Canadian Dairy Commission | Commission canadienne du lait

Quarterly Financial Report

Third quarter

February to April 2012

DM220080

Canada

Contents

Quarterly Financial Report

Third quarter

February to April 2012

Management Discussion and Analysis

The following discussion and analysis of the operating results and financial position of the Canadian Dairy Commission (CDC) for the quarter ending April 30, 2012 should be read in conjunction with the financial statements enclosed herein and the 2010-2011 Annual Report.

1. Basis of Preparation

This discussion was prepared in accordance with the Treasury Board Standard on Quarterly Financial Reports for Crown Corporations (Treasury Board Standard). This narrative discussion is not intended to be a full Management Discussion and Analysis (MD&A). Disclosures and information in the Canadian Dairy Commission's July 31, 2011 annual report are assumed to apply to the current quarter unless otherwise updated below.

The financial statements are unaudited and have been prepared in Canadian dollars in accordance with International Accounting Standard 34, *Interim Financial Reporting* (IAS 34) and the Treasury Board Standard. Further details on the basis of preparation are disclosed in Note 2 of the accompanying interim financial statements while details of the impacts of the transition from Canadian GAAP to IFRS are disclosed in Note 16.

2. Financial Results

Domestic Activities

	Q3 ending April 30			YTD ending April 30		
(in thousands)	2012	2011	$ change	2012	2011	$ change
Domestic sales revenues	$ 17 398	$ 44 208	$ (26 810)	$ 163 293	$ 189 747	$ (26 454)
Cost of goods sold	$ 11 503	$ 37 042	$ (25 539)	$ 143 365	$ 167 990	$ (24 625)
Transport and carrying charges	$ 1 083	$ 756	$ 327	$ 3 191	$ 2 896	$ 295
Gross profit (loss) on domestic sales	**$ 4 812**	**$ 6 410**	**$ (1 598)**	**$ 16 737**	**$ 18 861**	**$ (2 124)**

The gross profit on domestic sales for the year to date ending April 30, 2012 amounted to $16.74 million, an 11% decrease from the previous year's result. The major contributors to the decrease were Plan A butter and 4(m) skim milk powder (SMP) which had lower sales revenues and cost of goods, yet had higher transport and carrying charges.

Third quarter results for 2011-2012 show a gross profit on domestic sales of $4.81 million compared to $6.41 million for the same period last year, a decrease of $1.60 million. This decrease is due to significantly lower product sales compared to the 2010-2011 third quarter. The higher transport and carrying charges for 2011-2012 compared to the previous year is due to the higher levels of inventory during this period.

Export Activities

	Q3 ending April 30			YTD ending April 30		
(in thousands)	2012	2011	$ change	2012	2011	$ change
Export sales revenues	$ 10 723	$ 11 949	$ (1 226)	$ 16 730	$ 16 122	$ 608
Cost of goods sold	$ 10 442	$ 8 564	$ 1 878	$ 15 291	$ 11 944	$ 3 347
Transport and carrying charges	$ 464	$ 182	$ 282	$ 838	$ 258	$ 580
Gross profit (loss) on export sales	**$ (183)**	**$ 3 203**	**$ (3 386)**	**$ 601**	**$ 3 920**	**$ (3 319)**

The gross profit on export sales for the year to date ending April 30, 2012 amounted to $0.60 million, a decrease from the previous year's result of $3.92 million. The variances are attributable to higher cost of goods sold coupled with higher transport and carrying charges for 2011-2012. The CDC purchased SMP for export at a higher cost compared to the prior year to more closely meet the breakeven point at year-end.

The gross loss on export sales for the third quarter of 2011-2012 amounted to $0.18 million, in contrast to the gross profit of $3.20 million for the same quarter last year.

The CDC purchases surplus dairy products destined for export at prices that reflect the prevailing world market conditions at the time, with the intent of breaking even over the course of each dairy year. As these markets are difficult to predict, this activity may generate gains or losses throughout the year, but should breakeven by year-end.

Other Revenues

	Q3 ending April 30			YTD ending April 30		
(in thousands)	2012	2011	$ change	2012	2011	$ change
Pooling contributions	$ 1,260	$ 1,580	$ (320)	$ 4,250	$ 4,902	$ (652)
Funding from the Government of Canada	$ 1,198	$ 1,161	$ 37	$ 3,646	$ 3,019	$ 627
Audit Services	$ 99	$ 106	$ (7)	$ 237	$ 106	$ 131
Total Other Revenues	**$ 2,557**	**$ 2,847**	**$ (290)**	**$ 8,133**	**$ 8,027**	**$ 106**

The pooling contributions represent the revenues obtained from producers and the marketplace to finance a portion of the Commission's administrative expenses, the cost of production study as well as the carrying charges associated with the CDC butter stocks. The 2011-2012 Q3 and year to date results are basically in-line with the previous year's results.

Parliamentary appropriations for operating expenditures are recognized in the Statement of Operations and Comprehensive Income based on government-funded administrative expenses. On a year-to-date basis, there was an increase of $0.6 million compared to the same period last year. This increase in year-to-date results is due to the reimbursement for severance benefits paid to employees according to a new collective agreement. An agreement was reached with a major Public Service union representing more than half of the CDC employees to terminate the accumulation of severance benefits. Employees were given the option to cash out now, or at time of retirement, any accumulated severance pay. The majority of employees opted to cash out their accumulated severance benefits right away.

Revenues obtained for audit services relate to the milk plant utilization audits performed by the CDC in 6 provinces on a cost recovery basis. Revenues from audit services are recognized when the service is rendered.

