The last price adjustment to follow this methodology happened on September 1, 2016.

In July 2016, provincial milk marketing boards, which have the authority on milk pricing, modified the method for setting industrial milk class prices. Since February 1, 2017, price changes in the industrial milk classes are based on a combination of annual changes in the cost of production and the consumer price index. This formula was already used to determine changes in fluid milk prices.

For the February 1, 2017, price adjustment, and the formula resulted in a -0.4% price change for classes 2 to 4. Due to the agreement in principle between producers and processors about elements of a National Ingredient Strategy, other price adjustments were applied on the same date.

With this new pricing formula, in the event of exceptional circumstances, the CDC, in consultation with industry, has the right to revise the results of the formula. The CDC will continue to set support prices for the Domestic Seasonality Programs.

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

Class		2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
5(a) (cheese)	Volume	7.35	7.61	8.09	7.96	8.56
	Price	$40.95	$48.24	$50.42	$44.18	$47.49
5(b) (other ingredients)	Volume	14.97	17.50	16.05	11.82	13.79
	Price	$38.59	$50.89	$46.88	$40.66	$43.26
5(c) (confectionery)	Volume	5.15	6.37	5.86	5.31	6.37
	Price	$36.87	$48.60	$33.35	$27.68	$37.94
Total	**Volume**	**27.47**	**31.48**	**30.00**	**25.09**	**27.02**
	Price	**$39.08**	**$48.99**	**$44.89**	**$38.99**	**$44.56**

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

(SMCPP) to be shared among the dairy producers of all ten provinces. On the basis of 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 27.02 million kg of butterfat in the 2016-2017 dairy year, an increase of 7.7% 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 $44.56/hl compared to $38.99/hl for the previous year. The number of active program participants on July 31, 2017, amounted to 1,721.

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[14] 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.

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. Starting on August 1, 2015, the CDC reduced its support to producer-only committees to focus its efforts on committees involving all stakeholders such as the WMP Coordinating Committee (CC). This allowed the CDC to allocate more resources to important national issues.

Activities of Regional Pools

During the 2016-2017 dairy year, P5 technical working groups addressed challenges related to the implementation of a new integrated interprovincial milk movement model. This model allows for a timelier balancing of production at the farm level with processor demand between and within P5 provinces. In April 2017, the P5 mandated the CDC to act as a mediator and to recommend a solution on a specific milk movement issue, which was accepted in July 2017.

Marking an end to a long-standing impasse, a policy on P5 and Newfoundland and Labrador (NL) relations was established which takes into account the National Milk Marketing Plan and the P5 Agreement, and also recognizes NL specificities (higher costs of production, higher Class 1 price, etc.). This policy comes into effect August 1, 2017.

Harmonization of policies and activities amongst P5 and WMP provinces continues to progress. For instance, in February 2017, the P5 and WMP adjusted milk components prices for all classes as per the result of the agreed national pricing formula (50% cost of production + 50% Consumer Price Index). In addition, it was decided that the two pools would collaborate to transport milk as needed between the East and the West in order to supply markets. In July 2017, this collaboration was extended to monitor milk supply on an ongoing basis in order to better respond to market signals.

Furthermore, the P5 Supervisory Board (SB) and the WMP CC, adopted new, identical guidelines for meeting preparation along with revised meeting procedures.

In the 2016-2017 dairy year, all provinces worked together to implement elements of the National Ingredient

14 Excess butterfat from the fluid milk market

Strategy. The CMSMC mandated a working group with regional representation to provide the necessary support.

Milk deliveries (million kg of butterfat)

	P5	WMP
Fluid milk	76.63	35.90
Industrial milk	194.15	49.52
Total	**270.78**	**85.42**

MARKET DEVELOPMENT

Class 3(d)

Class 3(d) was created to encourage restaurants to use Mozzarella on fresh pizzas. In 2016-2017, 993 new restaurants joined the program for a total of 10,011 restaurants. As a consequence, the total amount of Mozzarella used in the program for this dairy year amounts to 46 million kg compared to 44 million kg in 2015-2016.

Dairy Marketing Program

The CDC is committed to promoting growth and innovation in the manufacture and use of dairy products and components. The Dairy Marketing Program facilitates access to the technical support and expertise required to develop innovative dairy and food products and to bring them to market, partnering with universities and industry associations. 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 2016-2017, the CDC participated in the Restaurants Canada trade show 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.

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 2016-2017 dairy year, dairy processing companies across Canada used 12.6 million litres of milk under the DIP compared to 41.8 million litres in 2015-2016. This decline is a result of the expiry of several large Domestic Dairy Product Innovation Program (DDPIP) contracts. Quota previously allotted to the manufacture of products approved under DDPIP is allotted to the provinces upon expiry of DDPIP contracts. DDPIP was replaced with the DIP program in 2013.

This year, two applications were received under the DIP, both for specialty cheeses. One application was approved by the DIP selection committee who met in fall 2016. The other was rejected.

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 2016-2017 dairy year, the MIF received 19 applications, and as of July 31, 2017, two MIF agreements have been signed and another three projects were approved and in the process of finalizing details in order to sign an agreement. Approved projects include consultation services, recipe formulation, retrofitting of equipment and technology transfer activities.

Exports

During the 2016-2017 dairy year, dairy products were exported by the CDC as well as exporting companies who were issued Class 5(d) export permits. The main role of the CDC was to dispose of the structural surplus of solids non fat mainly in the form of skim milk powder or blends containing skim milk solids. During the 2016-2017 dairy year, Canada exported 15,488 tonnes of skim milk powder in Class 5(d).

In regard to cheese exports, the CDC issues Class 5(d) export permits to Canadian exporters that give them access to the aged cheddar market in the United Kingdom (UK). In 1980, Canada negotiated a special access quota with the UK which amounts to 4,000 tonnes. Again this year, Canada did not export the full access quota.

This was partly compensated by issuing traditional Class 5(d) export permits under the CDC's Dairy Export Program for other destinations. In total, Canada exported 4,105 tonnes of cheese. With no surplus butter production available again in 2016-2017, no butter export activity was authorized by the CDC.

Dairy Export Program

In an effort to create long-term export opportunities for Canadian dairy products, the CDC, following consultations with the industry, put in place the Dairy Export Program (DEP), as an expansion of the Planned Export Program for Cheese (PEPC). It aims to support other dairy products as well as the export of up to 3,000 tonnes of cheese per dairy year. Applicants must be federally licensed plants or exporters and all exports are within Canada's trade commitments.

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 2016-2017, the program received five applications, three of which were accepted and agreements being finalized.

Market Development Initiative

The CDC has been actively involved in providing assistance to investors (foreign and domestic) in order to promote the development of new markets. The goal is to arrive at private investments from Canadian or foreign enterprises to grow markets both in Canada and abroad.

AUDITING

The table on page 22 explains the various audit roles of the CDC.

Most external audits cover companies participating in the SMCPP. Risk assessment is used to identify high-risk companies among program participants. The CDC audits the same companies for the Import for Re-export Program (IREP) if they also participate in this program, which is administered by GAC.

