



Canadian Dairy
Commission

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Canadian Dairy Commission

Annual Report

14-15

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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Letter From the Chairman

Mister Minister,

I am pleased to submit the Canadian Dairy Commission's Annual Report for the 2014-2015 dairy year. As we conclude the year, the Canadian Dairy Commission (CDC) is in a sound financial position and has achieved most of the objectives it had set for itself. Some of these objectives were not reached either because the industry was not ready to move forward on some issues or because circumstances required a change in direction.

The CDC continued to encourage the Canadian dairy industry to grow the market and innovate, partly through existing programs but also by proposing or implementing new ones.

The CDC supports the industry as it adapts to the changing markets. In the fall of 2014, the CDC performed a review of milk Class 3(d) (mozzarella cheese used by restaurants) and presented suggestions to the Canadian Milk Supply Management Committee (CMSMC) for expanding the program. The CDC board extended the funding of the Dairy Marketing Program until July 2016, including renewing the Matching Investment Fund. In response to the excess skim milk present in the system in the summer of 2015, the CDC, with the agreement of the CMSMC, created a temporary storage assistance program for cheese. Furthermore, the CDC made butter eligible to the Dairy Innovation Program, added fluid milk products in the Planned Export Program for Cheese, thus creating the Dairy Export Program, and created the Milk Access for Growth program, which facilitates Canadian and foreign investments in Canada to expand processing capacity and serve new markets.

To improve its efficiency, the CDC continued to transfer Special Milk Class Permit Program participants to the web-based application that allows them to see and enter their own data. As of July 31, 2015, 75% of Special Class participants (processors, further processors and distributors) have registered into the new system. This allowed the CDC to take on the administration of the program for mozzarella cheese, which has more than 7,000 participating restaurants, without needing additional resources. Furthermore, the Audit and Evaluation team has expanded its use of an audit management software to render the audits paperless and improve their coordination.

The CDC adjusted its administrative budget to comply with the Government of Canada freeze of the federal operating budget announced in the 2013 Speech from the Throne. Furthermore, the CDC implemented the new Public Service Directive on Performance Management as required by the Treasury Board Secretariat.

As I begin my mandate as CDC Chairman, I would like to thank the outgoing Chairman, Randy Williamson, for his dedication to the organization and to the industry. I would also like to express my appreciation for the co-operation we receive from 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. We are also indebted to the CDC employees who run our operations with efficiency and fairness.

On behalf of the board, I would like to thank you, Mr. Minister, for supporting the work of the CDC.



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, setting support prices for butter and skim milk powder 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.

In 2014, Canada's dairy processing sector contributed \$17.3 billion and 22,400 jobs to Canada's economy. Over the course of the 2014-2015 dairy year, demand for milk increased by 2% from the previous year to reach 328.7 million kg of butterfat. This increased demand was most noticeable in the butter, cheese, yogurt and cream markets. During the same period, milk production increased to 327.7 million kg of butterfat, a 4% increase.

In 2014-2015, the Canadian Milk Supply Management Committee (CMSMC) increased the growth allowance from 1% to 2% for a period of two years as of February 1, 2015. This measure provides additional milk that is allocated in priority to the manufacture of dairy products experiencing growth.

In that same period, CDC butter stocks fell to record lows and milk production was below demand for most of the dairy year. Milk boards increased quotas throughout the year and production caught up to demand towards the end of the dairy year. Processors used this additional production to increase their own stocks of butter and cheese while CDC stocks remained low. Given that the increased demand for butterfat exceeded the growth in the demand for solids non fat (SNF) and that world market prices for skim milk powder (SMP) fell dramatically over the last year, CDC inventories of surplus SMP purchased under Class 4(m) (animal feed) increased significantly. They went from 12,300 tonnes to 30,700 tonnes. In

the coming year, the CDC will continue its sales of this product to the animal feed sector and examine other measures to reduce its inventories.

The strong increase in milk production since the spring 2015 was mostly directed into cheese manufacturing on the part of processors which led to higher than average inventory levels. The increased milk supply was then directed to butter and SMP plants, which could not manage the additional milk volumes. As a result, the CDC, with the agreement of the CMSMC, created the Storage Assistance for Cheese program (SAC), a temporary measure, which encouraged processors to accept more milk for cheese manufacturing. The program was effective from June 30 to September 30, 2015.

In addition to the creation of the SAC, the CMSMC approved modifications to existing programs. In July 2015, the committee approved the decision to replace the Planned Export Program for Cheese (PEPC) with the Dairy Export Program (DEP), with the goal of expanding the eligibility to other dairy products effective August 1, 2015. The purpose of DEP is to encourage Canadian manufacturers and exporters to develop long term export markets for Canadian dairy products by providing participants with an additional milk supply above their allocated volume.

Also in July, the CDC announced new programs and modifications to existing programs that the CDC administers for the benefit of the industry. The Milk Access for Growth Program (MAG), which promotes

investments by existing or new companies that would increase the overall demand for Canadian milk and dairy products, will be implemented in the fall 2015 once the guidelines are finalized. Participating companies will receive the additional milk supply that they require. As well, the CDC Board decided that butter and butter products will be eligible under the Dairy Innovation Program (DIP) as of August 1, 2015.

The CMSMC's Record of Standing Policy was completed and posted on the CDC's Members' website. This document contains the national agreements that regulate the dairy industry, as well as the major decisions that amend or interpret these agreements. This document is a "living" document and will be updated annually to include new CMSMC decisions.

In January 2015, the CDC announced a reduction in the support price of skim milk powder. The new price took effect on March 1, 2015. The reduction followed a decrease in the cost of producing milk in Canada in the last year. The support price for butter remained unchanged.

From a financial point of view, the CDC had another successful year in managing its commercial operations. As a result of conservative and prudent purchasing practices, the CDC was able to generate a surplus of \$ 20.2 million which will be refunded to producers through the provincial milk marketing boards and agencies. Overall, retained earnings at year-end were slightly higher than those of the previous year.

Dairy Industry Trends

The number of dairy farmers in Canada has decreased by 8% in the last five years. This attrition rate is currently slower than in the US or the European Union.

Since February 2015, we have observed a steady decline in blend producer revenues per hectolitre produced. This is partly due to a decline in world prices, which directly impacts the price that producers get for the 10% of their milk that is exported or used to make ingredients for the further processing sector. Another reason for this decline in revenue is, ironically, the increase in butterfat demand on the Canadian market. Milk production increased to supply this demand but the demand for the other portion of the milk (solids non fat) did not increase as rapidly. As a result, greater quantities of skim milk, mostly in the form of skim milk powder, were purchased by the CDC to be sold in the animal feed market which generates the lowest return for producers.

In 2014-2015, retail sales of dairy products were strong for most categories. Butter sales increased at a rate of 3%, while cream sales also rose by 3.7%. Cheese consumption has picked up, particularly for cheddar, everyday cheeses like Mozzarella, Feta, and Havarti, and fine cheeses such as Brie and Camembert. Yogurt sales recovered over the last few months of the dairy year, showing a 1.9% increase over the previous year. Greek and drinkable yogurts seem to be driving this increase in consumption. Reflecting a shift in consumer preferences, fluid milk sales continue to decline by 1% on an annual basis.

Over the past year, Canada and the European Union concluded the Comprehensive Economic Trade Agreement (CETA), which, when effective, would see Canada open its borders to an additional 17,000 tonnes of imported cheese. This agreement is being translated before each country can ratify it. Recognizing that the agreement could be implemented over the next several years, the CDC will evaluate the challenges and opportunities it could create for the Canadian dairy industry once it comes into effect. As of July 31, 2015, the 12 countries involved in the Trans-Pacific Partnership (TPP) talks had not reached an agreement.

Financial Trends

Interest rates have been low for several years and in July 2015, the Bank of Canada reduced its key interest rates by an additional one quarter of one percentage point to 0.50%. Given that the CDC borrows money from the Consolidated Revenue Fund and from a line of credit, a change in interest rates has an impact on the transactions of the CDC. However, CDC's borrowings are used for programs that the CDC administers on behalf of the dairy industry. This means that interest fees are paid by either dairy producers or the marketplace, depending on the program. Therefore, a change in interest rates has no impact on the financial situation of the CDC.

The world prices of dairy products remain extremely volatile. World prices for SMP fell sharply this year. While some level of recovery is expected there is still uncertainty because of the state of the whole

economy and in particular the embargo imposed by Russia and the unknown level of growth on the Asian market. These low prices mean that the CDC can export smaller quantities of SMP while respecting Canada's export subsidy limits, making it more difficult for CDC to reduce its inventories of SMP.

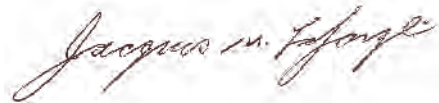
Workplace Trends

The CDC continues to follow and contribute to Blueprint 2020 initiatives. Our Blueprint 2020 Champion updates the staff regularly through email and at staff meetings about the progress of the 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.

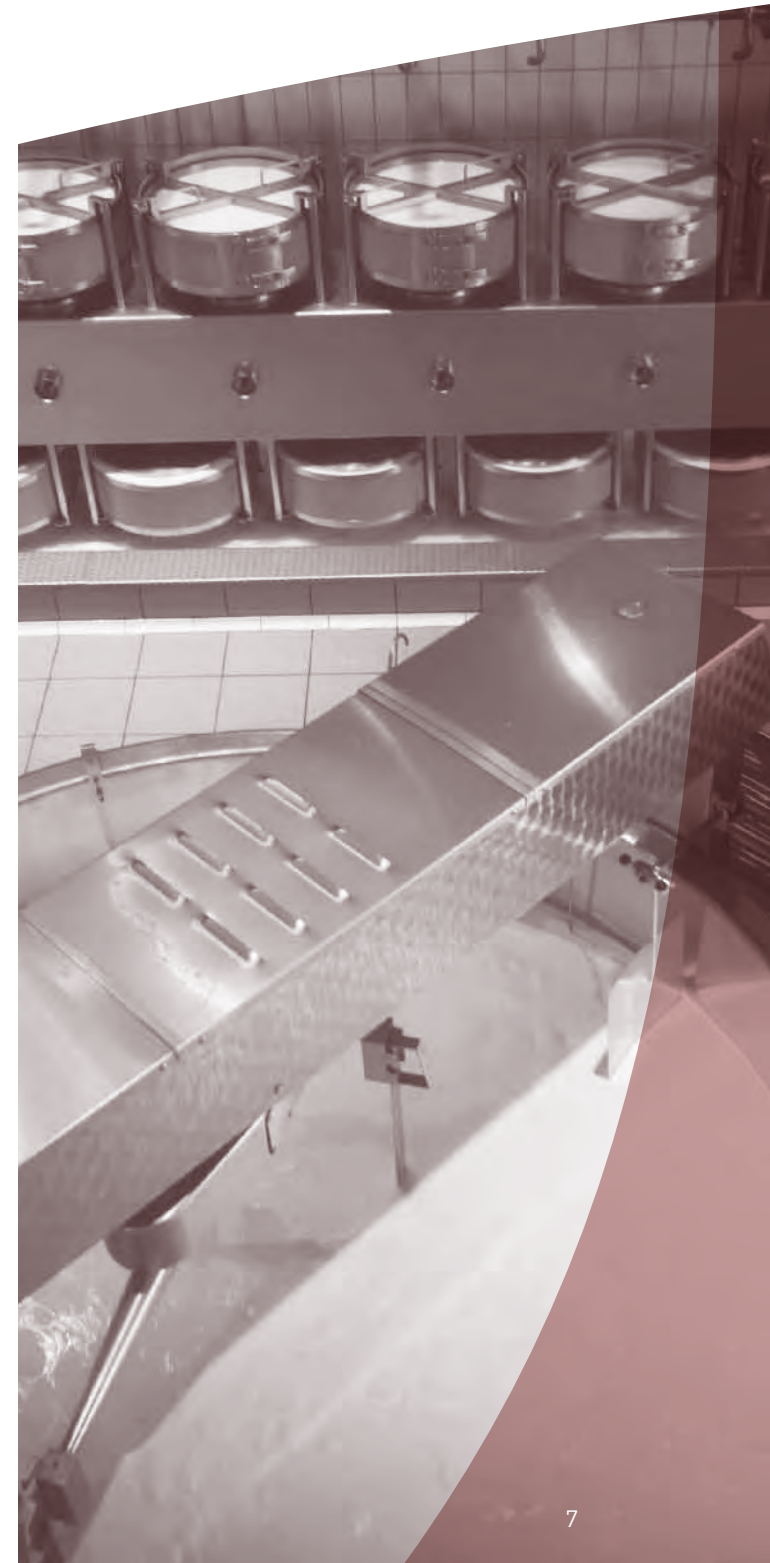
Recruiting employees with specialized knowledge in the fields of agricultural economics and the dairy industry continues to be a challenge therefore employee attraction and retention are important. In addition, the CDC is aware that it faces strong competition from other government departments and the private sector to replace people who move on or retire. With this in mind, the CDC continues to automate and streamline its processes to increase efficiency and started the development of a computer application that will facilitate most of the critical calculations that the CDC performs to administer the supply management system.