Operating and Administrative Expenses

	Q3 ending April 30			YTD ending April 30		
	2012	2011	$ change	2012	2011	$ change
Operating Expenses						
Industry initiatives	$ 461	$ 159	$ 302	$ 1,944	$ 290	$ 1,654
Concentrated milk sssistance program	$ -	$ -	$ -	$ 4	$ 109	$ (105)
Cost of production study	$ 232	$ 227	$ 5	$ 635	$ 557	$ 78
Other charges / (recoveries)	$ (83)	$ 56	$ (139)	$ (447)	$ (42)	$ (405)
Total operating expenses	**$ 610**	**$ 442**	**$ 168**	**$ 2,136**	**$ 914**	**$ 1,222**
Administrative Expenses						
Salaries and employee benefits	$ 1,574	$ 1,554	$ 20	$ 4,379	$ 4,438	$ (59)
Other administrative expenses	$ 457	$ 614	$ (157)	$ 1,640	$ 1,475	$ 165
Total administrative expenses	**$ 2,031**	**$ 2,168**	**$ (137)**	**$ 6,019**	**$ 5,913**	**$ 106**
Total	**$ 2,641**	**$ 2,610**	**$ 31**	**$ 8,155**	**$ 6,827**	**$ 1,328**

Operating Expenses

Expenses relating to “industry initiatives” increased by $1.65 million for the year-to-date ending April 30, 2012 compared to the previous period. This increase is mainly attributable to the renewal of the Scholarship Program for which the CDC has committed $3 million over five years to participating establishments. Approximately 40% of the funding was disbursed as of the end of April 2012 while no funds were disbursed during the same period last year. Additional funding for the Canadian Quality Milk program and the Dairy Research Cluster also explains part of that year over year increase.

Due to a decline in participation in the Concentrated Milk Assistance Program on the part of processors the CDC recommended to the Canadian Milk Supply Management Committee (CMSMC), which concurred at its April 2012 meeting, that the program be discontinued.

"Other charges / recoveries" include amounts representing unrealized gains or losses on outstanding foreign exchange contacts as of the statement of financial position date. These gains or losses are determined using the difference between the contracted rates and exchange rates as of the statement of financial position date applied to the contract amount. They vary with the movement of exchange rates as well as the value of outstanding foreign exchange contracts at the end of the period. Exchange rates for the current dairy year have been very stable. In contrast, exchange rates for the same periods last year had greater fluctuations resulting in a larger impact on the financial statements.

Administrative expenses

Total administrative expenses for the year to date ending April 30, 2012 increased by $0.12 million compared to the same period in the previous year. This increase is mainly due to certain expenses occurring earlier this year that last year.

In response to a request from government, the CDC has budgeted and acted to ensure fiscal restraint such that administrative expenses for the current year will not exceed the 2010-2011 budget, as outlined in our Corporate Plan Summary.

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, operational surpluses are reimbursed to provincial milk marketing boards and agencies. As the surplus generated at the end of December 2011 was significant, the CMSMC approved, at its January 2012 meeting, that the CDC issue a mid-year refund of $10 million. This was done in January 2012. A $10 million mid-year refund was also issued in the previous year during the month of February.

Inventories and Loans

Inventory value as of April 30, 2012 was $141.23 million in contrast to $80.25 million of April 30, 2011. Last year's levels where below the norm due to low butter stocks while this year the CDC has managed to raise butter stocks to more seasonal levels.

Stock levels have begun to increase after reaching their lowest point at the end of December. This is a normal seasonal cycle as sales of butter increase during the pre-Christmas period and manufacturers repurchase their Plan B butter stocks from the CDC at that time. In direct correlation with this trend, the loan from the Government of Canada reached zero by the end of December. This is an unusual occurrence that last happened in January 2004. As of the end of the reporting period, the loan was $80.62 million compared to $34.90 million at the same period last year. As inventories began to increase to more seasonal levels so too has the loan from the Government of Canada.

Cash Flows

	Q3 ending April 30		YTD ending April 30	
(in thousands)	2012	2011	2012	2011
Cash Flows from operating activities	$ (78,366)	$ (19,840)	$ (24,457)	$ 65,010
Cash Flows from financing activities	$ 78,378	$ 19,010	$ 24,774	$ (64,029)
Net increase (decrease) in cash	**$ 12**	**$ (830)**	**$ 317**	**$ 981**
Net bank overdraft at the beginning of period	$ (703)	$ (322)	$ (1,008)	$ (2,133)
Net bank overdraft at the end of the period	**$ (691)**	**$ (1,152)**	**$ (691)**	**$ (1,152)**

Overall, CDC's closing cash position at the end of the third quarter of 2011-2012 decreased by $0.69 million compared to the third quarter of 2010-2011 when bank indebtedness was at $1.15 million.

Cash flows from operating activities

Cash flows from operating activities during the third quarter of 2011-2012 was a net cash outflow of $78.37 million compared to a net cash outflow of $19.84 million during the third quarter of 2010-2011. This decrease over the same previous year quarter came from an increase in purchases of domestic butter as the CDC rebuilt its stocks combined with a decrease in cash inflows from sales.

For the nine month period ending April 30, 2012, cash flows from operating activities resulted in net outflows of $24.46 million compared to net inflows of $65.01 million for the nine month period ending April 30, 2011. This decrease was due to fewer cash receipts from sales as well as an increase in cash paid to settle product purchase liabilities. During the last dairy year a large amount of domestic butter was sold resulting in significant cash inflows to the point where the loan from the Government of Canada was at zero by December 2011. This year as a result of improved milk production, the CDC has been in the process of replenishing its butter stocks to more normal levels.