During the 2016-2017 dairy year, 51 companies, including 4(m) permit holders, and IREP participants, were audited compared to 64 the previous year. The CDC also performs the milk plant utilization audits in Manitoba, Newfoundland and Labrador, Nova Scotia, Prince Edward Island, New Brunswick, and Saskatchewan (33 plants in 6 provinces) on a cost-recovery basis. Such audits cover procedures specific to each class as well as other CDC and provincial programs (i.e. DDPIP/DIP, School Milk Program, etc.).

Audits for Class 3(d) (Mozzarella for fresh pizzas) were performed and covered some independent pizzerias and distributors for a total of 11 pizzeria restaurants and distributors. This

Export limits and products exported

Category	Subsidy limit (million kg)	Quantity of products exported (million kg)	Subsidy limit (million $)	Subsidy value on exported products (million $)
Butter	0.905	0	11.025	0
Cheese	6.041	4.105	16.228	7.122
Skim milk powder	18.147	15.488	31.149	31.024
Other dairy products	14.189	4.333	22.505	6.876
Incorporated products	n/a	n/a	20.276	10.639

is lower than our target due to other industry priorities. Given audit results in 2015-2016 (close to 700 audits), this was considered a low-risk area.

As of July 31, 2017, overall audit recoveries totaled $343,018, which is lower than average. These funds were returned to producers.

National Milk Utilization Audit Standards and Harmonization of Practices

In parallel with its auditing work, the CDC provides expertise and promotes the harmonization of procedures to the National Milk Audit Advisory Committee. This committee brings together CDC auditors, provincial auditors, as well as representatives from milk marketing boards and the dairy processing industry twice a year. A face-to-face meeting was held in August 2016. Given the significant changes introduced by Class 7, the CDC played a coordinating and training role in the implementation of provincial milk utilization systems in 9 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, Dairy Innovation Program, etc.) in 6 provinces (NL, PE, NB, NS, MB, SK)
Special Milk Class Permit Program	Distributors	Verify compliance with program requirements
Mozzarella used on fresh pizza	Class 3(d) participants	Verify compliance with class requirements
SMCPP IREP	Further processors	Verify compliance with program requirements

INDUSTRY SUPPORT

Secretariat, IT and Translation Services

The CDC coordinated close to 160 meetings, webinars and conference calls and translated approximately 350 documents in support of the regional pools, the Canadian Milk Supply Management Committee (CMSMC), and several working groups and national committees.

CDC Scholarship Program

The CDC helps introduce new people, as well as new products, technologies and markets to the dairy industry through its support of the CDC Scholarship Program. Initially launched in the fall of 2006 for a 5-year term, this program promotes graduate studies in agricultural economics and policy, and food, dairy, or animal science as these fields relate to the dairy industry. It provides $20,000 per year for up to two years to full-time M. Sc. students and $30,000 per year for up to three years to full-time Ph. D. students. All unspent funds at the end of the first term of the program, including interest accrued, were returned to the CDC.

In early 2011, the CDC Board agreed to renew the program for an additional 5-year term due to its large success. Similar to the first term, the program had an envelope of $3 million. Funds were distributed to institutions across Canada as follows. .

Nova Scotia Agricultural College*	$100,000
Université Laval	$400,000
Novalait	$600,000
University of Guelph	$1,000,000
University of Manitoba	$200,000
University of Saskatchewan	$200,000
University of Alberta	$200,000
University of British Columbia	$200,000
Total	**$2,900,000**

* Now affiliated with Dalhousie University.

Between 2006 and July 31, 2017, the CDC funded 108 masters' projects and 37 doctorates.

The institutions listed above were granted until July 31, 2017, to award the unspent funds. Institutions will then return all outstanding funds including accrued interest to the CDC by October 31, 2017.

With the program in its current format ending on July 31, 2017, the CDC is committed to continuing its support for similar initiatives for the benefit of all Canadian dairy industry stakeholders. Following an inclusive consultation process with dairy industry and academia partners, the CDC Board plans to expand its financial support beyond scholarships. A new comprehensive initiative is being developed to include additional elements such as post-secondary education and continuous training.

Dairy Research Cluster

In 2010, the CDC partnered with Agriculture and Agri-Food Canada (AAFC), the Natural Sciences and Engineering Research Council of Canada and Dairy Farmers of Canada (DFC) to fund a Dairy Research Cluster as part of AAFC's Growing Forward initiative. Forty-eight projects on the role of dairy products as key components of cardiovascular health, their impact on healthy weight and body composition, and their role in optimal nutrition, development and maintenance, as well as studies on sustainable milk production, improved animal care, health and welfare were completed.

The second Dairy Research Cluster, part of AAFC's Growing Forward 2, was launched in 2013 and builds on the results and outcomes from the first Cluster. It focuses on three research themes: sustainable milk production, human nutrition and health, and dairy genetics and genomics. DFC is investing $5.3 million in addition to the $13.75 million announced by AAFC. The Canadian Dairy Network is investing $669,000 and the CDC is providing $750,000, bringing the total to $20.5 million in funding to address the dairy sector's research priorities from 2013 to 2018. There are 27 research activities financed through this program involving more than 100 scientists and 65 graduate students working in 15 Canadian universities and eight federal research centres. For more information on the research priorities and the activities financed, visit www.DairyResearch.ca.

Sarah Bianchini, Policy and Economics

Performance and Goals

ACHIEVEMENTS FOR 2016-2017

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

Growing markets

5-year objective	Performance measure for 2016-2017	Target	Results	% complete
Create an environment that is conducive to market growth and innovation	Total requirements	At least 2% growth	On July 31,2 017 total requirements were 5.6% higher than the previous year	100%
	MAG applications approved	At least 2	3 approvals	100%
	Number of innovative dairy products introduced through DIP or other initiatives	4 products	1 (2 applications received, 1 accepted)	25%
Promote the timely supply of milk to growing markets	Quantity of butter imported	A maximum of 3,274 t	3274 t imported (TRQ) + 11,220 t of butter and 3,000 t of butterfat in the form of cream (via supplementary import permits)	0%
	Number of unfulfilled requests for skim milk in any dairy product	0	n/a[15]	s/o

15 The CDC did not have the means to direct skim milk after February 1, 2017.

A Well-Administered Supply Management System

5-year objective	Performance measure for 2016-2017	Target	Results	% complete
Ensure that efficient producers receive fair returns	Total overall producer revenues per dairy year	A 1% increase from the previous dairy year	6.6 % increase	100%
	Number of audits	50 audits of participants to the Special Milk Class Permit Program	51 audits completed	100%
		100 audits of restaurants participating in Class 3(d)	11 audits completed, due to other industry priorities	11%
Ensure that Canadian milk production meets demand.	Total quota *vs*. total demand	Total quota is between 99.5 and 101% of demand	Total quota is at 97.6% of demand on July 31, 2017. In order to ensure demand was met, the CDC imported supplementary butter and cream. Once taken into account, this represents 101.3% of demand	80%
	Total butter inventories on July 31, 2017 (CDC + private)	24,000 tonnes	Total butter inventories reached 30,352 t on July 31, 2017.	100%

A Well-Administered Supply Management System (continued)