In 2015, as part of an ongoing workplace assessment exercise, the CDC conducted its second 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 94.2%, up from 84.6% in 2014. The overall satisfaction rate also increased, from 70% in 2014 to 90% in 2015. This was a significant and noteworthy increase and demonstrates that the overall health of the organization is positive. The CDC is committed to addressing any organizational concerns identified by the survey over the next year.

In closing, I'd 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 Commission 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.

CDC at a glance

Created in 1966

60 employees (as of July 31, 2015)

Location: Ottawa

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

Budget 2014-2015 (dairy year): \$7.77 million

Dairy year: August 1 to July 31

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: setting support prices¹ and recommending industrial milk quota. Once a year, the CDC sets the support price of butter and skim milk powder based on consultations with industry stakeholders and a study on the cost of production. These prices are used as references by the provincial milk marketing boards to establish the price of industrial milk in each province. Through its many roles and central facilitating function in the dairy industry, the CDC ensures that Canadian dairy farmers receive sufficient revenues from the marketplace to achieve decent living standards and invest in their businesses.

The CDC also monitors national production and demand and recommends the necessary adjustments to the national production target for industrial 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 Skim Milk Redirection Program².

The CDC chairs the Canadian Milk Supply Management Committee (CMSMC)³ 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)⁴.

¹ Support prices are the prices at which the CDC buys and sells Canadian butter and skim milk powder under its Domestic Seasonality Programs.

² A description of CDC's programs is presented in the section of this report entitled *Activities and Programs*.

³ The CMSMC is the main national decision-making body of the dairy industry.

⁴ See p. 23 for more information on these pools.

The Canadian Dairy Industry

Farm receipts

As a key contributor to the Canadian economy in 2014, the dairy industry ranked third (based on farm cash receipts) in the Canadian agriculture sector following grains and oilseeds and red meat. It generated \$6.07 billion in total farm receipts that year.

Number of farms and production per farm

In 2014, 11,962 dairy farms were shipping milk in Canada. 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. The average farm had 80 cows and an average annual production of 26,482 kg of butterfat⁵, a production slightly higher than that of 2013. Based on official records for 2014, the average annual production of a dairy cow in Canada was 9,893 kg of milk.

Milk processing

In 2014, the dairy processing industry generated \$17.3 billion worth of products shipped from 444 processing plants (273 of which were federally-registered) accounting for 16% of all processing sales in the food and beverage industry. The dairy processing sector employed approximately 22,400 workers.

Milk markets

Canadian dairy producers supply two main markets:

- fluid milk, including creams and flavoured milks
- industrial milk used to make products such as butter, cheese, yogurt, ice cream, and milk powders.

In the 2014-2015 dairy year, the fluid milk market accounted for approximately 35% of total producer shipments, or 116.1 million kg of butterfat. The industrial milk market accounted for the remaining 65% of total producer shipments or 211.6 million kg of butterfat.

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 System⁶. The price paid for milk by processors varies according to the milk class. The following table shows how Canadian milk production was used in 2014-2015.

Milk utilization per class

Class	Million kg of butterfat	% of total milk
1	95.2*	29.1
2	25.5	7.8
3	115.2	35.2
4(a) and 4(a)1	56.1	17.2
4(b), 4(c), 4(d), 4(m)	3.6	1.1
5(a), 5(b), 5(c)	30.0	9.2
5(d)	1.3	0.4
TOTAL	326.9**	100.0

* This figure is not equivalent to milk production (p. 67) because of skim-off.

** This total cannot be compared to the data on page 68 because it excludes milk supplied to food banks, milk sold at fairs and losses.

⁵ Milk production in Canada is expressed in kg of butterfat.

⁶ Harmonized Milk Classification System (<http://www.cdc-ccl.gc.ca/CDC/index-eng.php?id=3811>)



Governance

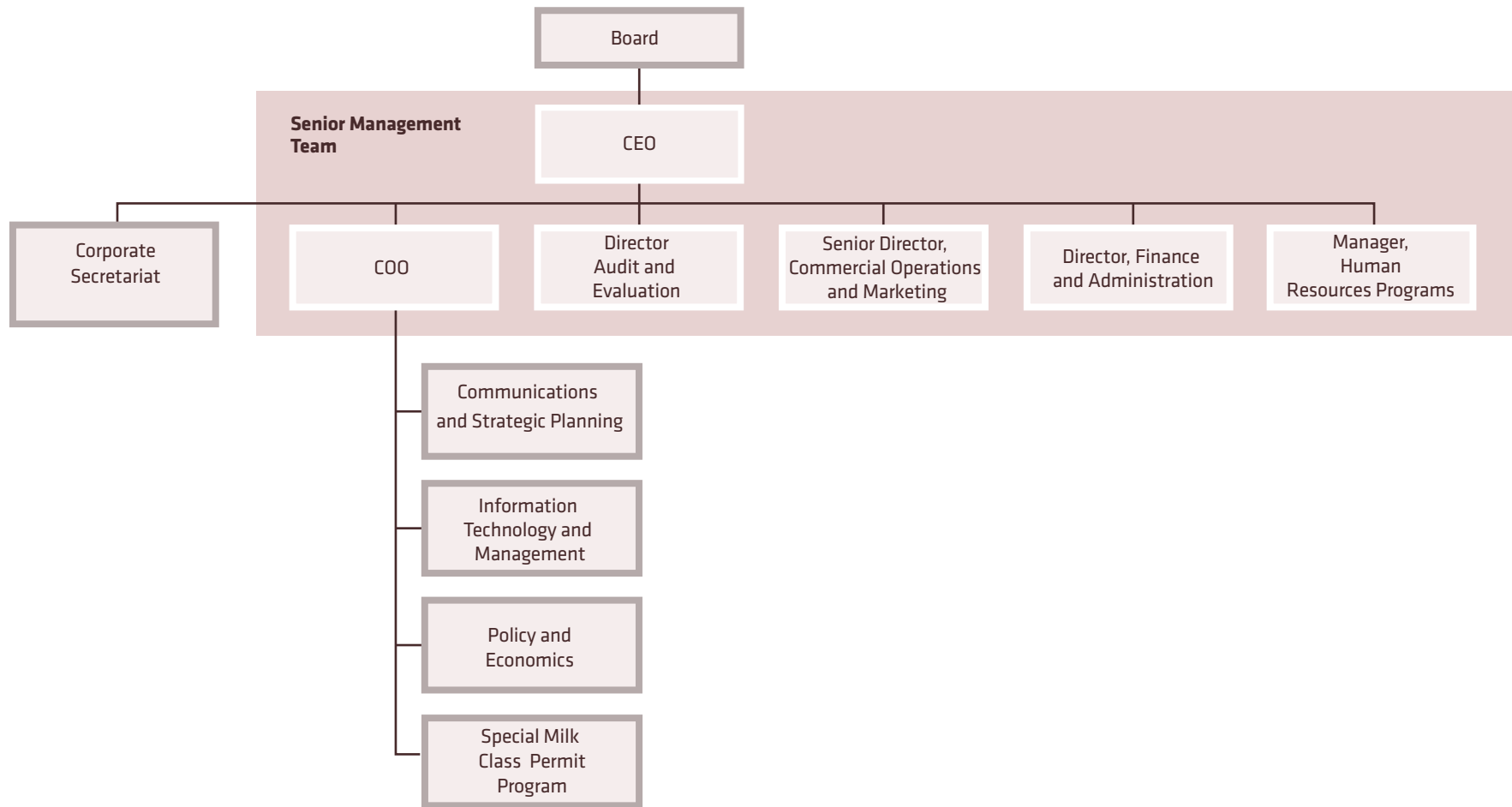


The Canadian Dairy Commission is governed by the *Canadian Dairy Commission Act*, the *Financial Administration Act*, and the *Public Service Labour Relations Act*. It is also governed by the following regulations:

- 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 for the CDC is made up of the chairperson, the commissioner, and the 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. They meet every four to six weeks.

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 and practices 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 Audit General.

Board Members

Chairman (reappointed on August 1, 2013 for a two-year term)

Randy Williamson

Mr. Williamson has a marketing diploma from the University of Western Ontario and a sales and marketing diploma from the University of British Columbia. He has over 30 years of experience in the dairy processing industry. He began his career with Fraser Valley Milk Producers in 1974, moving to Dairyland

Foods in 1986, and subsequently to Dairyworld Foods in 1992 and to Saputo in 2001, where he remained until his retirement in 2006.

Mr. Williamson also has extensive board experience as director of the National Dairy Council (1990-2006), director of the Nova Scotia Dairy Council (1998-2005), and president of the British Columbia Dairy Council (1994-1996).

Alistair Johnston

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

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



Jacques Laforge, Chief Executive Officer; **Randy Williamson**, Chairman; **Henricus Bos**, Commissioner

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 October 1, 2013 for a three-year term)

Henricus Bos

Mr. Bos graduated with a B. Sc. in Dairy in 1974 in the Netherlands. Before moving to Canada, he took on various governance roles in the Netherlands dairy industry, while at the same time owning and operating a dairy farm. He immigrated to Lacombe, Alberta in 1994, where he and his family established a successful dairy farm and in 1996, founded their natural yogurt business.

Mr. Bos has been a leader in Alberta's dairy industry for many years. He served at Alberta Milk between 2002 and 2013, where he became Vice-Chairman of the board of directors in 2008, and then Chairman from 2009 to 2013. From 2007 to 2013, Mr. Bos also served as Alberta's representative on the Dairy Farmers of Canada board, where he took an active role on various committees, including serving as chair of the Canadian Quality Milk Advisory Committee. From 1998 to 2002, Mr. Bos also served as a board member with organizations such as the Central Alberta Holstein Club and the Alberta Milk Producers Association.