Cash flows from financing activities

Cash flows from financing activities were a net inflow of $78.38 million in the third quarter of 2011-2012 compared to a net inflow of $19.01 million in the third quarter of 2010-2011. CDC's financing is directly related to its selling and purchasing activities as the loan from the Government of Canada fluctuates daily depending on the cash position at the end of the day. As the CDC has been purchasing butter to replenish its stocks, as mention above, the loan borrowings too have increased. This explains the variance in both the quarterly as well as the year to date figures.

For the nine month period ending April 30, 2012, financing activities involved a net inflow of $24.77 million compared to a net outflow of $64.03 million for the nine month period ending April 30, 2011. This is a more traditional scenario were the CDC begins purchasing butter stocks early January and sales for domestic butter during this period are very weak.

3. Outlook against Corporate Plan Summary

The key factors that may impact the budget indicated in the CDC's Corporate Plan Summary are total production of industrial milk, domestic requirements, support prices and world market conditions for the sales of dairy products. Any significant changes in the assumptions will affect the budgeted results.

In this third quarter, milk production continued to increase compared to last year. Milk production on a 12-month basis is now above demand, which is relatively flat. CDC butter stocks are being replenished rapidly. It is expected that in the coming months, the growth in milk production will slow down. CDC butter stocks are currently above normal and should be beyond levels forecasted in the Corporate Plan Summary at year end. Canadian requirements are expected to increase in coming months, but only slightly as use of cheese in further processing is declining. Demand for cream should however remain strong and butter consumption should increase. Canadian requirements are expected to end the year between 189 and 190 million kg of butterfat, which is slightly higher than the forecast in the Summary Corporate Plan.

Since February 1, 2012, support prices for butter and skim milk powder are slightly lower that what was forecasted in the Corporate Plan Summary.

4. Appropriations

The following table reconciles the appropriations received and disbursed.

	Q3 ending April 30			YTD ending April 30		
(in thousands)	2012	2011	$ change	2012	2011	$ change
Opening Balance	$ -	$ -	$ -	$ -	$ -	$ -
Parliamentary appropriations	$ 1,198	$ 1,161	$ 37	$ 3,646	$ 3,019	$ 627
Amount disbursed	$ (1,198)	$ (1,161)	$ (37)	$ (3,646)	$ (3,019)	$ (627)
Ending Balance	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

These appropriations were granted via the Main Estimates and Treasury Board Vote 30 – Paylist requirements. Parliamentary appropriations are used to fund part of the CDC's administrative expenses. The remainder of the CDC's administrative expenses is funded by dairy producers, commercial operations, and the market place.

Government of Canada funding for administrative expenses is appropriated to the Commission based on the Government fiscal year (April to March) while the use of these funds is presented in these statements on a dairy year (August to July) basis. The Commission does present the use of its appropriations on a Government fiscal year basis in the Public Accounts of Canada.

The Government has undertaken a Deficit Reduction Action Plan with the goal of reducing expenditures on an ongoing basis by fiscal year 2014-2015. As a Crown corporation, the CDC participates in this Plan and was asked to develop scenarios that would result in either 5% or 10% reductions in its funding. The CDC has provided its proposals to the Minister of Agriculture and Agri-Food Canada.

Based on the Federal Budget tabled in Parliament on March 29, 2012, the CDC must reduce its administrative expenses by 10% by April 1, 2014.

5. Risk Management

There have been no changes in the risk that the CDC faces since the publication of the CDC's 2010-2011 Annual Report.

6. Significant Changes

The following significant changes in operations, personnel, objectives, industry initiatives and programs have occurred between February 1 and April 30, 2012, compared to the Corporate Plan Summary.

Operations, industry initiatives and programs	There has been no significant change in operations, industry initiatives or programs compared to the Corporate Plan Summary. The Matching Investment Fund is in its last year of operation and has been the object of both a program evaluation and an internal audit. Based on these reports and on recommendations from staff the CDC Board decided to renew the program for two years starting August 1, 2012 with a $500,000 commitment. Eligibility criteria and the application process underwent slight changes.
Personnel	There has been no significant change in personnel compared to the Corporate Plan Summary.
Objectives	There have been slight changes in objectives compared to the Corporate Plan Summary. The CDC is aiming for 45 audits of special class participants as opposed to the 40 originally planned and it will perform milk plant utilization audits in 6 provinces and not 5. Furthermore, the CDC is not expecting to reach the target objective of 5,000 t of skim milk powder in class 4(m) due to an increase in milk production and so these inventories are expected to exceed 15,000 t by year-end. It is also unlikely that 60% of Canadian milk producers will be validated under the Canadian Quality Milk Program at the end of the year. Data from January 2012 show a validation rate of 36%. The CDC is on track to reach most of its other objectives for dairy year 2011-2012.
Governing Board	The mandate of the CEO officially ended on October 3, 2011 and the minister of Agriculture and Agri-Food extended the CEO's term until December 31, 2011. On February 7, 2012, the Minister announced the nomination of Mr. Jacques Laforge as CEO of the CDC for a three-year term, effective immediately.

Management Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the requirements of International Accounting Standard 34: *Interim Financial Reporting* (IAS 34), and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements. These statements are unaudited and have not been reviewed by an external auditor.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.