5-year objective	Performance measure for 2016-2017	Target	Results	% complete
Ensure the respect of federal-provincial and international agreements.	Time to perform pooling calculations	Monthly, within 5 business days of data reception	Calculations on target	100%
	Time to transfer funds among provinces and send quota figures	Monthly, within 4 business days of the end of calculations	Fund and data transfers on target	100%
	Time to send milk movement figures	Monthly, before the 10th of each month	Milk movement calculations were published on target	100%
	Quantities of exports[16]	At least 99% of permitted exports of cheese and products containing high quantities of milk solids non fat	Cheese Skim milk powder Other products Incorporated Products	44% 100% 31% 52%
	Quantities of butter imports	3,274 tonnes	The CDC imported the butter TRQ of 3,274 tonnes.	100%
	Number of programs reviewed	2 programs	Milk Movement in the Eastern Milk Pool CDC Scholarship Program Calculation of total milk requirements Milk utilization reporting Plan B for powder Surplus Removal Program	100%

16 The percentage as indicated in the results is based on the value of subsidies allowed rather than on quantity.

An Industry that Adapts

5-year objective	Performance measure for 2016-2017	Target	Results	% complete
Help the Canadian dairy industry adapt to changing market conditions, within the framework of supply management	Number of proposals made by the CDC to support the industry in addressing changing market conditions	At least 2	Supplementary import permits obtained to address low inventories of Canadian butter Provisions for exceptional circumstances in milk pricing	100%
Create an environment conducive to the development of new markets for solids non fat (SNF)	Number of investment commitments to increase the use of SNF	At least 3	Results exceed target[17]	100%
	Investment commitments by the processing sector	2	Results exceed target	100%

17 The CDC is not aware of all the investment commitments and therefore cannot provide a definite number.

A Well-Managed CDC

5-year objective	Performance measure for 2016-2017	Target	Results	% complete
The CDC adapts to remain a high-performing organization	Employee satisfaction rate as measured by the annual employee satisfaction survey	Satisfaction rate of 80%	92%	100%
	Performance management ratings	Less than 5% of employees require action plans	No employees required action plans	100%
	Rate of position filled	95% of positions are filled at any time	85% as of July 31, 2017	90%
	Number of tools developed or adapted	3 tools including Euclid	15 new calculations integrated into Euclid for testing Mercury has been developed and expanded for the Commercial Operations and Marketing division A new document management system has been installed, migration is completed and document management system is being used by all employees	100%
	Intelligence gathered on the level of satisfaction of the industry regarding CDC services; on upcoming changes that will have an impact on the CDC; on identifying areas for improvement; and on stakeholder insights to help the CDC with strategic and business planning	Report received from external agency and submitted to CDC Board	The CDC received the report in March 2017 and it was presented to the CMSMC in April 2017	100%

PERFORMANCE GOALS FOR 2017-2018

The CDC's performance objectives for 2017-2018 are based on the strategic themes and 5-year goals identified in its Corporate Plan.

Theme: Investment, innovation and growth in the Canadian dairy sector

5-year goal – Investments and innovation have led to continuous market growth

Performance indicators	5-year Target
Number of litres used in the Milk Access for Growth program (MAG)	160 million litres
Market growth rate correlated to CDC activities	4% (cumulative)
Number of innovative dairy products introduced through the Dairy Innovation Program (DIP)	10 (cumulative)

Strategy	2017-2018 objective
Provide support and funding for innovation in the processing sector	Innovation Strategy developed
Provide support and funding for market development	Market Development Strategy developed
Promote investment on farms	The CDC provided info to dairy farmers

Theme: The role of the CDC in the industry

5-year goal – IThe CDC is valued as a neutral facilitator and key contributor in the dairy industry

Performance indicators	5-year Target
% CDC-led recommendations to industry committees that are accepted	85%
Number of invitations to speak/facilitate/train at non-CDC meetings (excluding reports to provincial boards' annual general meetings)	20 per year
Results of survey on industry satisfaction	Ratings improve by 20%

Strategy	2017-2018 objective
Adapt key services and programs to the industry	Key services and programs are adapted
Improve communications with the industry	Most Board decisions are communicated openly Stakeholders' engagement in enhanced

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
Number of audits	100 audits of Class 3(d) 40 audits of Special Milk Class Permit Program participants 50 audits of Class 7 participants
Total producer revenue evolves with market growth	1% annual increase
Market supply meets demand through accurate quota calculation and improvement of market analysis and forecasts	Quota is between 99% and 101% of demand
Quota allocation and money transfers are performed within the service standards established by the Canadian Milk Supply Management Committee	100% of the time
Registration to online training modules	15 per year

Strategy	2017-2018 objective
Promote more market-responsive management of milk supply	The industry benefited from the CDC's expertise in reviewing its quota management policies
Ensure the respect of federal-provincial and international agreements	CMSMC decisions that are CDC's responsibility are implemented
Ensure that efficient producers receive fair returns	Stable or increasing producer revenues through market growth Timely and accurate revenue pooling calculations
Ensure Canadian production meets demand	Timely and sufficient supply of dairy products in the Canadian market Timely and accurate allocation of quota to meet demand

A Well-Managed CDC

5-year goal – The CDC is organized and resourced to support the dairy industry into the future

Performance indicators	5-year Target
Level of staff satisfaction as measured by an annual survey	90% or more
Number of tools or policies developed internally and adapted to better support the industry	4 per year

Strategy	2017-2018 objective
Adapt the workforce and IT systems to the industry's new environment	CDC workforce and systems have adapted to the new industry environment
Implement new or updated government policies	A clear understanding of the changes required

Hossein Behzadi, Audit and Evaluation; **Danielle Sabourin**, Special Milk Class Permit Program

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, 2017, should be read in conjunction with the financial statements of the CDC enclosed herein and the annual report.

Selected Key Results of Operations

Domestic activities

The CDC purchases and sells butter and skim milk powder (SMP) in order to regulate the supply of dairy products in the domestic market throughout the year. In the 2016-2017 dairy year, total revenues from domestic sales increased by $112.4 million or 54% compared to the previous year. Although revenues increased, the 2016-2017 gross profit on domestic sales decreased compared to the previous year. This was mainly due to lower margins on imported butter sales.

The CDC purchases butter in bulk under Plan A which is resold to processors when domestic seasonal demand increases. There were no activities under Plan A this year. Because the demand for butter was strong, processors served the market directly rather than selling to the CDC.

The CDC also purchases Plan B butter from processors who must repurchase it within a predetermined period. This year, the CDC sold 18,695 tonnes of Plan B butter compared to 10,353 tonnes last year, representing an increase in quantity of 81%. This significant increase is the result of higher inventories this year compared to last year where stocks of Plan B butter were below normal levels due to a gap between butter demand and milk production. The increase in sales of Plan B butter had no material effect on the gross profit as this butter is purchased and resold by the CDC at support prices.

Sales of imported butter also increased significantly this year. The CDC continues to import 3,274 tonnes of butter as part of Canada's obligations under the World Trade Organization (WTO) Agreement on Agriculture. In addition to that amount, the CDC imported close to 11,220 tonnes of butter and 3,000 tonnes of butterfat in the form of cream under supplementary import permits to compensate for tight supplies of Canadian butter. A quantity of 17,385 tonnes was sold this year compared to 11,213 tonnes in the previous year. This increase in sales, combined with higher sale prices, generated an additional $49.4 million in revenues compared to the previous year. This butter is purchased at prevailing world

Domestic activities

For the year ended July 31

(in thousands)	2017	2016	$ change
Domestic sales revenue	$321,804	$209,376	$112,428
Cost of goods sold - domestic	$299,858	$178,070	$121,788
Transport and carrying charges	$7,412	$7,312	$100
Finance costs	$438	$297	$141
Gross profit on domestic sales	**$14,096**	**$23,697**	**$(9,601)**

prices and is mostly directed to the further processing industry through butter manufacturers.