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 Auditor General's judgements 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 Chief Executive Officer, the Chief Operating Officer, the three directors, and the Human Resources Program Manager form the Senior Management Team (SMT). The SMT meets approximately every two weeks to discuss the daily operations of the CDC and to make the required decisions. It is supported by four advisory committees that develop plans and priorities, and advise management on human resources, internal audits and program evaluation, information technology, 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.



Corinne Canuel-Jolicoeur, Manager, Human Resources Programs; **Hossein Behzadi**, Director, Audit and Evaluation; **Mark Lalonde**, Interim Senior Director, Commercial Operations and Marketing; **Gilles Froment**, COO; **Chantal Laframboise**, Director, Finance and Administration

SMT Members

In addition to the CEO, the following people make up the SMT.

Chief Operating Officer

Gilles Froment

Mr. Froment is an economist and professional agrolgist with a Bachelor of Science in Economics from the University of Montreal and a M.Sc. in Agricultural Economics from McGill University. After gaining some

experience with Agriculture and Agri-Food Canada in Montreal and as Market Analyst with the Canadian Turkey Marketing Agency in Toronto, Mr. Froment joined the Canadian Dairy Commission in 1997 as a policy and program analyst.

From 2002 to 2013, he was Senior Director of Policy and Corporate Affairs, overseeing the work of the Policy and Economics, Communications and Strategic Planning, Human Resources and Corporate Secretariat

services. In 2013, as a result of organizational changes, he became Chief Operating Officer and IT services became his responsibility. In early 2015, again due to organizational changes, the Special Milk Class Permit Program was added to his responsibilities.

While fulfilling his many duties at the CDC, he acts as an advisor to the Canadian Milk Supply Management Committee, the P5 Supervisory Body and Western Milk Pool Coordinating Committee. For more than a decade, Mr. Froment has been the Canadian representative on the Standing Committee on Dairy Policies and Economics of the International Dairy Federation (IDF) which he has chaired since December 2014. He is also President of the Canadian FIL-IDF National Committee.

Senior Director, Commercial Operations and Marketing

Gaëtan Paquette

Mr. Paquette holds a Bachelor of Science in Dairy Science from the University of Guelph and an M. Sc. in Food Science from the University of British Columbia. He started his career as an agrolgist with the Ontario Ministry of Agriculture, Food, and Rural Affairs and subsequently worked for Agriculture and Agri-Food Canada in research and inspection before joining the CDC in 1987 as Assistant Director of Commercial Operations.

In 2013, following organization changes, Mr. Paquette became Senior Director of Commercial Operations and Marketing. Prior to that, he had been Senior

Director of Finance and Operations since 2002. He has helped the Canadian dairy industry adapt to changes resulting from the 1994 World Trade Organization Agreement on Agriculture, the new export rules, and the constant challenges of disposing of structural surplus. Mr. Paquette was responsible for key programs such as the Special Milk Class Permit Program, the Dairy Marketing Program, the Domestic Seasonality Programs, the Surplus Removal Program and the Dairy Innovation Program. For the past 20 years, Mr. Paquette has chaired and been a member of various committees of the IDF.

Mr. Paquette retired in February 2015. Mark Lalonde, previously Chief, Commercial Operations and Marketing, became the Acting Senior Director of that division.

Acting Senior Director, Commercial Operations and Marketing

Mark Lalonde

Mr. Lalonde joined the CDC in 1983 and was responsible for coordinating the ocean transportation for dairy products sold to Mexico, North Africa and Nigeria.

Mr. Lalonde also held the position of Assistant Director and more recently, Chief of Commercial Operations and Marketing. Over the past 14 years, he has worked closely with dairy processors and food processors to provide guidance and expertise in connection with the development of new products that

help grow the market for Canadian milk and milk ingredients. Mr. Lalonde participates on a number of dairy industry committees and currently chairs the Dairy Innovation Program Selection Committee. In his current duties as Acting Senior Director, Mr. Lalonde manages the Domestic Seasonality and Surplus Removal Programs and various programs that support dairy product innovation.

Director, Audit and Evaluation

Hossein Behzadi

Mr. Behzadi holds an international Bachelor of Commerce degree in business and the Certified Internal Auditor (CIA) designation. Prior to joining the CDC in 1996, Mr. Behzadi worked for several years in the private sector, with public accounting firms, and as an accounting manager and controller for manufacturing companies. At the CDC, he has led hundreds of dairy industry audits, and has audited milk plants in both Eastern and Western provinces.

Mr. Behzadi became Director of Audit and Evaluation in 2013. He has extensive experience and knowledge of the dairy industry, and is an expert in evaluating the internal controls exercised in milk deliveries and utilization reporting in plants. He advises the provincial boards on technical issues and his opinion is solicited by other auditors working on new or emerging audit issues.

Director, Finance and Administration

Chantal Laframboise

Ms. Laframboise holds an Honours Bachelor in Accounting and a Masters in Business Administration (MBA) from the University of Ottawa. She joined the CDC in 1991 as a student and was hired in 1993 as a member of the Commercial Operations Division. In 2000, she was promoted to the position of Domestic Programs Manager where she was responsible for the administration of the Domestic Seasonality Programs, the Surplus Removal Program, and the Special Milk Class Permit Program. During that time, she implemented many changes as these programs evolved over the years. Ms. Laframboise then joined the Finance Service as Manager of Pooling and Administration in 2004. In 2013, Ms. Laframboise was appointed to the position of Director of Finance and Administration. She participates in many industry committees, where her understanding of the pooling mechanisms is greatly valued.

Manager, Human Resources Programs

Corinne Canuel-Jolicoeur

Mrs. Canuel-Jolicoeur graduated with distinction with an Arts and Social Sciences Degree, and an Honours Degree in Social Work from the University of Windsor. She also holds a certificate in Human Resources (HR) from Concordia University. She is a certified HR advisor and social worker.

Mrs. Canuel-Jolicoeur began her career in the federal public service in 2002 at the Canada Border Services Agency. In 2008, she became Senior Policy Advisor and Chief, Official Languages and Recognition with Justice Canada. In 2011 and 2012, as Senior Strategic Advisor at Citizenship and Immigration Canada, she worked on strategic planning, the Integrated Corporate Plan, and the Management Accountability Framework.

Mrs. Canuel-Jolicoeur joined the CDC in 2012 as Manager of Human Resources Programs. She introduced the new Performance Management Directive, helped implement organizational changes and the annual employee survey, and ensured that the HR requirements of the federal spending reviews were met.

Management Committees

Human Resources Advisory Committee

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

Members

Chief Operating Officer (chair)

Manager, Human Resources Programs (secretary)

A representative of each service

Information Technology Advisory Committee

This committee was created in 2012-2013 to help prioritize the various information technology projects of the CDC. It has prepared an evaluation grid that is used to rank projects and meets four times a year or as needed to review priorities.

Members

Chief, Communications and Strategic Planning (chair)

Chief Operating Officer

Director, Finance and Administration

Manager, Audit

Chief, Information Technology

Chief, Commercial Operations and Marketing

Chief, Policy and Economics

Internal Audit and Program Evaluation Advisory Committee

The mandate of the Internal Audit and Program Evaluation Advisory Committee is to develop internal audit and program evaluation plans for the review of the 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 committee chair.

Members

Chief Executive Officer (chair)

Chief Operating Officer

Senior Director, Commercial Operations and Marketing

Director, Audit and Evaluation

Director, Finance and Administration

Manager, Audit

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

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 Canadian Dairy Commission's employees, information and assets, as well as in identifying and monitoring corporate risks and controls.

Members

Departmental Security Officer

Chief, Communications and Strategic Planning

Senior Financial Officer

Governance at the CDC

In 2014-2015, the board approved the CDC's Corporate Plan for the period starting in 2015-2016 and ending in 2019-2020. 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 April 30, 2015. In the fall of 2014, the board also approved the Annual Report and Financial Statements of the CDC for the 2013-2014 dairy year.

The CDC updated its Corporate Risk Profile in January 2015. 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 ensures that the measures contained in the Corporate Risk Profile are put into place.

The internal audit work on the sampling and selection processes of the participants of the Cost of Production study was completed and the draft report

is under review. The Audit group started planning for a new internal audit on core controls which will mainly assess 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.

At the end of the dairy year, the CDC began the implementation of the audit management software TeamMate®. The software will be a useful tool in helping the Audit division conduct all aspects of internal audits more efficiently: planning, field work and reporting.

The CDC held its annual public meeting in January 2015 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.



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 cooperation with national and provincial stakeholders.

Supply Management

Determining and Adjusting Quota

The CDC monitors trends in total demand⁷ and milk production (supply) on a monthly basis. This allows it to adjust the production quota every two months 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, 2014 to July 31, 2015 total milk demand increased by 2% from the previous year, to reach 328.7 million kg of butterfat. During the same period, milk production increased by 4% at 327.7 million kg of butterfat. Production is now in line with demand, but

needs to surpass it to replenish butter stocks that were used the previous year. With milk production being very strong, butter stocks are expected to return to normal by the end of dairy year 2015-2016.

Supplying Growth

In 2014, the CMSMC approved an increase in the growth allowance from 1% to 2% for a period of two years starting February 1, 2015. The additional 1% was allocated to the pools (NL, P5, WMP) with the requirement that it be allocated in priority to growing classes at the pool level.

Because this 2% growth allowance should be sufficient to cover each pool's growth in classes 2(a) and 3(a) (yogurt and fine cheeses), milk movement between pools to cover this growth stopped as of March 1, 2015.

The CMSMC also adopted a motion whereby pools, provinces, or regions were to establish a growth reserve to be supplied by their respective share of

the permanent growth allowance and any increases in quota occurring after August 1, 2013. This will gradually facilitate the redirecting of milk toward growing markets.

Removing Surplus

The CMSMC directs the CDC in the operation of the Surplus Removal Program. The program ensures that milk surplus to the domestic market is removed in the appropriate region and in a timely fashion. The CDC buys the surplus of skim milk solids and sells it in marginal domestic markets such as the animal feed market, or on the export market. These exports must respect Canada's trade commitments and they yield lower returns to producers. These returns are shared among all Canadian producers through the Comprehensive Agreement on Pooling of Milk Revenues.

In 2014-2015, 79,200 tonnes of skim milk powder equivalent were removed from the market. This quantity is broken down as follows.

Product	Market	Tonnes of SMP equivalent ('000)
CDC purchases of skim milk powder	Export	13.1
CDC purchases of skim milk powder	Animal feed	43.1
Processor sales of skim milk powder	Animal feed	11.2
Dairy blends	Export	6.6
Milk protein concentrate	Export	3.2
Other products	Export	2.0
TOTAL		79.2

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

Adjusting Supply

The Domestic Seasonality Programs allow the industry to cope with the seasonal demand for dairy products. The industry has mandated the Canadian Dairy Commission to operate these programs in cooperation with the private sector. Generally, the CDC buys and stores products when consumption is low and sells them to processors when consumption rises. Except for imported butter and butteroil, these transactions take place at support prices.

In 2014-2015, CDC butter stocks fell to record lows with milk production trailing demand for most of the dairy year. Milk quotas were increased throughout the year and production caught up to demand in spring 2015. However, processors used most of the additional milk production to increase their own cheese and private butter stocks while CDC Plan A stocks remained low.