Jacques Laforge, Chief Executive Officer

Gaëtan Paquette, Senior Director, Finance and operations

Ottawa, Canada

June 20, 2012

Statement of Financial Position

(unaudited)

(in thousands of Canadian dollars)

	Apr 30, 2012	Jul 31, 2011	Aug 1, 2010
Assets			
Current			
Cash	$ 274	$ 146	182
Trade and other receivables			
Provincial milk boards and agencies (pooling) receivable	39,345	33,462	37,330
Trade	1,753	6,340	1,148
Derivative asset - foreign exchange contracts	16	67	1
Inventory (Note 4)	141,232	94,322	135,228
	$ 182,620	$ 134,337	173,889
Liabilities			
Current			
Bank overdraft (Note 5)	$ 965	$ 1,154	2,314
Trade and other payables			
Provincial milk boards and agencies (pooling) payable	37,485	31,236	33,684
Trade	40,021	14,563	17,276
Distribution to provincial milk boards and agencies payable	0	14,573	4,385
Other liabilities	927	1,254	1,209
Derivative liability - foreign exchange contracts	0	294	4
Loans from the Government of Canada (Note 6)	80,621	55,848	98,927
	160,019	118,922	157,799
Long-term			
Employee benefits (Note 12)	513	643	1,175
Equity (Note 7)			
Retained earnings	22,088	14,772	14,915
	$ 182,620	$ 134,337	173,889

Commitments (Note 14)

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

Approved:

Original signed by

Jacques Laforge	Randy Williamson	Gaëtan Paquette
Chief Executive Officer	Chairman	Senior Director, Finance and Operations

Statement of Operations and Comprehensive Income

(unaudited)

(in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	Apr 30, 2012	Apr 30, 2011	Apr 30, 2012	Apr 30, 2011
Sales and Cost of Sales				
Domestic sales revenue	$ 17,398	$ 44,208	$ 163,293	$ 189,747
Cost of goods sold domestically	11,503	37,042	143,365	167,990
Transport and carrying charges	1,083	756	3,191	2,896
Gross profit on domestic sales	4,812	6,410	16,737	18,861
Export sales revenue	10,723	11,949	16,730	16,122
Cost of goods exported	10,442	8,564	15,291	11,944
Transport and carrying charges	464	182	838	258
Gross profit (loss) on export sales	(183)	3,203	601	3,920
Total gross profit	4,629	9,613	17,338	22,781
Other income				
Pooling contributions witheld to fund operating expenses (Note 10)	1,260	1,580	4,250	4,902
Funding from the Government of Canada (Note 11)	1,198	1,161	3,646	3,019
Audit services	99	106	237	106
	2,557	2,847	8,133	8,027
Total	**7,186**	**12,460**	**25,471**	**30,808**
Operating Expenses				
Industry initiatives	461	159	1,944	290
Concentrated Milk Assistance Program	0	(0)	4	109
Cost of Production study	232	227	635	557
Other charges (recoveries)	(83)	56	(447)	(42)
	610	442	2,136	914
Administrative Expenses				
Salaries and employee benefits	1,574	1,554	4,379	4,438
Other administrative expenses	457	614	1,640	1,475
	2,031	2,168	6,019	5,913
Total	**2,641**	**2,610**	**8,155**	**6,827**
Profit before distribution to provincial milk boards and agencies	**4,545**	**9,850**	**17,316**	**23,981**
Distribution to provincial milk boards and agencies	0	10,000	10,000	10,000
Total comprehensive income (loss)	**$ 4,545**	**$ (150)**	**$ 7,316**	**$ 13,981**

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

Statement of Changes in Equity

(unaudited)
(in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	Apr 30, 2012	Apr 30, 2011	Apr 30, 2012	Apr 30, 2011
Retained earnings, beginning of the period	$ 17,543	$ 29,046	$ 14,772	$ 14,916
Total comprehensive income (loss) for the period	4,545	(150)	7,316	13,981
Retained earnings, the end of the period	$ 22,088	$ 28,897	$ 22,088	$ 28,897

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

Statement of Cash Flows

(unaudited)

(in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	Apr 30, 2012	Apr 30, 2011	Apr 30, 2012	Apr 30, 2011
Cash flows from operating activities				
Cash receipts from sales of goods	$ 28,129	$ 49,558	$ 184,926	$ 200,303
Cash paid to suppliers and others	(109,086)	(61,090)	(192,828)	(129,631)
Cash receipts from provincial milk boards and agencies (pooling)	48,742	41,598	147,244	144,867
Cash paid to provincial milk boards and agencies (pooling)	(47,327)	(41,007)	(142,628)	(138,735)
Cash paid to provincial milk boards and agencies (operating surplus)	0	(10,000)	(24,573)	(14,385)
Cash receipts from the Government of Canada	1,198	1,160	3,646	3,020
Interest paid on loans	(23)	(59)	(244)	(429)
Cash flows from operating activities	(78,366)	(19,840)	(24,457)	65,010
Cash flows used in financing activities				
New loans from the Government of Canada	101,064	56,821	141,773	94,417
Loan repayments to the Government of Canada	(22,686)	(37,811)	(116,999)	(158,446)
Cash flows used in financing activities	78,378	19,010	24,774	(64,029)
Net increase (decrease) in cash	12	(830)	317	981
Net cash (bank overdraft) at beginning of the period	(703)	(322)	(1,008)	(2,133)
Net cash (bank overdraft) at end of the period	$ (691)	$ (1,152)	$ (691)	$ (1,152)
Components:				
Cash	$ 274	$ 232	$ 274	$ 232
Bank overdraft	(965)	(1,384)	(965)	(1,384)
	$ (691)	$ (1,152)	$ (691)	$ (1,152)

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

Notes to the Unaudited Interim Financial Statements

Three and nine months ended April 30, 2012

(in thousands of Canadian dollars unless otherwise stated)

1. The Canadian Dairy Commission

The Canadian Dairy Commission (the "Commission") is an agent 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.* Its office is situated in Ottawa, Ontario, Canada. The objects of the Commission, as established by the *Canadian Dairy Commission Act*, are "to provide efficient producers of milk and cream with the opportunity of obtaining 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". The Commission operates on a dairy year basis which starts August 1 and ends July 31.