Skim milk powder (SMP) sold to the animal feed sector amounted to 24,846 tonnes in 2016-2017, which is 1,581 tonnes above the previous year's volume. Similarly, revenues increased by $3.1 million or 9% compared to the previous year. The gross profit generated from this activity was similar for both years.

Export activities

The CDC purchases surplus dairy products destined for export at prices that reflect prevailing world market conditions with the intent of breaking even over the course of each dairy year. Because these markets are unpredictable, the CDC sometimes finishes the year with slight gains or losses, which reflect this price volatility.

Export sales revenues for 2016-2017 were higher than in the previous year due to an increase in quantities sold and selling prices. The CDC sold directly from its stocks 15,166 tonnes of SMP in 2016-2017, an increase of 1,343 tonnes compared to the previous year. World prices for SMP increased slightly this year compared to the previous year. This increased the quantity of SMP that the CDC could export as per Canada's WTO export subsidy limits.

Transport, carrying, and finance costs

"Transport, carrying, and finance costs" are mostly comprised of transportation expenses, interest expenses on loans, handling and storage charges, and insurance. Transport and carrying costs for domestic activities in 2016-2017 increased by $0.1 million compared to those of 2015-2016 as a result of higher inventory and higher quantities sold. On the export side, the costs increased by $1.6 million in 2016-2017 mainly because of higher sale volumes and additional transport as a result of terms of sale.

Finance costs for both the domestic and export activities were $0.4 million compared to $0.3 million in the previous year. This increase is due to higher inventories of butter and a slight increase in borrowing rates.

After several years of low interest rates, they are expected to increase slightly in the 2017-2018 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 production study, costs related to the Storage Assistance Program for Cheese (SAPC), the carrying charges associated with the CDC butter stocks and any recoverable industry committee expenses. This funding was higher in 2016-2017 than in the previous year. This is mainly due to expenses incurred under the SAPC as well as higher butter carrying costs charged to the pool.

Parliamentary appropriations are used to partially fund CDC's administrative expenses. The remainder of CDC's administrative expenses is 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 Income and is based on eligible government-funded administrative expenses.

Export Activities

	For the year ended July 31		
(in thousands)	2017	2016	$ change
Export sales revenue	$38,528	$30,306	$8,222
Cost of goods sold - exports	$37,932	$29,479	$8,453
Transport and carrying charges	$2,154	$553	$1,601
Finance costs	$12	$5	$7
Gross profit (loss) on export sales	**$(1,570)**	**$269**	**$(1,839)**

Other Revenues

(in thousands)	2016	2016	$ change
	For the year ended July 31		
Funding from milk pools	$7,039	$6,053	$986
Funding from the Government of Canada	$3,795	$3,689	$106
Audit services	$186	$196	$(10)
Total Other Revenues	**$11,020**	**$9,938**	**$1,082**

Revenues obtained for audit services relate to the milk plant utilization audits performed by the CDC in 6 provinces on a cost-recovery basis.

"*Other charges*" is comprised of charges paid under the SAPC, credits from the CDC's contribution to the cost of production study, charges incurred by the CDC on behalf of the milk pools, and bank charges for the milk pool accounts. It also includes amounts representing unrealized gains or losses on outstanding foreign exchange contracts as of the Statement of Financial Position date. These gains or losses are determined using the difference between the contracted rates and exchange rates as of the Statement of Financial Position date, applied to the contract amount. Therefore, they vary with exchange rates as well as with the value of outstanding foreign exchange contracts at the end of the year.

Operating and Administrative Expenses

Operating Expenses

"*Industry initiatives*" includes expenses relating to various CDC programs such as the Matching Investment Fund and the Dairy Research Cluster. Funding for these programs decreased by $0.2 million in 2016-2017. This decrease is mainly attributable to the fact that last year's expenses included the second payment of $0.25 million for the Dairy Research Cluster.

The "*Cost of production study*" is an annual survey. The CDC uses the results of this survey when it sets support prices. The budget for this study increased slightly in 2016-2017 to reflect an increase in the Consumer Price Index.

Operating and Administrative Expenses

(in thousands)	2017	2016	$ change
	For the year ended July 31		
Operating expenses			
Industry initiatives	$399	$605	$(206)
Cost of Production study	$825	$817	$8
Other charges	$345	$246	$99
Total operating expenses	$1,569	$1,668	**$(99)**
Administrative expenses			
Salaries and employee benefits	$6,085	$5,923	$162
Other administrative expenses	$2,112	$1,862	$250
Total administrative expenses	$8,197	$7,785	$412
Total operating and administrative expenses	**$9,766**	**$9,453**	**$313**

Administrative Expenses

The 2016-2017 administrative budget was $8.1 million and the actual administrative expenses for the year totaled $8.2 million, mainly due to additional expenses incurred as a result of the implementation of some industry initiatives that were not originally budgeted. Salaries and employee benefits of $6.1 million make up the bulk of these expenses. The remaining significant expense groupings are for 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. Also included in the refund is the additional charge relating to sales of imported butter sold for reworking. The 2016-2017 refund amounted to $8.4 million.

Inventories and loans

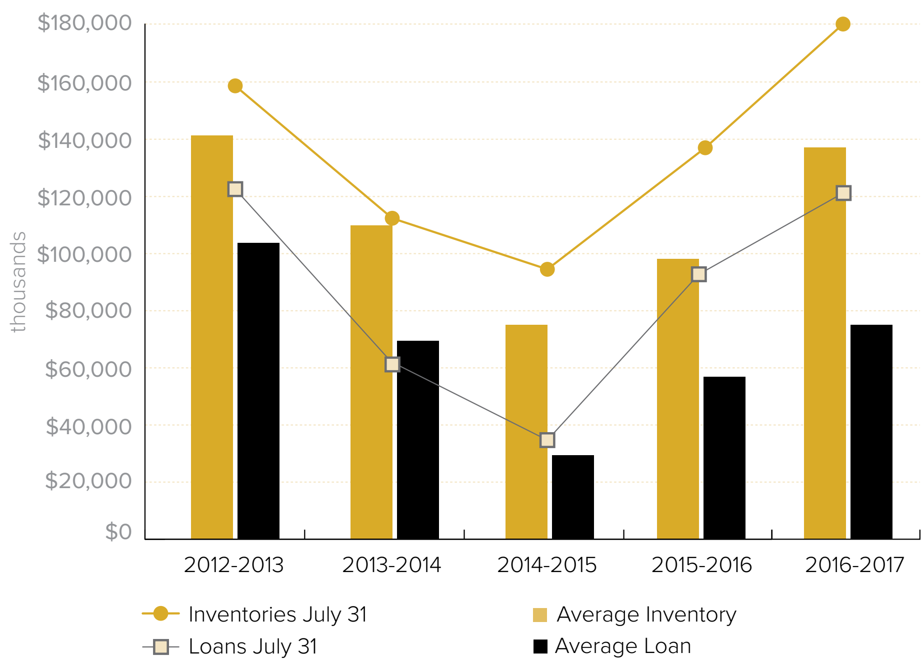
Average inventory values for 2016-2017 were up by 39% compared to the previous year, resulting in an increase in our average loan.