Given that increased demand for butterfat outpaced demand for solids non fat (SNF) and that world market prices for skim milk powder (SMP) fell dramatically over the last dairy year, CDC inventories of surplus SMP rose significantly. CDC stocks went from 12,300 tonnes to 30,700 tonnes. Sales of SMP to the animal feed sector will continue in the next dairy year while CDC considers other measures to reduce surplus SNF stocks.

The strong increase in milk production since the spring 2015 was mostly directed into cheese manufacturing on the part of processors which led to higher than average inventory levels. The increased milk supply was then directed to butter and SMP plants, which could not manage all additional milk volumes. As a result, the Storage Assistance for Cheese program (SAC), a temporary measure which encouraged cheese plants to accept the surplus milk, was implemented.

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 tariff rate quota for butter is 3,274 tonnes. Of this, approximately two thirds (2,000 tonnes) is specifically allocated to New Zealand.

Producer Revenues

Pricing

Each year, the CDC reviews and establishes support prices for butter and skim milk powder. These prices are used by the CDC when purchasing or selling these dairy products under the Domestic Seasonality Programs. Support prices also serve as a reference for provincial milk marketing boards and agencies when they establish the prices paid by processors for industrial milk.

Two elements of the CDC's mandate are taken into account in the pricing decision: providing efficient producers with an adequate return on their labour and investment, and providing Canadian consumers with an adequate supply of high quality dairy products. Each year, the CDC holds pricing consultations and the views of stakeholders are carefully considered before making this decision. Commissioners also examine

Summary of transactions under the Domestic Seasonality Programs

	Opening inventory	Purchases	Sales	Closing inventory
	tonnes			
Butter	10,535	13,733	18,248	6,020
Skim milk powder	2,084	1,646	2,755	975

Data include imported butter and butteroil.

the results of the annual study on the cost of producing milk in Canada which is conducted by data collection agencies under CDC supervision.

On January 15, 2015, the CDC announced a reduction in the support price for skim milk powder which came into effect on March 1, 2015. The support price for skim milk powder decreased from \$6.4754 to \$6.3109 per kg. The support price of butter remained unchanged. This reduction followed a decrease in the cost of producing milk in Canada in the previous year. The decrease could be seen mostly in feed, milk transportation, fuel and interest paid.

The price paid by processors for fluid milk is established by the provinces using a formula. This formula was modified in 2012-2013 and will be in effect until February 1, 2016. It triggered a decrease in the price of fluid milk of -0.454% as of February 1, 2015 when compared to February 1, 2014.

Pooling of Markets and Producer Returns

In its role as a national industry facilitator, the Canadian Dairy Commission 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)

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

SMCPP - Volume of milk sold (million kg butterfat) and average producer prices (\$/hl)*

Class		2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
5(a) (cheese)	Volume	7.85	7.46	7.35	7.61	8.09
	Price	\$35.20	\$40.73	\$40.95	\$48.24	\$50.42
5(b) (other ingredients)	Volume	12.96	13.59	14.97	17.50	16.05
	Price	\$38.87	\$39.26	\$38.59	\$50.89	\$46.88
5(c) (confectionery)	Volume	4.81	4.95	5.15	6.37	5.86
	Price	\$37.58	\$33.74	\$36.87	\$48.60	\$33.35
Total	Volume	25.62	26.00	27.47	31.48	30.00
	Price	\$36.74	\$38.24	\$39.08	\$48.99	\$44.89

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

Milk Class Permit Program (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 Canadian Dairy Commission.

Further processors used the equivalent of 30.00 million kg of butterfat in the 2014-2015 dairy year, a decrease of 4.7% over the previous year. The average revenues obtained by producers from these three classes amounted to \$44.89/hl compared

to \$48.99/hl for the previous year. The number of active participants registered in the program on July 31, 2015 was 1,761.

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-off⁸ 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

⁸ Excess butterfat from the fluid milk market

pooling agreement, completes pooling calculations, and provides technical expertise and secretariat services to the P5.

Harmonization of policies and activities amongst P5 provinces continues to progress. Of note, the Quebec marketing board is on the verge of finalizing a new agreement to adapt its allocation policies so they conform to the P5 Harmonized Milk Allocation Policies (HMAP), a subsection of the Agreement on the Eastern Canadian Milk Pooling. Although formal allocation policies are not yet in place across the P5, provinces are following the spirit of the policies set out in HMAP. Through the P5 Growth Reserve, the P5 is successfully serving the market growth in Classes 2(a) and 3(a). In response to an increase to the growth allowance, the P5 also developed allocation policies meant to ensure market growth in Class 4 is served.

Following significant consultation with producers, processors, and governments over the past year, the P5 successfully concluded its expansion of the milk quality section of the P5 Agreement. The expansion brings important specifications to milk quality regulations pertaining to standards, testing, violations and penalties, and enforcement procedures.

The P5 also reignited P6 negotiations with Dairy Farmers of Newfoundland and Labrador with the goal of achieving a new agreement by July 31, 2016.

Negotiations have lagged as the P5 navigates the consequences of the surplus of skim milk that has accumulated since May 2015.

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, the WMP Members Committee, and other technical advisory committees, and administers the pooling agreement, performs the pooling calculations and provides technical expertise and secretariat services. Starting on August 1, 2015, the CDC will be reducing its support to producer-only committees to focus its efforts on committees involving all stakeholders such as the WMP Coordinating Committee and its sub-committees. This will allow the CDC to allocate more resources to important national issues.

The WMP has been working towards further harmonization of provincial policies. As of March 1, 2015, all revenues generated from fluid milk add-ons are harmonized and pooled within the WMP. Additionally, a WMP Forum is set to take place in the fall. The forum will provide a platform to discuss the issues of milk transportation and allocation, innovation, and trade. This will allow the WMP to move toward further harmonization.

Following the CMSMC's decision to increase the growth allowance from 1% to 2% for a period of two years effective February 1, 2015, the WMP put in place

a working plan, whereby several small processors and producer representatives will work together to create new market opportunities.

Pools in numbers 2014-2015

	P5	WMP
Fluid milk production (million kg of butterfat)	78.77	35.81
Industrial milk production (million kg of butterfat)	168.60	42.53
Blend price* (\$/hl)	\$74.90	\$78.33/hl

* Prices are calculated at 3.6 kg of butterfat per hl, using the latest compositional standards.

Market Development

Class 3(d)

Class 3(d) was launched in June 2013 to encourage restaurants to use mozzarella on fresh pizzas. In 2014-2015, 8.22 million kg of butterfat was used in this class, which is about equal to forecasts. This is equivalent to 33.7 million kg of mozzarella cheese. A total of 7,151 restaurants have been given access to this new class. The program was evaluated against its objectives at the beginning of the 2014-2015 dairy year. Following the review, the CDC suggested that the class be expanded to cover all mozzarella used by restaurants, in any menu item, as well as the retail market. The CMSMC could not get unanimity on this proposal and Class 3(d) continues to operate according to the original criteria.

Dairy Marketing Program

The Canadian Dairy Commission is committed to promoting growth and innovation in the manufacture and use of dairy products and components. The Dairy Marketing Program, in partnership with universities and industry associations, facilitates access to the technical support and expertise required to develop innovative dairy and food products and to bring them to market. Through the MILKingredients.ca Web site, dairy processors and further processors can apply for programs, and find up-to-date information on milk prices and dairy ingredients.

In 2014-2015, the CDC participated in the Restaurants Canada and Canadian Institute of Food Science and Technology trade shows to promote the Dairy Innovation Program and the Matching Investment Fund.

The CDC also conducted targeted visits with dairy and food processing companies to review product development, dairy supply opportunities and challenges and to discuss new opportunities that help grow the market for Canadian milk and dairy products.

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 2014-2015 dairy year, dairy processing companies across Canada used 103.5 million litres of milk under the DIP compared to 94.9 million litres in 2013-2014.

This year, the DIP selection committee met in May 2015. It received a total of 22 applications, most of which were for specialty cheeses. Of these 22 applications, 12 were approved, 3 were rejected and the remaining 7 are pending review.

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 2014-2015 dairy year, the MIF received 20 applications, and as of July 31, 2015, four projects received funding approval amounting to approximately \$150,000. Approved projects include consultation services, recipe formulation and technology transfer activities.

Exports

During the 2014-2015 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 2014-2015 dairy year, Canada exported 9,412 tonnes of skim milk powder.

In regard to cheese exports, the CDC issued 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 Planned Export Program for Cheese for other markets. In total, Canada exported 4,329 tonnes of cheese. With no surplus butter production available again in 2014-2015, no export activity was authorized by the CDC.

Export limits and products exported

Category	Export limit (million \$)	Product exported (million \$)
Butter	11.025	0
Cheese	16.228	10.441
Skim milk powder	31.149	30.920
Other dairy products	22.505	19.653
Incorporated products	20.276	20.175

Planned Export Program for Cheese

In an effort to create long term export opportunities for Canadian cheeses, the CDC, following consultations with the industry, created the Planned Export Program for Cheese and launched it in February 2014.

It aims to support the export of up to 3,000 tonnes of cheese per dairy year. Applicants must be federally licensed plants or exporters, they must export all the solids non fat in the milk used to make the cheese in order not to contribute to the structural surplus of solids non fat, and they must submit the best possible component price in relation to the minimum price established for the program. During the 2013-2014 dairy year, 3,000 tonnes of cheese or the equivalent of 20.2 million litres of milk were exported through this program.

China-Asia Initiative

To explore export markets for Canadian dairy ingredients, the CDC started to build contacts between foreign and Canadian companies with the help of a consultant. So far in 2014-2015, CDC representatives have been to Asia four times to visit companies and the CDC has hosted five delegations of companies. The goal of establishing these contacts is to arrive at private investments from Canadian or foreign enterprises to grow markets both in Canada and abroad and reduce substantially the Canadian structural surplus of solids non fat.

Auditing

The following table explains the various audit roles of the CDC.

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 in fresh pizza	3(d) participants	Verify compliance with class requirements
Special Milk Class Permit Program/ Import for Re-export Program	Further processors	Verify compliance with program requirements

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 the Department of Foreign Affairs, Trade and Development Canada (DFATD).

During the 2014-2015 dairy year, 68 companies, including 4(m) permit holders and IREP participants, were audited compared to 67 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 (31 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. DDDIP/DIP, School Milk Program, etc.).

Audits for Class 3(d) (mozzarella for fresh pizzas) were performed and covered two major chains and independants for a total of 787 pizzeria restaurants. As of July 31, 2015, overall recoveries totalled \$922,994.

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 (NMAAC). This committee brings together all CDC auditors, provincial auditors, as well as representatives from milk marketing boards and the dairy processing industry twice a year. One meeting was held in November 2014 via Webinar and a face-to-face meeting was held in June 2015.

Industry Support

Secretariat, IT and Translation Services

In 2014-2015, the CDC continued to migrate the SMCPP participants to its new Milk Ingredient Reporting System (MIRS). MIRS is a web-based system that simplifies the reporting activities and reconciliations of the further processors and distributors registered in the SMCPP. As of July 31, 2015, 75% of participants have completed the full registration into the new system. The CDC continues to encourage clients to migrate to MIRS.