The Commission, in co-operation with the Canadian Milk Supply Management Committee (CMSMC), which it chairs, undertakes the management and administration of operations funded by producers. The Commission purchases all butter and skim milk powder tendered to it at either the Canadian support price or at prices established by the Commission, depending on the intended resale markets, except for a portion of butter imported by the Commission at international market price for domestic consumption in accordance with Canada's commitments to the World Trade Organization (WTO). While a major portion of the butter purchased by the Commission is later resold in the domestic market, most of the skim milk powder is in excess of manufacturers' requirements and is sold domestically in certain marginal markets or exported. The Commission exports surpluses, within Canada's permitted subsidized export limits, in the form of whole milk products, skim milk powder and butter on international markets.

The Commission administers, on behalf of the industry, a pricing and pooling of market returns system which provides milk components to further processors and exporters through processors at competitive prices. This system is administered by the Commission in accordance with the "Comprehensive Agreement on Pooling of Milk Revenues" to allow dairy producers to share revenues nationally as well as the "Western Milk Pooling Agreement" and the "Agreement on the Eastern Canadian Milk Pooling", formerly the "Agreement on All Milk Pooling", to allow dairy producers to share revenues regionally. The ten provincial milk boards and agencies represent the country's dairy producers and they provide the Commission with all the relevant data and funding for its administration of the pooling system.

2. Basis of preparation

Compliance with International Financial Reporting Standards

These interim financial statements have been prepared in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and IFRS 1 – *First-time Adoption of IFRS* as well as IAS 34 – *Interim Financial Reporting*, using International Financial Reporting Standards (IFRS) accounting policies that the Commission will adopt in its annual financial statements ending July 31, 2012.

These are the Commission's first IFRS interim financial statements for part of the period covered by the first IFRS annual financial statements. The Commission has elected August 1, 2010 as the date of transition to IFRS. An explanation of how the transition to IFRS has affected the financial statements is included in Note 16. Any subsequent changes to IFRS that are given effect in the Commission's annual financial statements for the year ending July 31, 2012 could result in restatement of these interim financial statements, including any transition adjustments recognized with the adoption of IFRS.

These interim financial statements should be read in conjunction with the Commission's 2011 annual financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP) and in consideration of the IFRS transition disclosures included in Note 16 to the interim financial statements.

Use of estimates and measurement uncertainty

The preparation of financial statements in accordance with IFRS requires management to 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 and the reported amounts of revenues and expenses during the year. Valuation of inventories, pension and severance benefits, and derivatives are the most significant items where estimates are used. Actual amounts could differ significantly from the current estimates. These estimates are reviewed quarterly and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

Functional and presentation currency

The Commission's functional and presentation currency is the Canadian dollar.

Reporting period

The reporting period for these interim financial statements and notes thereto is August 1, 2011 to April 30, 2012. This represents the third quarter (Q3 2012) of operations for the Commission's 2011-2012 dairy year ending July 31.

3. Significant accounting policies

Cash

Cash includes only 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 Commission's designation of such instruments.

Classifications:

Accounts receivable ……………………………….	Loans and receivables
Bank overdraft ……………………………….	Other liabilities
Accounts payable and accrued liabilities ……..	Other liabilities
Loans from the Government of Canada ……..	Other liabilities

Loans and receivables

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

Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

Transaction costs

All transaction costs in respect of financial assets and financial liabilities classified as other than held for trading are capitalized in the period in which they are incurred. Transaction costs in respect of financial assets and financial liabilities classified as held for trading are expensed in the period in which they are incurred.

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.

Inventory excludes storage charges, which are expensed when incurred.

Derivative financial instruments

The Commission 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 Commission's policy is not to utilize freestanding derivative financial instruments for trading or speculative purposes.

The Commission 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 operating expenses.

Distribution to provincial milk boards and agencies

Operational surplus resulting from pooling and operating activities is expensed and set up as a liability in the year that the surplus is earned. Operational losses from operating activities with a virtual certainty of recovery in the subsequent year are recognized as revenue and set up as a receivable in the year the loss is incurred.

Revenues

Sales revenue

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

Pooling contributions withheld to fund operating expenses

Pooling contributions withheld to fund operating expenses are recognized as revenue when the amounts are charged to the various milk pools.

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 when the service is rendered.

Cost of sales

Goods purchased by the Commission under the Domestic Seasonality Programs, for export sales or for the animal feed market are purchased at prices established by the Commission. These costs are charged to cost of sales when the goods are shipped to customers.

Foreign currency translation

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

Trade accounts receivable and payable 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 operating expenses.

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 Commission 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 Commission to cover current service cost. Pursuant to legislation currently in place, the Commission 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 Commission.

Severance benefits

Eligible employees are entitled to severance 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 is calculated using the actuarially determined Government-wide severance pay liability ratio for public service employees applied to the Commission's gross salaries.

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

Certain new accounting standards and amendments have been published which are not required to be adopted for the current reporting period. As at the date of these financial statements, the following applicable standards and amendments were issued but are not yet effective:

- IAS 19, *Employee Benefits*, effective for annual periods beginning on or after January 1, 2013;
- IFRS 9, *Financial Instruments,* effective for annual periods beginning on or after January 1, 2013; and
- IFRS 13, *Fair Value Measurement*, effective for annual periods beginning on or after January 1, 2013.