CDC butter stocks increased by 7,851 tonnes compared to last year, when these stocks were below normal. As a result of the measures that the provinces took to stimulate milk production, stocks have increased in order to meet the continued growth in demand for butterfat.

Effective February 1, 2017, following the implementation of some elements of the National Ingredient Strategy, the CDC is no longer purchasing SMP under the Surplus Removal and Domestic Seasonality Programs. For that reason, CDC stocks of SMP were down to 38,190 tonnes at the end of 2016-2017, compared to 59,712 tonnes in 2015-2016.

Because butter stocks have a higher monetary value than SMP and because there is usually a direct correlation between stocks value and outstanding loans, the loan from the Government of Canada at the end of 2016-2017 was $118.7 million compared to $94.2 million at the end of the previous year. Higher inventory values resulted in higher loan requirements.

Inventories and Loans



The CDC, in consultation with the Minister of Finance, has increased its loan limit to $210 million for 2016-2017. The CDC determined that this increase in limit was required in order to maintain its capacity to respond to unforeseen circumstances brought on by changing market conditions.

Risk management

All business enterprises are subject to risks in their ongoing operations. The CDC has identified its major risk factors and has established policies and procedures to manage 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 and the latest review was done in February 2017. 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 Profile is linked to the organization's annual planning process 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 CDC's corporate risks. It is responsible for providing 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 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 CDC's key risks, and ensuring that appropriate controls and mitigation strategies are carried out to effectively manage these risks. This includes supporting risk awareness and communicating risks throughout the organization.

Credit risk is the exposure to financial loss due to a customer failing to meet his financial obligations to the CDC. The CDC manages this risk 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.

Foreign currency risk is the potential for financial loss due to unfavourable changes in foreign currency exchange rates. The CDC's foreign exchange risk management includes the use of foreign currency forward contracts to fix the exchange rates on certain sales and purchases in foreign currencies (U.S. dollars). No derivatives are entered into for speculative reasons and the CDC only deals with Canadian chartered banks in this regard.

Market risk is the most 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 the trade negotiations on agriculture, domestic market trends and fluctuations of supply and demand. The CDC addresses these risks by instituting sound management practices, hiring and maintaining competent staff and staying abreast of any market or political development that may affect its operations. Because the CDC deals with supply-managed products such as SMP and butter, 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 tenders to reliable exporters who seek value-added products, ensuring best returns for its commercial operations. As far as its butter imports are concerned, the CDC applies the same prudent rules by buying its products by tenders or competitive offers from reliable importers and purchasing only quantities required when it comes to supplementary imports.

Future accounting changes

The *International Accounting Standards Board* has several projects underway, some of which may affect International Financial Reporting Standards (IFRS) relative to the CDC. Management will continue to monitor all proposed and ongoing projects, giving consideration to any changes expected to impact the CDC. A more detailed discussion of the future accounting changes can be found in Note 3 of the financial statements.

Challenges for the future

Producers and processors announced in July 2016 the successful conclusion of negotiations that aimed at adapting the Canadian dairy system for the future; they also announced the approval of some elements of a National Ingredient Strategy. Implementation and administration of the resulting national changes are ongoing. The impact of the implementation of this strategy on CDC activities includes providing additional auditors and helping with the administration of a National Centralized Registration System (NCRS).

Demand for butterfat continues to grow and milk production has gradually increased to meet this demand. Although the CDC had to continue importing butter to supply this growth, by the end of the dairy year, the first signs of a reduced need to import butter were observed. This was due to the fact that Canadian butter manufacturers were again able to fill that demand themselves. In the coming year, the CDC may need to import smaller quantities of butter in addition to the tariff rate quota of 3,274 tonnes to meet further processors' demand.

On the international trade policy front, the CDC is following the implementation of the Comprehensive Economic and Trade Agreement between Canada and the European Union because it will have an impact on the imports of dairy products into Canada.

Adrienne Morin, Special Milk Class Permit Program; **Lindsay Pettes**, Special Milk Class Permit Program

Canada participated in the Trans-Pacific Partnership (TPP) negotiations to enhance trade, innovation and investment for the 12-member countries. These negotiations were concluded in October 2015. If ratified in its current form by all participating countries, the TPP would increase imports of dairy products into Canada over the 18 years that will follow its effective date. However, the recent exit of the United States from that agreement has rendered its entry into force uncertain and the CDC is currently following the efforts to keep the agreement active among the 11 remaining countries. Should a solution be found and the agreement enters into force, the CDC would take new dairy imports into account when setting the national quota. The CDC is also following the renegotiation of the North American Free Trade Agreement and its potential impact on the Canadian dairy industry.

Management Responsibility For Financial Statements

The financial statements of the Canadian Dairy Commission (CDC) 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 CDC, 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.

Jacques Laforge, CEO

Chantal Laframboise, Director
Finance and Administration

Ottawa, Canada
September 27, 2017

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 Financial Statements

I have audited the accompanying financial statements of the Canadian Dairy Commission, which comprise the statement of financial position as at 31 July 2017, and the statement of operations and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Dairy Commission as at 31 July 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Canadian Dairy Commission that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with 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*.

MK Kerrigan

Mary Katie Kerrigan, CPA, CA
Principal
for the Auditor General of Canada

27 September 2017
Ottawa, Canada

Canadian Dairy Commission
Statement of Financial Position

(in thousands of Canadian dollars)

	As at July 31, 2017	As at July 31, 2016
Assets		
Current		
Cash	$ 205	$ 47
Trade and other receivables		
Trade receivables	772	2,202
Advance to provincial milk boards and agencies	5,989	4,030
Milk pools	1,740	1,083
Derivative asset - foreign exchange contracts	-	2
Inventory (Note 4)	176,905	137,345
	185,611	144,709
Non-Current		
Equipment	53	26
Intangible asset	196	225
	$ 185,860	$ 144,960
Liabilities		
Current		
Bank overdraft (Note 5)	$ 5,989	$ 4,030
Trade and other payables		
Trade payables	12,881	9,182
Distribution to provincial milk boards and agencies	8,400	5,944
Other liabilities	3,908	1,015
Derivative liability - foreign exchange contracts	-	9
Loans from the Government of Canada (Note 6)	118,714	94,192
	149,892	114,372
Equity		
Retained earnings	35,968	30,588
	$ 185,860	$ 144,960

Commitments (Note 12)

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

These financial statements were approved and authorized for issue on September 27, 2017.