At the request of some of the provincial boards, the CDC created a Record of Standing Policy which constitutes a historical record of decisions of the CMSMC and illustrates the evolution of the National Milk Marketing Plan and the Canadian dairy industry. This comprehensive document records all the CMSMC's decisions which have led to the creation, modification, postponement or cancellation of any dairy related policy, program or initiative as they relate to the National Milk Marketing Plan and its Memorandum of Agreement, and the Comprehensive Agreement on the Pooling of Milk Revenues.

In support of the regional pools, the Canadian Milk Supply Management Committee, and several working groups and national committees, the CDC coordinated 50 meetings, 15 webinars, 20 conference calls and the translation of approximately 250 documents.

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 has an envelope of three million dollars to be distributed to institutions across Canada as follows:

Nova Scotia Agricultural College*	\$200,000
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	\$3,000,000

* Now affiliated with Dalhousie University.

Between 2006 and July 31, 2015, the CDC funded 79 masters' projects and 28 doctorates.

The institutions listed above have been granted an extra year to award the unspent funds until July 31, 2017. The CDC board has decided to not renew its Scholarship Program for a third term due to budget restraints. All outstanding funds including accrued interest as of July 31, 2017 must be returned to the CDC by October 20, 2017.

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 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 were completed, as well as studies on the environmental footprint of the dairy sector in Canada.

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. Dairy Farmers of Canada invests \$5.3 million in addition to the \$12 million announced by Agriculture and Agri-Food Canada. The Canadian Dairy Network invests \$669,000 and the Canadian Dairy Commission provides \$750,000, bringing the total to \$18.8 million in funding to address the industry's research priorities from 2013 to 2018. There are 23 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.



Performance and Goals

The CDC's performance objectives for 2014-2015 are based on the strategic themes and 5 year objectives identified in its corporate plan.

ACHIEVEMENTS FOR 2014-2015

Growing Markets

5-year objective	Activities	Performance measure for 2014-2015	Achievements	% complete
Create an environment that is conducive to market growth and innovation	<ul style="list-style-type: none"> Review programs, propose modifications or new programs to encourage market growth and innovation 	<ul style="list-style-type: none"> Review 3 programs and propose modifications, if needed 	Class 3(d), the Dairy Innovation Program and the Planned Export Program for Cheese were reviewed.	100%
Promote the timely supply of milk to growing markets	<ul style="list-style-type: none"> With the industry, develop mechanisms to ensure that Canadian markets for dairy products and ingredients receive the required milk supply at the opportune time 	<ul style="list-style-type: none"> Implement mechanisms to better supply growth in milk Classes 5(a), (b) and (c)⁹ 	The CDC prepared a discussion paper and initiated discussions with producers, processors and further processors.	50%

⁹ Milk used to make dairy products that are then used in further processing

A Well-Administered Supply Management System

5-year objective	Activities	Performance measure for 2014-2015	Achievements	% complete
Ensure that efficient producers receive fair returns	Set support prices	<ul style="list-style-type: none"> Announce new support prices by December 15, 2014 	<ul style="list-style-type: none"> Due to circumstances in the industry, the support prices were announced on January 15, 2015. 	90%
	Perform audits of participants to various programs to ensure that milk sold at reduced prices is used in eligible products.	<ul style="list-style-type: none"> Perform 50 audits of the Special Milk Class Permit Program 	<ul style="list-style-type: none"> 68 audits of the Special Milk Class Permit Program were performed 	100%
		<ul style="list-style-type: none"> Perform 6 audits of the Import for Re-export program 	<ul style="list-style-type: none"> 4 IREP audits were performed 	67%
		<ul style="list-style-type: none"> Audit 500 participants in Class 3(d) including major pizza franchises, top users and randomly selected users 	<ul style="list-style-type: none"> 787 audits in Class 3(d) were performed 	100%
	Perform audits to ensure that milk utilization is declared in the appropriate class and that producer revenues are shared appropriately	<ul style="list-style-type: none"> Perform milk utilization audits in provinces where the CDC has a contract and monitor audits in other provinces 	<ul style="list-style-type: none"> Milk utilization has been audited in the 6 provinces where the CDC has a contract. 	100%
		<ul style="list-style-type: none"> Examine revenue sharing data in 10 provinces 	<ul style="list-style-type: none"> Achieved 	100%

A Well-Administered Supply Management System (cont'd)

5-year objective	Activities	Performance measure for 2014-2015	Achievements	% complete
Ensure that Canadian milk production meets demand.	Measure demand and calculate related quota adjustments	<ul style="list-style-type: none"> Calculate milk quota adjustments and send them to provinces every 2 months Milk production is between 99.5 and 100.5% of quota 	<ul style="list-style-type: none"> Achieved Achieved Production was 100% of the quota 	<p>100%</p> <p>100%</p>
	Operate storage programs to prevent shortages	<ul style="list-style-type: none"> CDC butter stocks never fall below 90% of their target level 	<ul style="list-style-type: none"> The CDC butter stocks were below target levels for most of the year due to the lag in production and higher than expected demand for butterfat (BF). 	25%
	Dispose of surpluses while reducing CDC stocks of skim milk powder	<ul style="list-style-type: none"> Reduce skim milk powder (SMP) stocks from 14,000 tonnes to 11,000 tonnes 	<ul style="list-style-type: none"> SMP stocks increased significantly due to BF demand growing faster than demand for solid non fat (SNF). 	0%

A Well-Administered Supply Management System (cont'd)

5-year objective	Activities	Performance measure for 2014-2015	Achievements	% complete
Ensure the respect of interprovincial and international agreements.	Administer the interprovincial pooling agreements (sharing of markets and producer revenues among provinces)	<ul style="list-style-type: none"> Perform pooling calculations within 3 business days of data reception and transfer funds to provinces within 5 business days of the end of calculations 	<ul style="list-style-type: none"> Achieved 	100%
	Maximize exports while respecting limits set out in the WTO Agreement on Agriculture	<ul style="list-style-type: none"> Export at least 99% of permitted exports in the case of products containing high quantities of milk solids non fat Ensure the export of at least 99% of permitted cheese exports 	<ul style="list-style-type: none"> Declining world prices and weak demand for certain types of SNF products resulted in the CDC not quite meeting its target. Due to stronger demand for BF in the domestic market and declining world prices, the CDC limited exports of cheese. 	95%
	Import the mandatory butter imports as per the WTO agreement	<ul style="list-style-type: none"> Import the mandatory 3,274 tonnes of butter 	<ul style="list-style-type: none"> Achieved 	100%

A Well-Administered Supply Management System (cont'd)

5-year objective	Activities	Performance measure for 2014-2015	Achievements	% complete
Propose and support measures that improve the administration of the supply management system	Work with provinces to increase their level of harmonization, both within and between regional pools	<ul style="list-style-type: none"> Regional pools will harmonize three policies overall Update the National Milk Utilization Audit Standards and have them approved by the CMSMC 	<ul style="list-style-type: none"> Achieved No update required in the 2014-2015 dairy year 	<p>100%</p> <p>N/A</p>
	Streamline the administration of the supply management system	<ul style="list-style-type: none"> Simplify quota and pooling calculations in collaboration with the industry. 	<ul style="list-style-type: none"> Achieved. The new total quota calculation will be implemented October 1, 2015. 	100%
	Improve the efficiency of information exchange between the CDC and stakeholders	<ul style="list-style-type: none"> Use Web services to send program data to Dairy Farmers of Ontario 80% of participants in the Special Milk Class Permit Program submit their data to the CDC using the new Web portal 	<ul style="list-style-type: none"> Web services have been set up and are being tested. Will be launched as soon as testing is complete. About 75% of Special Milk Class Permit Program participants have registered into the web Portal 	<p>90%</p> <p>90%</p>

An Industry that Adapts

5-year objective	Activities	Performance measure for 2014-2015	Achievements	% complete
Help the Canadian dairy industry adapt to changing market conditions, within the framework of supply management	Maintain the stability and predictability of the industry as it adapts to change	<ul style="list-style-type: none"> Explore ways to maintain the stability and predictability of the dairy industry while stimulating market growth. 	<ul style="list-style-type: none"> Worked closely with industry. Ongoing discussions with all stakeholders resulted in improvements or changes in some existing programs. Discussions ongoing for other programs. 	50%
	Improve access to market intelligence	<ul style="list-style-type: none"> Explore the export potential of CETA and inform the industry Work with other government agencies to better assess the impact of dairy imports on the Canadian industry and inform the industry 	<ul style="list-style-type: none"> Monitored CETA implementation The CDC continued to monitor import volumes and the impacts on the Canadian dairy industry. 	50% 100%

An Industry that Adapts (cont'd)

5-year objective	Activities	Performance measure for 2014-2015	Achievements	% complete
Create an environment conducive to the development of new markets for SNF	Support investment to grow the market for Canadian dairy products and ingredients, in particular solids non fat	<ul style="list-style-type: none"> Provide support to investors wishing to manufacture products rich in solids non fat 	<ul style="list-style-type: none"> CDC launched the Milk Allocation for Growth (program effective August 1, 2015) to encourage new investments, including new uses for SNF. CDC worked closely with industry partners to find new market opportunities for SNF type products. 	60%
		<ul style="list-style-type: none"> Promote investment at 2 trade shows 	<ul style="list-style-type: none"> The CDC participated in the Restaurants Canada and the Canadian Institute of Food Science and Technology trade shows. 	100%
Encourage efficiencies in all sectors of the industry	Ensure that the assumed processor margin calculations capture efficiency gains	<ul style="list-style-type: none"> Use up-to-date data in the calculation of the assumed processor margin 	<ul style="list-style-type: none"> Achieved 	100%
	Ensure that producer cost of production calculations capture efficiency gains	<ul style="list-style-type: none"> Use up-to-date data in the calculation of the cost of producing milk 	<ul style="list-style-type: none"> Achieved 	100%

A Well-Managed CDC

5-year objective	Activities	Performance measure for 2014-2015	Achievements	% complete
The CDC adapts to remain a high-performing organization	Benchmark and improve employee satisfaction and engagement	<ul style="list-style-type: none"> Improve employee satisfaction (as measured by an annual survey) 	<ul style="list-style-type: none"> The 2015 employee survey was conducted in May and results were shared with employees in June. Employee satisfaction increased from 70 to 90% 	100%
	Improve process efficiency	<ul style="list-style-type: none"> Reprogram 3 internal applications in a more current programming language Audit files are 100% electronic 	<ul style="list-style-type: none"> Achieved. Support Prices, Innovation and Cost of Production applications reprogrammed Milk plant utilization audits still include a paper element. 	100%
	Prioritize the services that the CDC offers to the industry	<ul style="list-style-type: none"> Draft guidelines on allocation of resources to priority services and circulate them to managers 	<ul style="list-style-type: none"> Plan developed but not finalized 	50%
	Implement the new Public Service Directive on Performance Management	<ul style="list-style-type: none"> Measure 100% of staff performance using the Public Service Performance Agreement 	<ul style="list-style-type: none"> Achieved 	100%

Performance Goals for 2015-2016

The CDC’s performance objectives for 2015-2016 are based on the strategic themes and 5-year objectives identified in its corporate plan.