The Commission is currently assessing the impact of these standards on its financial statements.

4. Inventory

	Q3 2012	July 31, 2011	August 1, 2010
Butter	$105,221	$70,159	$99,135
Skim milk powder	36,011	24,163	36,952
	141,232	94,322	136,087
Less: allowance for inventory write-down	-	-	(859)
Total net realizable value	$141,232	$94,322	$135,228

The Commission's inventory includes 13,616 tonnes of Plan B butter and 1,033 tonnes of Plan B skim milk powder (July 31, 2011 — 9,650 tonnes and 1,671 tonnes / August 1,2010 — 10,905 tonnes and 1,635 tonnes) with a total cost of $98.89 million and $6.51 million respectively (July 31, 2011 — $69.52 million and $10.48 million / August 1,2010 — $77.45 million and $10.10 million) that must be repurchased by the manufacturers from the Commission within the course of the current calendar year at the then prevailing support prices. While manufacturers are contractually obliged to repurchase their product, the Commission is under no obligation to sell back the product. However, the Commission has customarily always honoured repurchase requests.

The balance of the inventory is comprised of 931 tonnes of butter and 19,164 tonnes of skim milk powder (July 31, 2011 — 104 tonnes and 11,059 tonnes / August 1, 2010 — 4,261 tonnes and 23,179 tonnes) with a total cost of $6.33 million and $29.50 million respectively (July 31, 2011 — $0.64 million and $13.69 million / August 1, 2010 — $21.69 million and $26.85 million).

5. Bank overdraft

The Commission has established a line of credit with a member of the Canadian Payments Association. The Commission has been granted the authority to establish this line of credit by the Minister of Finance up to a maximum of $50 million for the pricing and pooling of market returns system. During the dairy year, the Commission's available line of credit limit can vary up to $25 million (July 31, 2011 — $25 million / August 1, 2010 — $5 million).

The bank overdraft incurred under the Commission's line of credit is due on demand and bears interest at prime, which during the reporting period was 3.00% per annum (July 31, 2011 — 2.75% to 3.00% / August 1, 2010 — 2.25% to 2.75%).

6. 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, 2011 — $175 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.

Interest rates and interest expense were as follows:

	Three months		Nine months	
Interest rates	Q3 2012	Q3 2011	Q3 2012	Q3 2011
Low	0.95%	1.09%	0.95%	0.39%
High	1.00%	1.13%	1.11%	1.13%
Interest expense	$ 111	$ 82	$ 266	$ 392

7. Equity

The Commission indirectly collects amounts from consumers through a charge included in the retail sale price of butter. This charge is used to fund the carrying costs associated with the normal levels of butter inventory. This amount is included in contributions withheld to fund operating expenses presented in the statement of operations and comprehensive income. Retained earnings at the end of the year is made up of net accumulated surpluses of this funding and net accumulated surplus amounts relating to commercial sales and not directly payable to provincial milk boards and agencies.

There have been no transactions during the reporting period ended April 30, 2012 resulting in other comprehensive income or losses and the Commission had no opening or closing balances for accumulated other comprehensive income or losses.

8. Capital disclosures

The Commission's capital consists of its loans from the Government of Canada (see Note 6) and retained earnings. As at April 30, 2012 these accounts totaled $80.62 million (July 31, 2011 — $55.85 million / August 1, 2010 — $98.93 million) and $22.09 million (July 31, 2011 — $14.77 million / August 1, 2010 — $14.92 million) respectively. The Commission is not subject to any externally imposed capital requirements.

The Commission'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 Commission administers its capital management approach on an ongoing basis as the amounts fluctuate during the course of the year. The Commission does not utilize any quantitative measures to monitor its capital. There were no changes in the Commission's approach to capital management or the definition thereof as compared to the previous year.

9. Foreign exchange gains and losses

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

	Three months		Nine months	
Net gain (loss)	Q3 2012	Q3 2011	Q3 2012	Q3 2011
Export sales	$ (47)	$ 48	$ 39	$ 68
Domestic cost of sales	$ -	$ -	$ 475	$ (185)

10. Pooling contributions

Contributions from and equalization payments to provincial milk boards and agencies represent a redistribution of milk revenues among provinces, which are recorded based on milk production and milk utilization reported by the provincial milk boards and agencies. A fixed portion, representing the milk boards' and agencies' share of the Commission's budgeted administrative expenses and the estimated carrying charges for normal levels of butter stocks, is withheld from the redistributions to fund these operating expenses, as well as surplus butter carrying charges and any recoverable committee expenses that may be incurred during the reporting period. The fixed amount is agreed upon annually by the CMSMC.

The pool operates on a two month lag where contributions from and equalization payments to provincial milk boards and agencies that were not disbursed or collected at year-end are reported respectively as payables and receivables on the statement of financial position.