Jacques Laforge
Chief Executive Officer

Alistair Johnston
Chairman

Chantal Laframboise
Director, Finance and Administration

Canadian Dairy Commission
Statement of Operations and Comprehensive Income

(in thousands of Canadian dollars)

	For the year ended July 31, 2017	For the year ended July 31, 2016
Sales and cost of sales		
Domestic sales revenue	$ 321,804	$ 209,376
Cost of goods sold - domestic	299,858	178,070
Transport and carrying charges	7,412	7,312
Finance costs	438	297
Gross profit on domestic sales	14,096	23,697
Export sales revenue	38,528	30,306
Cost of goods sold - exports	37,932	29,479
Transport and carrying charges	2,154	553
Finance costs	12	5
Gross profit (loss) on export sales	(1,570)	269
Total gross profit	12,526	23,966
Other income		
Funding from milk pools	7,039	6,053
Funding from the Government of Canada (Note 9)	3,795	3,689
Audit services	186	196
	11,020	9,938
Total gross profit and other income	**23,546**	**33,904**
Operating expenses		
Industry initiatives	399	605
Cost of Production study	825	817
Other charges	345	246
	1,569	1,668
Administrative expenses		
Salaries and employee benefits (Note 10)	6,085	5,923
Other administrative expenses	2,112	1,862
	8,197	7,785
Total operating and administrative expenses	**9,766**	**9,453**
Profit before distribution to provincial milk boards and agencies	**13,780**	**24,451**
Distribution to provincial milk boards and agencies	8,400	5,944
Total comprehensive income	**$ 5,380**	**$ 18,507**

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, 2017	For the year ended July 31, 2016
Retained earnings, beginning of the year	$ 30,588	$ 12,081
Total comprehensive income for the year	5,380	18,507
Retained earnings, end of the year	$ 35,968	$ 30,588

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, 2017	For the year ended July 31, 2016
Cash flows from (used in) operating activities		
Cash receipts from sales of goods	$ 364,892	$ 238,105
Cash paid to suppliers and others	(393,087)	(286,173)
Cash receipts from provincial milk boards and agencies (pooling)	4,423	5,211
Cash paid to provincial milk boards and agencies	(5,944)	(20,190)
Cash receipts from the Government of Canada	3,795	3,689
Interest paid on loans	(402)	(216)
Net cash flows used in operating activities	(26,323)	(59,574)
Cash flows from (used in) financing activities		
New loans from the Government of Canada	266,045	207,136
Loan repayments to the Government of Canada	(241,523)	(148,356)
Net cash flows from financing activities	24,522	58,780
Net increase in net bank overdraft	(1,801)	(794)
Net bank overdraft at beginning of year	(3,983)	(3,189)
Net bank overdraft at end of year	$ (5,784)	$ (3,983)
Components:		
Cash	$ 205	$ 47
Bank overdraft	(5,989)	(4,030)
Net bank overdraft	$ (5,784)	$ (3,983)

The accompanying notes are an integral part of these 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. 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, 2017, the CDC continues to meet the requirements of this directive.

2. Basis of preparation

Statement of compliance

The CDC prepared these financial statements in accordance with International Financial Reporting Standards (IFRS).

The financial statements were approved and authorized for issue by the CDC Board on September 27, 2017.

Basis of presentation

The financial statements have been 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.

Use of judgment, 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.

Plan B Inventory

Under section 9(1) of the *Canadian Dairy Commission Act*, the CDC operates domestic seasonality programs, which include the purchase and sale of Plan B inventory (butter and skim milk powder). Under Plan B, as set out in agreements with manufacturers, the CDC purchases products from manufacturers and manufacturers are contractually obligated to repurchase Plan B inventory within the course of the next dairy year at the prevailing support prices.

Although the CDC has customarily honoured all manufacturers' requests for repurchase, the CDC has determined that the significant risks and rewards of ownership have been transferred to the CDC on the purchase of this inventory since the CDC is not contractually bound to sell to the manufacturers and because the CDC bears all costs of holding the inventory as well as the risks of theft or 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 Income of the period in which they become known.

Functional and presentation currency

These financial statements are presented 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. Their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the CDC's designation of such instruments.

Classifications:

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

Loans and receivables

Loans and receivables are recorded at amortized cost using the effective interest method.

Financial liabilities measured at amortized cost

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

Financial assets or liabilities measured at FVTPL

Financial assets or 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 Income.

Transaction costs

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

Derivative financial instruments

The CDC uses derivative financial instruments such as forward contracts to counter the adverse movements 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's policy is not to utilize 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 are recorded 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 of these contracts are recognized as gains or losses within "Other charges" on the Statement of Operations and Comprehensive Income.

Inventory

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

Depreciation is charged to "Other charges" on the Statement of Operations and Comprehensive Income 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 would be adjusted accordingly.

Intangible asset

Software

Internally developed application software is stated 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.

Amortization of the intangible asset is charged to "Other charges" on the Statement of Operations and Comprehensive Income 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 would be adjusted accordingly.

Distributions to provincial milk boards and agencies

Distributions to provincial milk boards and agencies represent gross profit on sales excluding imported butter. Distributions to provincial boards and agencies are recorded as expense in the year that they are determined.

Revenues

Sales revenues

Domestic and export sales revenues are recognized when product is shipped.

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. For these services, the CDC receives from producers an annual fixed fee which offsets its cost for 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 is recognized as revenue in the period as services are rendered and are accrued on a monthly basis over the fiscal year.

Funding from the Government of Canada

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

Audit services

Revenues from audit services are recognized in the period the services are rendered.

Cost of sales

The CDC purchases all butter and skim milk powder tendered to it 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 charged to cost of sales when the goods are shipped to customers.

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 payables in foreign currencies are adjusted to reflect the exchange rate in effect at the Statement of Financial Position date. Any corresponding 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 Income.

Most sales and purchases in foreign currencies have corresponding foreign exchange forward contracts (see "Derivative financial instruments" above and Note 11: *Financial Instruments – Currency risk*).

Employee benefits

Pension benefits

Substantially all of the employees of the CDC 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 costs. 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.

Post-employment benefits

Eligible employees are entitled to post-employment benefits as provided for under labour contracts and conditions of employment. The cost of these benefits is accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated by management.

Application of new and revised accounting standards

The following amendment has been issued by the International Accounting Standards Board (IASB) effective for accounting periods that began on August 1, 2016, and affected amounts reported or disclosed in the financial statements:

Disclosure Initiative – Amendments to IAS 1 – *Presentation of Financial Statements* was issued to provide additional guidance to help entities apply judgment when meeting the presentation and disclosure requirements in IFRS. The amendments clarify that materiality applies to the whole financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments clarify that entities should use professional judgment in determining where and in what order information is presented in the financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016. The most significant modifications made as a result of the adoption of IAS 1 amendments include the removal of the Equipment and Intangible asset note disclosure and grouping of immaterial line items on the Statement of Financial Position.

Future accounting standards (accounting standards issued but not yet applied)

A number of new accounting standards and amendments effective on or after August 1, 2017, have been issued by the IASB. As of the date of the financial statements, the following applicable standards and amendments have been assessed as having a possible impact on the CDC:

(In thousands of Canadian dollars, unless otherwise indicated)

Disclosure Initiative – Amendments to IAS 7 – *Statement of Cash Flows* clarifies the disclosures required for changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017. Effective August 1, 2017, the CDC will specify in Note 6 - *Loans from the Government of Canada* the sources of changes in liabilities arising from financing activities.

IFRS 15 – *Revenue from Contracts with Customers* was issued to provide guidance on the recognition of contract revenues. This new standard will be effective for annual periods beginning on or after January 1, 2018. The CDC is currently assessing this new standard and therefore the extent of the impact of the adoption of the standard is unknown.