Growing Markets

5-year objective	Activities	Performance measure for 2015-2016	Target
Create an environment that is conducive to market growth and innovation.	Grow the demand for Canadian dairy products	Total quota	At least 2% growth
Promote the timely supply of milk to growing markets.	Ensure that ample milk supply is available at the right place at the right time	Time to respond to requests for a supply of skim milk to manufacture dairy products, if any	100% within 30 days

An Industry that Adapts

5-year objective	Activities	Performance measure for 2015-2016	Target
Help the Canadian dairy industry adapt to changing market conditions, within the framework of supply management	Make specific proposals or take specific actions to support the industry in addressing changing market conditions	Number of proposals made or specific actions taken	At least 3
Create an environment conducive to the development of new markets for solids non fat (SNF)	Ensure that the private sector makes new investment commitments to increase the use of SNF as ingredients in value-added products	Number of private investment commitments	At least 3
		Forecasted additional use of SNF as ingredient in subsequent dairy years	At least 10,000 tonnes of SMP equivalent per year
		Number of partners identified to develop the East Asian market for existing Canadian dairy product	At least 1

A Well-Administered Supply Management System

5-year objective	Activities	Performance measure for 2015-2016	Target
Ensure that efficient producers receive fair returns	Ensure that the increase in overall producer revenues is driven mostly by market growth	Total overall producer revenues per dairy year	A 1% increase from the previous dairy year
	Ensure that milk components sold under various programs are used in eligible products	Number of audits	50 audits of participants to the Special Milk Class Permit Program 750 audits of restaurants participating in Class 3(d)
Ensure that Canadian milk production meets demand.	Send the proper signals to the milk marketing boards to ensure that the supply of milk is sufficient to satisfy demand and replenish butter stocks	Plan A butter stocks	No less than 3,000 tonnes on August 1, no less than 1,000 tonnes on January 1
		Total quota vs. total demand	Total quota is between 99.5 and 101% of demand

A Well-Administered Supply Management System (cont'd)

5-year objective	Activities	Performance measure for 2015-2016	Target
Ensure the respect of federal-provincial and international agreements.	Improve the tools that the CDC uses to monitor compliance with federal-provincial and international agreements	Number of tools implemented	2
	Administer the federal-provincial pooling agreements (sharing of markets and producer revenues among provinces)	Time to perform pooling calculations	Monthly, within 3 business days of data reception
		Time to transfer funds among provinces and send quota figures	Monthly, within 5 business days of the end of calculations
		Time to send milk movement figures	Monthly, before the 10th of each month
Propose and support measures that improve the administration of the supply management system	Respect CDC's obligations under the World Trade Organization (WTO) Agreement on Agriculture	Quantities of exports	At least 99% of permitted exports of cheese and products containing high quantities of milk solids non fat
		Quantities of butter imports	3,274 tonnes
Propose and support measures that improve the administration of the supply management system	Initiate a project to develop and implement a software to administer imports, exports, seasonality, and surplus removal programs	Perform a business process improvement analysis (BPIA) of imports, exports, seasonality and surplus removal programs	BPIA 100% completed

A Well-Managed CDC

5-year objective	Activities	Performance measure for 2015-2016	Target
The CDC adapts to remain a high-performing organization.	Ensure that the CDC has the right workforce to achieve its objectives	Employee satisfaction rate as measured by the annual employee satisfaction survey	Satisfaction rate of at least 70%
		Degree of implementation of HR plan	Plan 80% completed
		Performance management ratings	Less than 5% of employees require action plans
		Time to complete staffing actions	90% of positions staffed within 3 months of departure or end of classification process for internal staffing processes

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, 2015 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. The 2014-2015 profit on domestic sales decreased by \$1.2 million compared to the previous year. This is mainly due to lower returns for SMP sold on the animal feed market which was partly offset by better returns obtained on imported butter sales.

Approximately 80% of the domestic gross profit before transport, carrying charges and finance costs is related to activities in the animal feed market. SMP sold in this sector under Class 4(m) amounted to 23,514 tonnes (t) in 2014-2015 an increase of 309 t compared to the previous year. The gross profit generated from this activity decreased by 12% because the average sale price was lower than in the previous year.

The CDC purchases butter in bulk under Plan A which is resold to processors when domestic seasonal demand increases. As a result of lower inventories, the CDC sold less Plan A butter on the domestic market. A quantity of 1,940 t was sold this year compared to 3,524 t the previous year, representing a decrease in revenue of \$10.1 million. An increase in demand for butter in the marketplace resulted in processors serving those markets directly rather than selling butter to the CDC.

The CDC also purchases Plan B butter and SMP from processors who must repurchase those dairy products within a pre-determined period. This year, the CDC sold 11,938 t of butter compared to 20,256 t last year, representing a decrease in revenues of \$60.9 million. This significant decrease in revenues is largely explained by the decision on the part of the CDC to close the Plan B butter program on January 1, 2015 to encourage butter manufacturer to sell butter to the CDC under Plan A instead of Plan B to rebuild those stocks to acceptable

levels. In the case of Plan B for SMP, sales increased by 889 t, amounting to an increase in revenues of \$5.8 million. Plan B butter and SMP are purchased and resold at prevailing support prices and therefore have minimal impact on gross profit.

The CDC continues to import butter as part of Canada's obligations under the World Trade Organization (WTO) Agreement on Agriculture. An increase in sales, combined with higher sale prices, generated an additional \$8.8 million in revenues compared to the previous year. This butter is purchased at prevailing world prices and is directed to the further processing industry through butter manufacturers.

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 minimal gains or losses, which reflect this price volatility.

Export sales revenues for 2014-2015 were significantly lower than in the previous year due to a sharp decline in world prices for dairy products. The CDC sold 11,808 t of SMP in 2014-2015 compared to 20,658 t for the previous dairy year. Current world prices for SMP remain considerably lower than the previous year. This reduces the quantity of SMP that the CDC can export as per Canada's WTO export subsidy limits.

Domestic activities

For the year ended July 31

(in thousands)	2015	2014	\$ change
Domestic sales revenues	\$ 197,706	\$ 256,645	\$(58,939)
Cost of goods sold - domestic	\$ 169,507	\$ 226,539	\$(57,032)
Transport and carrying charges	\$ 4,055	\$ 4,255	\$ (200)
Finance costs	\$ 263	\$ 757	\$(494)
Gross profit on domestic sales	\$ 23,881	\$ 25,094	\$(1,213)

Export activities

For the year ended July 31

(in thousands)	2015	2014	\$ change
Export sales revenue	\$ 33,844	\$ 92,832	\$ (58,988)
Cost of goods sold - exports	\$ 33,285	\$ 90,862	\$ (57,577)
Transport and carrying charges	\$ 1,144	\$ 2,189	\$ (1,045)
Finance costs	\$ 5	\$ 1	\$ 4
Gross profit (loss) on export sales	\$ (590)	\$ (220)	\$ (370)

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 decreased by \$0.2 million compared to those of 2013-2014 as a result of lower inventory and lower quantities sold. On the export side, the costs decreased by \$1.0 million as a result of decreased sale volumes.

Finance costs for both the domestic and export activities were \$0.3 million compared to \$0.8 million in the previous year. This decrease is due to lower inventories of butter and a slight decrease in borrowing rates.

After several years of low interest rates, the CDC expects to see similar rates in 2015-2016.

Other income

Funding from milk pools represents the revenues obtained from producers and the marketplace to finance a portion of CDC’s administrative expenses, the cost of production study, as well as the carrying charges associated with the CDC butter stocks. In 2014-2015, this funding was slightly higher than the previous year. This is due to an increase in the CDC’s

Other income

administrative expenses charged to milk pools, which was partly offset by a decrease in the carrying charges associated with CDC butter stocks.

Parliamentary appropriations are used to partially fund the CDC’s administrative expenses. The remainder of the CDC’s administrative expenses are funded by dairy producers, commercial operations, and the market place. Funding from the Government of Canada is recognized in the Statement of Operations and Comprehensive Income (Loss) and is based on eligible government-funded administrative expenses. Following the 2012 Federal Budget, the funding that the CDC receives from the government was reduced by 10% or \$393,000 effective April 1, 2014 which mainly explains the variance between the two years.

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

For the year ended July 31

(in thousands)	2015	2014	\$ change
Funding from milk pools	\$ 5,902	\$ 5,697	\$ 205
Funding from the Government of Canada	\$ 3,639	\$ 4,025	\$ (386)
Audit Services	\$ 195	\$ 155	\$ 40
Total Other Revenues	\$ 9,736	\$ 9,877	\$ (141)

Operating and administrative expenses

Operating expenses:

“Industry initiatives” includes expenses relating to various CDC programs such as the Matching Investment Fund, the Scholarship Program, the Canadian Quality Milk Program, and the Dairy Research Cluster. In 2014-2015, funding for these programs decreased by \$1.1 million, mostly because the CDC issued the final payment for the Scholarship Program in the previous year.

The cost of production study is an annual survey. The CDC uses the results of this survey when it sets support prices. The cost of this study has not changed much in the last dairy year.

“Other charges / (recoveries)” includes amounts representing unrealized gains or losses on outstanding foreign exchange contracts as of the Statement of Financial Position date. Other amounts in this category are comprised of credits from 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. The most volatile amount in “other charges / (recoveries)” is the gain or loss on outstanding foreign exchange contracts. 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.

Administration expenses

The 2014-2015 administrative budget was \$7.8 million. Actual administrative expenses for the year totalled \$7.6 million. Salaries and employee benefits of \$5.7 million make up the bulk of these expenses. The remaining significant expense groupings are for rent, travel and administrative support.

As announced in the 2013 Speech from the Throne, the government has implemented a two-year operating budget freeze beginning in fiscal year 2014-2015. As its government funding will not be adjusted to compensate for wage and salary increases during that freeze period, the CDC will continue to find ways to improve the efficiency of its internal operations and administration.

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. The 2014-2015 refund for these programs amounted to \$20.2 million. This represents a decrease of \$7.2 million compared to the previous year which was mainly the result of obtaining lower returns for sales.

Operating and administrative expenses

(in thousands)	For the year ended July 31		
	2015	2014	\$ change
Operating expenses			
Industry initiatives	\$ 697	\$ 1,788	\$ (1,091)
Cost of production study	\$ 787	\$ 801	\$ (14)
Other charges / (recoveries)	\$ (223)	\$ 294	\$ (517)
Total operating expenses	\$ 1,261	\$ 2,883	\$ (1,622)
Administrative expenses			
Salaries and employee benefits	\$ 5,650	\$ 5,591	\$ 59
Other administrative expenses	\$ 1,916	\$ 1,803	\$ 113
Total administrative expenses	\$ 7,566	\$ 7,394	\$ 172
Total operating and administrative expenses	\$ 8,827	\$ 10,277	\$ (1,450)

Inventories and loans

Average inventory values for 2014-2015 were down by 34% compared to the previous year, resulting in a decrease in our average loan.

CDC butter stocks decreased by 4,514 t compared to last year because the CDC closed the Plan B program for butter for part of the year and because processors sold less Plan A butter to the CDC. Thanks to initiatives implemented by the provinces in the

second half of the dairy year to increase milk production levels, the CDC expects to rebuild its butter stocks to normal levels in the coming dairy year.

Total SMP stocks at the end of the dairy year were 35,692 t compared to 16,117 t last year. Two reasons explain this year's significant increase in inventory. Less SMP could be sold on the export market because of low world prices and trends in

the domestic market increased the surplus of solids non fat (SNF) that the CDC purchased as SMP for the animal feed sector.

Because there is usually a direct correlation between stocks and outstanding loans, the loan from the Government of Canada at the end of the year was \$35.4 million compared to \$58.4 million at the end of the previous year. Higher retained earnings combined with lower inventory value resulted in lower loan requirements.