During the reporting period contributions from and equalization payments to provincial milk boards and agencies were as follows:

	Three months		Nine months	
	Q3 2012	Q3 2011	Q3 2012	Q3 2011
Contributions from provincial boards and agencies	$ 56,138	$ 43,241	$153,127	$122,234
Equalization payments to provincial boards and agencies	54,878	41,661	148,877	117,332
Pooling contributions withheld to fund operating expenses	$ 1,260	$ 1,580	$ 4,250	$ 4,902

11. Costs funded by the Government of Canada

Funding of the Commission'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:

	Three months		Nine months	
	Q3 2012	Q3 2011	Q3 2012	Q3 2011
Funded by Government	$ 1,198	$ 1,161	$ 3,646	$ 3,020
Total administrative expenses	$ 2,031	$ 2,168	$ 6,019	$ 5,913

12. Salaries and employee benefits

Salaries and employee benefits include:

	Three months		Nine months	
	Q3 2012	Q3 2011	Q3 2012	Q3 2011
Salaries expense	$1,280	$1,272	$3,537	$3,639
Pension contributions	188	189	556	540
Medical insurance expense	56	56	173	166
Others	50	37	113	93
Total	$1,574	$1,554	$4,379	$4,438

Pension plan

Substantially all of the employees of the Commission 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 Commission. 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 at the July 31, 2011 year end was 1.90 times the employees' rate (1.93 for the prior year). The weighted average rate for the nine month period ended April 30, 2012 was 1.83 times the employees' rate. Total contributions to April 30, 2012 of $0.56 million (April 30, 2011— $0.54 million) were recognized as expense in the current 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 times 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.

Severance benefits

The Commission provides severance benefits to its eligible employees based on years of service and final salary. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Benefits will be paid from future appropriations and other sources of revenue. Information about this benefit plan, measured as at the statement of financial position date, is as follows:

	Q3 2012	July 31, 2011	August ,2010
Accrued benefit obligation, beginning of year	$1,083	$ 1,294	$1,217
Benefits paid during the period	487	131	21
(Decrease) / increase of obligation for the period	(53)	(80)	98
Accrued benefit obligation, end of the period	$ 543	$ 1,083	$ 1,294

Of the total period end obligation, no amount (July 31, 2011 — $0.44 million / August 1, 2010 — $0.12) was estimated by the Commission to be payable by year end and included in other liabilities, under current liabilities, on the statement of financial position.

13. Financial instruments

In the course of carrying out its ongoing operations, the Commission faces risks to its financial assets and financial liabilities. The Commission's exposure to risk from its use of financial instruments is presented below along with the Commission'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 Commission's income or the value of its holding of financial instruments.

Currency risk

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

As of the statement of financial position date, the notional value of the Commission's outstanding forward exchange contracts totaled $1.99 million Canadian equivalent (July 31, 2011 — $18.12 million / August 1, 2010 — $1.40 million Canadian equivalent). These contracts will mature over the period ending July 2012. The maturity dates of the forward exchange contracts correspond to the estimated dates when the Commission expects to receive the foreign currency proceeds arising from export sales contracts or when payment for purchases in foreign currencies are due.

The fair value of the Commission's derivative financial instruments is determined using the Bank of Canada's published foreign exchange rates as of the statement of financial position date. The Commission's foreign exchange forward contracts are as follows:

Currency sold	Currency purchased	April 30, 2012		July 31, 2011		August 1, 2010	
		In USD	In CAD	In USD	In CAD	In USD	In CAD
USD	CAD	$ 2,153	$ 1,992	$ 4,521	$ 4,320	$1,002	$1,030
CAD	USD	$ -	$ -	$14,439	$13,796	$ 361	$ 371

As at April 30, 2012, the Commission's exposure to foreign currency risk was as follows based on Canadian dollar equivalent amounts:

In CAD	April 30 2012	July 31,2011	August 1,2010
Accounts receivable (trade)	$ 1,528	$5,632	$957
Accounts payable (trade)	-	(-)	(357)
Net derivative asset (liability)	16	(227)	(3)
Net exposure	$ 1,534	$5,405	$597

Based on the net exposure as at April 30, 2012, and assuming that all other variables remained constant, had the Canadian dollar appreciated 10% against the US dollar, net income for the reporting period would have decreased by $0.06 million (Q3 2011 — increased by $0.20 million). Conversely, a 10% weakening in the Canadian dollar against the US dollar would have had the equal but opposite effect for the same period.

Interest rate risk

Interest rate risk is the risk that a financial asset containing a fixed interest rate component decreases in 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 Commission does not have any other such financial assets or liabilities exposed to this risk. The Commission'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 Commission is not exposed to this type of risk.

Liquidity risk

Liquidity risk is the risk that the Commission will not be able to meet its financial obligations as they fall due. As of the statement of financial position, virtually all of the Commission's assets and liabilities were current and the Commission had a current ratio equal to 1.14 (July 31, 2011 — 1.13 / August 1, 2010 — 1.10). In managing liquidity risk, the Commission has access to additional borrowings for commercial operations from the Government of Canada in the amount of $84.38 million as of April 30, 2012 (July 31, 2011 — $119.15 million / August 1, 2010 — $76.07) as well as $4.03 million (July 31, 2011 — $3.85 million / August 1, 2010 — $2.69) on its line of credit for the pooling of market returns activities.

Credit risk

Credit risk is the risk of loss due to a customer failing to meet its financial obligations to the Commission. Maximum credit exposure is the carrying amount of the pooling and trade accounts receivable balances, net of any allowance for losses. The Commission manages this risk using several strategies which include selling product on a "payment first" basis, securing of bank guarantees and obtaining letters of credit. As of April 30, 2012, July 31, 2011, and August 1, 2010 the Commission did not have an allowance for doubtful accounts and all accounts receivable were current.

The Commission 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 carrying amount of the derivative asset. The Commission 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 Commission.

Fair values

The carrying value of cash, accounts receivable, bank overdraft, accounts payable and accrued liabilities 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 in the statement of operations and comprehensive income.

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 Commission 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 Commission's derivative financial instruments is classified as level 2 (July 31, 2011 — 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 period ended April 30, 2012 there was no transfers between levels.