IFRS 9 – *Financial Instruments* The final version of this new standard was issued in July 2014. This standard largely retains the classification and measurement requirements and new hedge accounting model included in earlier versions, while introducing a single forward-looking expected credit loss impairment model. The new standard is effective for annual periods beginning on or after January 1, 2018. The CDC is currently assessing this new standard and therefore the extent of the impact of the adoption of the standard is unknown.

IFRS 16 – *Leases* provide 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 new standard is effective for annual periods beginning on or after January 1, 2019. The CDC is currently assessing this new standard therefore, the extent of the impact of the adoption of the standard is unknown.

4. Inventory

The CDC's inventory is comprised of butter and skim milk powder purchased under the domestic seasonality and surplus removal programs. Since February 1, 2017, following the implementation of some elements of the National Ingredient Strategy, the CDC is no longer purchasing skim milk powder under those programs. The current inventory of these products will liquidate over the next two years. The CDC also imports butter under the World Trade Organization (WTO) Agreement on Agriculture.

Inventory expensed in the current year was $337.79 million (July 31, 2016: $207.55 million) and is presented on the Statement of Operations and Comprehensive Income in "Cost of goods sold (domestic and exports)".

Inventories of $11.07 million (July 31, 2016: $34.02 million) are expected to be realised after more than twelve months.

Inventory:

	July 31, 2017		July 31, 2016	
	in $	in tonnes	in $	in tonnes
Plan B				
Butter	$ 129,777	16,210	$ 66,194	8,468
Skim milk powder	–	–	1,475	334
Other butter	4,161	541	2,328	432
Other skim milk powder	44,222	38,190	67,416	59,378
	178,160		137,413	
Less: allowance for inventory write-down	(1,255)		(68)	
Total net realizable value	$ 176,905		$ 137,345	

5. Bank overdraft

The CDC has established a line of credit with a member of the Canadian Payments Association. The CDC has been granted the authority to establish this line of credit by the Minister of

(In thousands of Canadian dollars, unless otherwise indicated)

Finance up to a maximum of $50 million for advancing funds to the provincial milk marketing boards and agencies. On July 31, 2017, the available line of credit was $7 million (July 31, 2016: $5 million).

The bank overdraft incurred under the CDC's line of credit is due on demand and bears interest at prime, which as at July 31, 2017, was 2.95% per annum (July 31, 2016: 2.70%).

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

Loans from the Government of Canada's Consolidated Revenue Fund, to a maximum of $210 million (July 31, 2016: $165 million), are available to finance operations. Individual loans are repayable within one year from the date the loan is advanced. Principal and accrued interest is repaid regularly during the year when funds are available.

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

	July 31, 2017	July 31, 2016
Interest rates		
Low	0.58%	0.50%
High	0.70%	0.79%
Interest expense	$ 450	$ 302

7. Capital management

The CDC's capital consists of its loans from the Government of Canada (see Note 6) and retained earnings. As of July 31, 2017, these accounts totaled $118.71 million (July 31, 2016: $94.19 million) and $35.97 million (July 31, 2016: $30.59 million) respectively. The CDC is not subject to any externally imposed capital requirements.

The CDC's primary objective in managing capital is to ensure that it has sufficient liquidity in order to settle its financial obligations as they become due and to fund programs for the benefit of the dairy industry. The CDC adjusts its capital management approach on an ongoing basis as the amounts fluctuate during the course of the year. The CDC does not utilize any quantitative measures to monitor its capital. There were no changes in the CDC's approach to capital management or the definition thereof as compared to the previous year.

8. Foreign exchange gains and losses

Export sales include amounts representing realized net gains or net losses arising from currency translation relating to transactions incurred in foreign currencies.

As well, domestic cost of sales include amounts representing realized net gains or net losses arising from currency translation relating to import purchase transactions incurred in foreign currencies.

	July 31, 2016	July 31, 2016
Net gain (loss) on:		
Export sales	$ (242)	$ (263)
Domestic cost of sales	$ 2,676	$ 1,566

9. 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, 2017	July 31, 2016
Funded by Government	$ 3,795	$ 3,689
Total administrative expensest	$ 8,197	$ 7,785

(In thousands of Canadian dollars, unless otherwise indicated)

10. Salaries and employee benefits

	July 31, 2017	July 31, 2016
Salaries expense	$5,028	$4,911
Pension contributions	658	646
Medical insurance expense	232	210
Others	167	156
Total	$6,085	$5,923

Pension plan

Substantially all of the employees of the CDC 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. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contributions. The general contribution rate effective for the year ended July 31, 2017, was on average 1.06 times the employee's rate (1.20 times for the prior year).

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.

11. Financial instruments

In the course of carrying out its ongoing operations, the CDC faces risks to its financial assets and financial liabilities. The CDC's exposure to risk from its use of financial instruments is presented below along with the CDC's objectives, policies and processes for managing risk.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the CDC's income or the value of its holding of financial instruments.

Currency risk

The CDC operates internationally, exposing itself to market risks from changes in foreign exchange rates. The CDC partially manages these exposures by contracting only in US dollars or Canadian dollars. The CDC's foreign exchange risk management includes the use of foreign currency forward contracts to fix the exchange rates on certain foreign currency exposures. The CDC periodically enters into foreign exchange forward contracts to manage exposure to exchange rate fluctuations between Canadian and US dollars for future sales and purchases on existing contracts.

The fair value of the CDC's derivative financial instruments is determined using the Bank of Canada's published foreign exchange rates as of the Statement of Financial Position date. This rate was 1.2485 at July 31, 2017 (1.3056 at July 31, 2016). At the Statement of Financial Position date, the CDC had no foreign exchange forward contracts:

		July 31, 2017		July 31, 2016	
Currency sold	Currency purchased	In USD	In CAD	In USD	In CAD
USD	CAD	$ -	$ -	$ 694	$898
CAD	USD	$ -	$ -	$ 35	$ 45

(In thousands of Canadian dollars, unless otherwise indicated)

"Other charges" under operating expenses on the Statement of Operations and Comprehensive Income include $0.01 million representing net gains incurred during the current year (July 31, 2016: net losses of $0.28 million) arising from the determination of unrealized fair value remeasurements of the CDC's derivative financial instruments.

The CDC's exposure to foreign currency risk was as follows, based on Canadian dollar equivalent amounts:

In CAD	July 31, 2017	July 31, 2016
Trade receivable	$ -	$ 13
Trade payable	(1,499)	-
Net derivative asset (liability)	-	(7)
Net exposure	$ (1,499)	$ 6

Based on the net exposure as of July 31, 2017, and assuming that all other variables remained constant, had the Canadian dollar appreciated 10% against the US dollar, net income for the year ended July 31, 2017, would have increased by $0.15 million (July 31, 2016: increased by $0.04 million). Conversely, a 10% weakening in the Canadian dollar against the US dollar would have had the equal but opposite effect for the same period.

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. Other than the line of credit, for which interest expense varies as a function of prime, and loans from the Government of Canada, which vary as a function of the yield on comparable Treasury bills, the CDC does not have any other such financial assets or liabilities exposed to this risk. The CDC's exposure to interest rate risk is not significant given its low interest bearing loans.