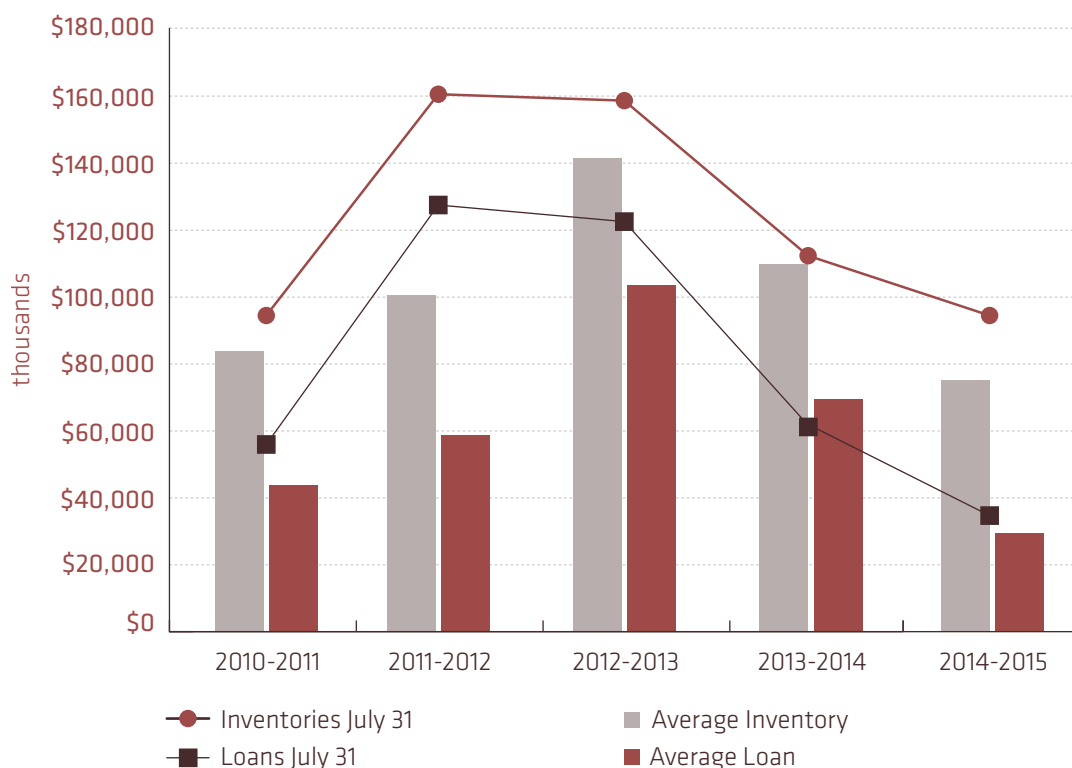
The CDC, in consultation with the Minister of Finance, has retained its loan limit of \$165 million for 2014-2015. The CDC determined that this limit would be sufficient to maintain its capacity to respond to unforeseen circumstances brought on by changing market conditions.

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. The latest review was done in January 2015. It identifies the key risks associated with its 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 plan-

Inventories and loans



ning 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. 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 credit-worthy 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 WTO 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.

Future accounting changes

The International Accounting Standards Board has several projects underway, some of which may affect IFRS standards relative to the CDC. Management will continue to monitor all proposed and continuing 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

As in the past, the main factor that could affect the financial results of the CDC in the coming year is the price volatility occurring in the world market for dairy products. In recent years, the world price of dairy products has been increasingly volatile. This affects CDC revenues from the sale of SMP to the export and animal feed markets. After reaching very high levels in the previous year, world prices dropped by more than 50% in 2014-2015, restricting the amount of SMP the CDC could export while respecting its WTO commitments related to subsidized exports. Although some recovery is expected in the coming year its magnitude and duration is difficult to predict. If current low prices continue, the CDC may be further limited in the quantities that can be sold for export. The CDC will continue to monitor world prices closely and maintain a strategic approach in identifying export sale opportunities that allow the CDC to maximize producer revenues.

This year's increased surplus of SNF in the domestic market resulted in the CDC purchasing more SMP in Class 4(m) to be sold domestically in the animal feed market. This trend is expected to continue in the coming year as a result of increased milk production to fulfil the growing demand for butter and the need for the CDC to rebuild butter stocks to acceptable levels. Demand for SNF did not increase as fast as demand for butterfat. Given the expected growth in

purchases of SMP under Class 4(m), the CDC, in collaboration with the industry, is exploring new markets and measures in response to the situation.

On the international trade policy front, the agriculture negotiations at the WTO have not moved forward much in the 2014-2015 dairy year. The CDC is preparing for a possible elimination of subsidized exports of dairy products once a formal agreement is reached. WTO members had agreed to this elimination 10 years ago but it was never implemented.

Canada and the European Union (EU) reached an agreement in September 2014 towards a Comprehensive Economic and Trade Agreement (CETA). This agreement will increase the EU access to the Canadian cheese market by 17,700 t and will also give Canada duty-free access to the EU dairy markets. Recognizing that it will be implemented over the next several years, the CDC is following the evolution of the ratification of this agreement.

Canada also joined the Trans-Pacific Partnership negotiations in October 2012, set to enhance the trade, innovation and investment for the 12 member countries. The CDC is monitoring the development of these negotiations and their potential impacts on the Canadian dairy industry.

Management Responsibility for Financial Statements

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

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

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

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



Jacques Laforge, CEO



Chantal Laframboise,
Director Finance and Administration

Ottawa, Canada
September 29, 2015



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 July 31, 2015, and the statement of operations and comprehensive income (loss), 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 July 31, 2015, 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 and the by-laws of the Canadian Dairy Commission.

Lissa Lamarche, CPA, CA
Principal
for the Auditor General of Canada

September 29, 2015
Ottawa, Canada

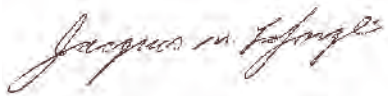
Canadian Dairy Commission
Statement of Financial Position

(in thousands of Canadian dollars)

	July 31, 2015	As at July 31, 2014
Assets		
Current		
Cash	\$ 6	\$ 859
Trade and other receivables		
Trade receivables	429	2,385
Advance to provincial milk boards and agencies	3,195	1,264
Milk pools	1,076	904
Derivative asset – foreign exchange contracts	473	103
Inventory (Note 4)	93,249	111,444
	<u>98,428</u>	<u>116,959</u>
Non-Current		
Equipment (Note 5)	33	40
Intangible asset (Note 6)	255	284
	<u>\$ 98,716</u>	<u>\$ 117,283</u>
Liabilities		
Current		
Bank overdraft (Note 7)	\$ 3,195	\$ 1,264
Trade and other payables		
Trade payables	26,615	19,924
Distribution to provincial milk boards and agencies	20,190	27,388
Other liabilities	915	2,017
Derivative liability – foreign exchange contracts	198	67
Loans from the Government of Canada (Note 8)	35,413	58,404
	<u>86,526</u>	<u>109,064</u>
Non-Current		
Post-employment benefits	109	148
Equity		
Retained earnings	12,081	8,071
	<u>\$ 98,716</u>	<u>\$ 117,283</u>
Commitments (Note 14)		

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

These financial statements were approved and authorized for issue on September 29, 2015



Jacques Laforge
Chief Executive Officer



Alistair Johnston
Chairman



Chantal Laframboise
Director, Finance and Administration

Canadian Dairy Commission

Statement of Operations and Comprehensive Income (Loss)

(in thousands of Canadian dollars)

	For the year ended	
	<u>July 31, 2015</u>	<u>July 31, 2014</u>
Sales and cost of sales		
Domestic sales revenue	\$ 197,706	\$ 256,645
Cost of goods sold – domestic	169,507	226,539
Transport and carrying charges	4,055	4,255
Finance costs	263	757
Gross profit on domestic sales	<u>23,881</u>	<u>25,094</u>
Export sales revenue	33,844	92,832
Cost of goods sold – exports	33,285	90,862
Transport and carrying charges	1,144	2,189
Finance costs	5	1
Gross profit (loss) on export sales	<u>(590)</u>	<u>(220)</u>
Total gross profit	<u>23,291</u>	<u>24,874</u>
Other income		
Funding from milk pools	5,902	5,697
Funding from the Government of Canada (Note 11)	3,639	4,025
Audit services	195	155
Total gross profit and other income	<u>9,736</u>	<u>9,877</u>
	<u>33,027</u>	<u>34,751</u>
Operating expenses		
Industry initiatives	697	1,788
Cost of Production study	787	801
Other charges (recoveries)	(223)	294
	<u>1,261</u>	<u>2,883</u>
Administrative expenses		
Salaries and employee benefits (Note 12)	5,650	5,591
Other administrative expenses	1,916	1,803
	<u>7,566</u>	<u>7,394</u>
Total operating and administrative expenses	<u>8,827</u>	<u>10,277</u>
Profit before distribution to provincial milk boards and agencies	<u>24,200</u>	<u>24,474</u>
Distribution to provincial milk boards and agencies	20,190	27,388
Total comprehensive income (loss)	<u>\$ 4,010</u>	<u>\$ (2,914)</u>

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	
	<u>July 31, 2015</u>	<u>July 31, 2014</u>
Retained earnings, beginning of the year	\$ 8,071	\$ 10,985
Total comprehensive income (loss) for the year	<u>4,010</u>	<u>(2,914)</u>
Retained earnings, end of the year	<u>\$ 12,081</u>	<u>\$ 8,071</u>

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, 2015	July 31, 2014
Cash flows from operating activities		
Cash receipts from sales of goods	\$ 233,701	\$ 351,414
Cash paid to suppliers and others	(193,221)	(282,288)
Cash receipts from provincial milk boards and agencies (pooling)	3,799	4,721
Cash paid to provincial milk boards and agencies	(27,388)	(14,531)
Cash receipts from the Government of Canada	3,639	4,025
Interest paid on loans	(323)	(1,021)
	<u>20,207</u>	<u>62,320</u>
Net cash flows from operating activities		
Cash flows used in financing activities		
New loans from the Government of Canada	141,123	180,574
Loan repayments to the Government of Canada	(164,114)	(244,494)
	<u>(22,991)</u>	<u>(63,920)</u>
Net increase in bank overdraft	(2,784)	(1,600)
Net cash (bank overdraft) at beginning of period	(405)	1,195
	<u>\$ (3,189)</u>	<u>\$ (405)</u>
Net cash (bank overdraft) at end of period		
Components:		
Cash	\$ 6	\$ 859
Bank overdraft	(3,195)	(1,264)
Net cash (bank overdraft)	<u>\$ (3,189)</u>	<u>\$ (405)</u>

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

Canadian Dairy Commission

Notes to Financial Statements

July 31, 2015

(In thousands of Canadian dollars unless otherwise indicated)

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.

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 29, 2015.

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 judgement, 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.

Note 4 - Inventory

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 financial statements 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.

July 31, 2015

(In thousands of Canadian dollars unless otherwise indicated)

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 (Loss).

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 (recoveries)" on the Statement of Operations and Comprehensive Income (Loss).

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.

Notes to Financial Statements

July 31, 2015

(In thousands of Canadian dollars unless otherwise indicated)

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

Generator	10 years
Computer equipment	3-5 years

Equipment is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such impairment or change exists, 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 (recoveries)" on the Statement of Operations and Comprehensive Income (Loss) 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 impairment or change exists, the carrying value would be adjusted accordingly.