14. Commitments

a) Industry Initiatives

	Canadian Quality Milk	Matching Investment Fund	Dairy Research Cluster	Iodine Study	Scholarship Program	Total
Total commitment	$2,953	$6,000	$1,500	$340	$3,000	$13,793
Distributed prior years	1,192	439	500	109	-	2,240
Q1 2012	-	-	500	-	-	500
Q2 2012	222	15	-	13	733	983
Q3 2012	-	9	-	-	452	461
Commitment remaining	$1,539	$5,537	$500	$218	$1,815	$9,609

Canadian Quality Milk

This program is a quality assurance program for raw milk on Canadian farms. The Commission has agreed to partially fund this program under an agreement that commenced August 1, 2007 and was extended to July 31, 2014.

Matching Investment Fund

The Commission 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 CDC has committed $6 million over a three-year period commencing August 1, 2009 and ending July 31, 2012.

Dairy Research Cluster

This partnership between Agriculture and Agri-Food Canada, Dairy Farmers of Canada, and the CDC aims to mobilize a critical mass of scientific and technical resources to support innovation strategies for enhanced profitability and competitiveness of their sector. The Commission has agreed to partially fund this project under an agreement that commenced on January 1, 2010 and expires on March 31, 2013.

Iodine Study

The Dairy Farmers of Canada are conducting an analysis to determine the level of iodine in bulk tank milk of individual dairy farms over a period of three years from August 1, 2010 to July 31, 2013. The Commission has agreed to partially fund this study.

Scholarship Program

As of August 1, 2011, the Commission funds a graduate Scholarship Program. The CDC grants $3.00 million in scholarships over five years to participating institutions across Canada.

b) Purchase Commitments

As at April 30, 2012, the Commission was committed to purchase certain quantities of butter and skim milk powder. These commitments amounted to approximately $4.16 million (July 31, 2011 — $4.88 million / August 1, 2010 — $0.42 million) and are due to be fulfilled by July 2012.

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 2012 TRQ for butter remains at 3,274 tonnes. World prices at the time of purchase will determine the total financial commitment.

Total cost to purchase imported butter under the WTO requirements:

Three months		Nine months	
Q3 2012	Q3 2011	Q3 2012	Q3 2011
$ 127	$ 1,346	$ 14,991	$ 8,165

d) Operating Lease

The Commission is committed under a long term lease with Agriculture and Agri-Food Canada for office accommodation ending in 2017. The lease contains escalation clauses regarding maintenance costs and taxes. This lease may be automatically renewed at the Commission's option for another period of 5 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:

Less than one year	$0.33 million
Greater than one year and less than five years	$1.30 million

15. Related party transactions

Government of Canada entities

The Commission, as per the *Canadian Dairy Commission Act*, is an agent of Her Majesty in right of Canada. This effectively makes the Government of Canada de jure owner of the Commission having significant influence over its activities.

The Commission is related in terms of common ownership to all other Government of Canada-created departments, agencies and Crown corporations. The Commission enters into transactions with these entities in the normal course of business and at normal trade terms. These transactions such as Employee Benefit Plans, accommodations and professional services, but excluding loans from the government, are recorded at their exchange amounts and totaled $1.30 million during the reporting period (Q3 2011 — $1.27 million).

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

Other significant related party transactions are as follows:

Government entity	Three months		Nine months	
	Q3 2012	Q3 2011	Q3 2012	Q3 2011
Public Works and Government Services Canada	$295	$272	$832	$795
Agriculture and Agri-Food Canada	$24	$154	$380	$468

Key management personnel
The CDC's key management personnel are the CEO, Chairman, Commissioner and the three senior directors.

No loans or other such transactions with key management were outstanding as of April 30, 2012 or occurred at any time during the reporting period.

The severance liability for key management personnel as of April 30, 2012 was $166 (July 31, 2011 — $160 / August 1, 2010 — $160) and is included in employee benefits on the statement of financial position.

	Three months		Nine months	
	Q3 2012	Q3 2011	Q3 2012	Q3 2011
Compensation of key management personnel	$ 245	$ 216	$ 560	$ 510

16. Transition to International Financial Reporting Standards

The Commission adopted International Financial Reporting Standards on August 1, 2011 with a date of transition effective August 1, 2010. Prior to the adoption of IFRS the Commission prepared its financial statements in accordance with Canadian GAAP. The first annual financial statements issued by the Commission that will comply with IFRS will be those issued for the year ending July 31, 2012. Accordingly, the Commission will make an unreserved statement of compliance with IFRS beginning with its 2012 annual financial statements. The Commission has prepared its opening IFRS statement of financial position as of the transition date of August 1, 2010.

These financial statements have been prepared with accounting policies in accordance with the requirements of IFRS 1 - *First-Time Adoption of IFRS*, which is applicable upon first-time adoption of IFRS. IFRS 1 requires that the same policies are applied for all periods presented and that those policies are based on IFRS effective at the end of the first IFRS year-end, or July 31, 2012 for the Commission.

The Commission will ultimately prepare its opening statement of financial position by applying existing IFRS with an effective date of July 31, 2012 or earlier. Accordingly, it is possible that the opening statement of financial position and financial statements for 2011 and 2012 may differ from the information presented in these interim financial statements.

After performing an extensive review of all components of the Commission's financial statements that may be affected by the adoption of IFRS, it was determined that no adjustments or elections were required. Therefore, the opening IFRS statement of financial position of the Commission has no changes in presentation or of amounts compared to the closing statement of financial position prior to the adoption of IFRS (August 1, 2010 *vs.* July 31, 2010).