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 of the Statement of Financial Position date, virtually all of the CDC's assets and liabilities were current and the CDC had a current ratio equal to 1.24 (July 31, 2016: 1.27). In managing liquidity risk, the CDC has access to additional borrowings for commercial operations from the Government of Canada in the amount of $91.29 million as of July 31, 2017 (July 31, 2016: $70.81 million) as well as $1.01 million (July 31, 2016: $0.97 million) on its line of credit for the pooling of market returns.

Credit risk

Credit risk is the risk of loss due to a customer failing to meet its financial obligations to the CDC. Maximum credit exposure is the carrying amount of the pooling and trade receivable balances, net of any allowance for losses. The CDC manages this risk using several strategies which include selling product on a "payment first" basis, securing of bank guarantees and obtaining letters of credit. As of July 31, 2017, and July 31, 2016, the CDC did not have an allowance for doubtful accounts and all trade receivables were current.

The CDC is exposed to credit risk when entering into foreign exchange contracts wherein the counterparty fails to perform an obligation as agreed upon, causing a financial loss. Maximum credit exposure is the notional amount of the derivative asset. The CDC manages this exposure to credit risk by entering into foreign exchange contracts only with major Canadian financial institutions. To date, no such counterparty has failed to meet its financial obligation to the CDC.

Fair values

The carrying value of cash, trade and other receivables, bank overdrafts, and trade and other payables approximates their fair values due to the immediate or short-term maturity of these financial instruments. As of the Statement of Financial Position date, no amounts representing changes in fair value of these financial instruments have been recorded on the Statement of Operations and Comprehensive Income.

(In thousands of Canadian dollars, unless otherwise indicated)

Fair value hierarchy

Financial instruments recorded at fair value on the Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy, which for the CDC is only relevant in the context of derivative financial instruments, has the following levels:

Level 1: valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: valuation techniques based on inputs 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: valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value measurement of the CDC's derivative financial instruments is classified as level 2 (July 31, 2016: level 2) in the fair value hierarchy. Changes in valuation methods may result in transfers into or out of levels 1, 2, and 3. For the reporting periods ended July 31, 2017, and July 31, 2016, there were no transfers between levels.

12. Commitments

a) Industry Initiatives

Summary:	July 31, 2017
Dairy Research Cluster	$ 250
Matching Investment Fund	183
Total commitments for industry initiatives	$ 433

Dairy Research Cluster

The Dairy Farmers of Canada initiative enables key industry-led agricultural organizations to mobilize a critical mass of scientific and technical resources to support innovation strategies for enhanced profitability and competitiveness in their sector. The CDC has agreed to partially fund this project under an agreement that commenced April 1, 2014, and expires March 31, 2018. Under the terms of this agreement the CDC will contribute $0.75 million. A first payment of $0.25 million was made in 2014-2015, a second payment of $0.25 million was made in 2015-2016 and the balance of $0.25 million will be paid at the end of the agreement.

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 a matching investment basis. As of July 31, 2017, the CDC has outstanding contractual commitments of $0.18 million.

b) Purchase Commitments

As of July 31, 2017, the CDC was committed to purchase certain quantities of butter. These commitments amounted to approximately $2.76 million (July 31, 2016: $0.92 million) and were fulfilled in August 2017.

c) WTO Tariff Rate Quotas for Butter

Under the terms of the 1994 WTO Agreement, 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 imports of butter under federal permit since 1995 and has directed this product through butter manufacturers to the food sector. The 2018 TRQ for butter remains at 3,274 tonnes. World prices at the time of purchase determine the total financial commitment.

Insufficient supply of Canadian butter in the 2016-2017 dairy year required that the CDC import 14,220 tonnes of butter/butterfat (2015-2016 8,400 tonnes) in addition to its import butter 2017 TRQ of 3,274 tonnes. The total cost to purchase imported butter for the year ended July 31, 2017, was $121.47 million (July 31, 2016: $58.00 million).

(In thousands of Canadian dollars, unless otherwise indicated)

d) Operating Lease

The CDC is committed under a long-term lease with Agriculture and Agri-Food Canada for office accommodation ending in March 31, 2022. The lease contains escalation clauses regarding maintenance costs and taxes. This lease may be automatically renewed at the CDC's option for another period of five years with rates possibly revised in order to reflect the rental market value pursuant to Treasury Board's Policy on Real Property.

The minimum lease payments are as follows:

	July 31, 2017	July 31, 2016
Less than one year	$ 370	$ 117
Greater than one year and less than five years	$ 1,356	$ –

13. 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 business and at normal trade terms. These related party transactions are recorded at their exchange amounts.

In accordance with the disclosure exemption regarding "government-related entities," the CDC is exempt from certain disclosure requirements of IAS 24 – *Related Party Disclosures,* relating to its 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.

Based on this exemption, the CDC has not disclosed any further details of its transactions with the Government of Canada and departments thereof, and all federal Crown corporations not considered to be individually or collectively significant, entered into in the normal course of operations.

Loans from the Government of Canada at terms available to Crown corporations (Note 6), which are recorded at the transaction price, represent the CDC's largest related party transaction.

Significant transactions, excluding loans, were with the following related parties:

Government entity	July 31, 2016	July 31, 2016
Public Works and Government Services Canada	$ 1,062	$ 1,093
Agriculture and Agri-Food Canada (mainly operating lease – Note 12)	229	314
Other related Government entities	215	130
Total	$ 1,506	$ 1,537

Key management personnel

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

No loans or other such transactions with key management personnel were outstanding as of July 31, 2017, or July 31, 2016, or occurred at any time during either year.

The post-employment benefit liability for key management personnel as of July 31, 2017, was $0.09 million (July 31, 2016: $0.06 million) and is recorded under "Other liabilities" on the Statement of Financial Position.

Compensation of key management personnel for the year ended July 31, 2017, was $1.14 million (July 31, 2016: $1.02 million).

Karen Bélanger, Executive Office

Guoyu Gary Wu, Information Technology and Information Management

Tables and Data (unaudited)

Total Milk Production, Quota and Requirements (million kg butterfat)

	Total Requirements	Total Quota	Total Production
2012-2013	311.95	311.68	315.51
2013-2014	321.36	316.55	313.68
2014-2015	328.67	326.57	327.67
2015-2016	344.81	336.57	338.78
2016-2017	364.20	355.56	358.21

Milk Production by Province* (million kg butterfat)

Province	2015-2016	2016-2017
Newfoundland and Labrador	1.97	2.01
Prince Edward Island	4.40	4.76
Nova Scotia	7.43	8.00
New Brunswick	5.82	6.17
Quebec	126.25	133.38
Ontario	111.08	118.48
Manitoba	13.41	14.03
Saskatchewan	10.07	10.46
Alberta	29.05	29.89
British Columbia	29.30	31.03
Total	**338.78**	**358.21**

* Before pooling

Number of Farms and Cows

	Number of farms	Number of cows (thousands)
2012-2013	12,529	960.6
2013-2014	12,234	959.1
2014-2015	11,962	956.7
2015-2016	11,683	954.6
2016-2017	11,280	959.1

Josée Pigeon-Laplante, Special Milk Class Permit Program; **Shana Allen**, Communications and Strategic Planning