Distributions to (recoveries from) provincial milk boards and agencies

Distributions to (recoveries from) provincial milk boards and agencies represent gross profit (loss) on sales excluding imported butter. Distributions to (recoveries from) provincial boards and agencies are recorded as expense (revenue) 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 price. 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.

July 31, 2015

(In thousands of Canadian dollars unless otherwise indicated)

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 (Loss).

Most sales and purchases in foreign currencies have corresponding foreign exchange forward contracts (see "Derivative financial instruments" above and Note 13: *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 cost. Pursuant to legislation currently in place, the CDC has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the CDC.

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.

Scholarship program

Scholarship program monies are expensed in the year in which educational institutions meet specified eligibility criteria and the agreements are approved.

Application of new and revised accounting standards

There were no new or revised IFRS issued by the International Accounting Standards Board (IASB) that became effective for accounting periods that begin on August 1, 2014 that affected amounts reported or disclosed in the financial statements.

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

A number of new accounting standards and amendments effective on or after August 1, 2015 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:

- IFRS 15 (amended September 11, 2015) – *Revenue from Contracts with Customers* was recently 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 these amendments and therefore the extent of the impact of the adoption of the standard is unknown.
- IFRS 9 – *Financial Instruments* provides requirements for classifying and measuring financial assets and liabilities. This standard is the last in a three-phase project in progress by the IASB to replace IAS 39 – *Financial Instrument: Recognition and Measurement* in its entirety. The new standard is effective for annual periods beginning on or after January 1, 2018. The CDC is currently assessing these amendments and 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. The CDC also imports butter under the WTO Agreement on Agriculture.

Notes to Financial Statements

July 31, 2015

(In thousands of Canadian dollars unless otherwise indicated)

Inventory:

	July 31, 2015		July 31, 2014	
	in \$	in tonnes	in \$	in tonnes
Plan B				
Butter	\$ 42,569	5,716	\$ 60,375	8,159
Skim milk powder	6,213	975	13,492	2,084
Other butter	2,290	305	13,781	2,376
Other skim milk powder	43,121	34,717	28,784	14,003
	94,193		116,432	
Less: allowance for inventory write-down	(944)		(4,988)	
Total net realizable value	\$ 93,249		\$111,444	

Inventory expensed in the current year was \$202.79 million (July 31, 2014: \$317.40 million) and is presented on the Statement of Operations and Comprehensive Income (Loss) in cost of goods sold (domestic and exports).

5. Equipment

The carrying value of equipment is determined as follows:

	Balance July 31, 2014	Additions	Disposals	Balance July 31, 2015
Cost	\$ 67	-	-	\$ 67
Accumulated depreciation	\$ 27	7	-	\$ 34
Carrying amount	\$ 40			\$ 33

6. Intangible asset

The carrying value of the intangible asset is determined as follows:

	Balance July 31, 2014	Additions	Disposals	Balance July 31, 2015
Cost	\$ 294	-	-	\$ 294
Accumulated amortization	\$ 10	29	-	\$ 39
Carrying amount	\$ 284			\$ 255

Intangible asset represents a software developed in-house to meet specific operational needs unique to the CDC. The new software was made operational in April 2014 at which time amortization charges to profit and loss began.

7. 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 Finance up to a maximum of \$50 million for advancing funds to the provincial milk marketing boards and agencies. On July 31, 2015 the available line of credit was \$5 million (July 31, 2014: \$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, 2015 was 2.70% per annum (July 31, 2014: 3.00%).

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

Loans from the Government of Canada's Consolidated Revenue Fund, to a maximum of \$165 million (July 31, 2014: \$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, 2015

(In thousands of Canadian dollars unless otherwise indicated)

	July 31, 2015	July 31, 2014
Interest rates		
Low	0.59%	0.95%
High	1.07%	1.18%
Interest expense	\$ 268	\$ 758

9. Capital disclosures

The CDC's capital consists of its loans from the Government of Canada (see Note 8) and retained earnings. As of July 31, 2015 these accounts totaled \$35.41 million (July 31, 2014: \$58.40 million) and \$12.08 million (July 31, 2014: \$8.07 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.

10. 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, 2015	July 31, 2014
Net gain (loss) on:		
Export sales	\$ (202)	\$ (524)
Domestic cost of sales	\$ 512	\$ (78)

11. 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, 2015	July 31, 2014
Funded by Government	\$ 3,639	\$ 4,025
Total administrative expenses	\$ 7,566	\$ 7,394

12. Salaries and employee benefits

Salaries and employee benefits includes:

	July 31, 2015	July 31, 2014
Salaries expense	\$ 4,675	\$ 4,610
Pension contributions	629	626
Medical insurance expense	196	199
Others	150	156
Total	<u>\$ 5,650</u>	<u>\$ 5,591</u>

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 contribution. The general contribution rate effective for the year ended July 31, 2015 was on average 1.35 times the employee's rate (1.53 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.

Notes to Financial Statements

July 31, 2015

(In thousands of Canadian dollars unless otherwise indicated)

13. 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 1.3080 at July

31, 2015 (1.0904 at July 31, 2014).The CDC’s foreign exchange forward contracts as of the Statement of Financial Position date were as follows:

Currency sold	Currency purchased	July 31, 2015		July 31, 2014	
		In USD	In CAD	In USD	In CAD
USD	CAD	\$ 5,009	\$ 6,552	\$ 6,958	\$ 7,587
CAD	USD	\$ 5,632	\$ 7,522	\$ 6,272	\$ 7,018

These contracts will mature over the period ending December 10, 2015. The maturity dates of the forward exchange contracts correspond to the estimated dates when the CDC expects to receive the foreign currency proceeds arising from export sales contracts or when payment for purchases in foreign currencies are due.

“Other charges (recoveries)” under operating expenses on the Statement of Operations and Comprehensive Income (Loss) include \$0.24 million representing net gains incurred during the current year (July 31, 2014: net losses of \$0.33 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, 2015	July 31, 2014
Trade receivable	\$ -	\$ 1,877
Trade payable	-	(3,831)
Net derivative asset	275	36
Net exposure	\$ 275	\$ (1,918)

Based on the net exposure as of July 31, 2015, 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, 2015 would have decreased by \$0.10 million (July 31, 2014: increased by \$0.25 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.

July 31, 2015

(In thousands of Canadian dollars unless otherwise indicated)

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 1.14 (July 31, 2014: 1.07). In managing liquidity risk, the CDC has access to additional borrowings for commercial operations from the Government of Canada in the amount of \$129.59 million as of July 31, 2015 (July 31, 2014:

\$106.60 million) as well as \$1.81 million (July 31, 2014: \$3.74 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 bank guarantees and obtaining letters of credit. As of July 31, 2015 and July 31, 2014 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 overdraft, 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 (Loss).

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, 2014: 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, 2015 and July 31, 2014, there were no transfers between levels.

Canadian Dairy Commission

Notes to Financial Statements

July 31, 2015

(In thousands of Canadian dollars unless otherwise indicated)

14. Commitments

a) Industry Initiatives

Summary:	July 31, 2015
Dairy Research Cluster	\$ 500
Matching Investment Fund	102
Scholarship Program	100
Total commitments for industry initiatives	\$ 702

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 July 2015, a second payment of \$0.25 million will be made in March 2016 and the balance 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. The program expires on July 31, 2016. As of July 31, 2015, CDC has outstanding commitments of \$0.10 million.

Scholarship Program

As of August 1, 2011, the CDC funds a graduate Scholarship Program. The CDC grants \$3 million in scholarships over five years to participating institutions across Canada. As of July 31, 2015, the CDC has agreements totalling \$3 million with participating institutions, of which \$0.10 million remains to be paid by July 31, 2016.

b) Purchase Commitments

As of July 31, 2015, the CDC was committed to purchase certain quantities of butter and skim milk powder. These commitments amounted to approximately \$8.71 million (July 31, 2014: \$1.26 million) and were fulfilled in September 2015.

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 2016 TRQ for butter remains at 3,274 tonnes. World prices at the time of purchase will determine the total financial commitment.

The total cost to purchase imported butter under the WTO requirements for the year ended July 31, 2015 was \$14.92million (July 31, 2014: \$14.76 million).

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, 2017. 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, 2015	July 31, 2014
Less than one year	\$ 351	\$ 351
Greater than one year and less than five years	\$ 234	\$ 587

15. 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 makes the Government of Canada owner of the CDC, having significant influence over 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

Canadian Dairy Commission

Notes to Financial Statements

July 31, 2015

(In thousands of Canadian dollars unless otherwise indicated)

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 8), 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, 2015	July 31, 2014
Public Works and Government Services Canada	\$ 1,012	\$ 1,015
Agriculture and Agri-Food Canada (mainly operating lease – Note 14)	513	449
Other related Government entities	149	227
Total	<u>\$ 1,674</u>	<u>\$ 1,691</u>

Key management personnel

The CDC’s key management personnel are the CEO, the Chairman, the Commissioner, the COO and the three directors.

No loans or other such transactions with key management personnel were outstanding as of July 31, 2015 or July 31, 2014, or occurred at any time during either year.

The post-employment benefit liability for key management personnel as of July 31, 2015 was \$0.13 million (July 31, 2014: \$0.09 million) and is divided between “Post-employment benefits” and “Other liabilities” on the Statement of Financial Position.

Compensation of key management personnel for the year ended July 31, 2015 was \$0.97 million (July 31, 2014: \$0.93 million).

Tables and Data (unaudited)



Industrial Milk Production, Canadian Requirements and MSQ (million kg butterfat)

	Production	MSQ*	Canadian requirements
2010-2011	186.87	188.73	189.49
2011-2012	196.18	193.78	187.86
2012-2013	198.85	193.35	191.13
2013-2014	197.16	197.89	200.84
2014-2015	211.58	202.31	207.64

* Weighted average MSQ (Domestic Dairy Product Innovation Program, Dairy Export Program and growth allowance are excluded)

Production of Milk* (million kg butterfat)

Province	2013-2014			2014-2015		
	Fluid	Industrial	Total	Fluid	Industrial	Total
Newfoundland and Labrador	1.56	0.39	1.95	1.51	0.45	1.96
Prince Edward Island	0.53	3.50	4.03	0.52	3.63	4.15
Nova Scotia	3.80	3.06	6.86	3.64	3.57	7.21
New Brunswick	2.55	2.79	5.34	2.64	2.93	5.57
Quebec	25.80	93.17	118.97	25.76	97.25	123.01
Ontario	46.63	55.91	102.54	46.21	61.22	107.43
Manitoba	4.76	7.78	12.54	4.56	8.83	13.39
Saskatchewan	2.47	6.72	9.19	2.62	6.93	9.55
Alberta	15.26	10.65	25.91	15.07	12.54	27.61
British Columbia	13.15	13.19	26.34	13.56	14.23	27.79
Total	116.66	198.85	315.51	116.09	211.58	327.67

* Before pooling



Number of Farms and Cows, and Total Production

	Number of farms	Number of cows (thousands)	Total production (million kg BF)
2010-2011	12,965	987.0	305.67
2011-2012	12,746	985.3	314.12
2012-2013	12,529	960.6	315.51
2013-2014	12,234	959.1	313.67
2014-2015	11,962	956.7	327.67