Canadian Dairy Commission
Commission canadienne du lait

Quarterly Financial Report

First quarter

August to October 2014

DM299853

Canada

Contents

Quarterly Financial Report

First quarter (Q1) – August to October 2014

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 October 31, 2014 should be read in conjunction with the financial statements enclosed herein and the 2013-2014 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, 2014 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. This narrative discussion and the accompanying financial statements were reviewed and approved by the CDC Board of directors.

2. Financial Results

Domestic Activities

	Q1 ending October 31		
(in thousands)	2014	2013	$ change
Domestic sales revenue	$ 84,614	$ 76,798	$ 7,816
Cost of goods sold - domestic	$ 73,803	$ 69,575	$ 4,228
Transport and carrying charges	$ 1,137	$ 1,176	$ (39)
Finance costs	$ 115	$ 298	$ (183)
Gross profit on domestic sales	**$ 9,559**	**$ 5,749**	**$ 3,810**

The CDC purchases and sells butter and skim milk powder (SMP) for the domestic market. The gross profit on domestic sales, for the quarter ending October 31, 2014, increased by $3.8 million compared to the same period last year. This increase is mainly due to obtaining a better return on imported butter sales and Class 4(m) skim milk powder (SMP) sales to animal feed manufacturers. Finance costs decreased by 60% as result of stronger demand for butter which lead to significant repurchases by manufacturers decreasing CDC stocks.

Export Activities

(in thousands)	Q1 ending October 31 2014	2013	$ change
Export sales revenue	$ 5,659	$ 22,743	$ (17,084)
Cost of goods sold - exports	$ 4,919	$ 20,391	$ (15,472)
Transport and carrying charges	$ 84	$ 447	$ (363)
Finance costs	$ -	$ 1	$ (1)
Gross profit on export sales	**$ 656**	**$ 1,904**	**$ (1,248)**

The gross profit on export sales for quarter ending October 31, 2014 amounted to $0.66 million compared to $1.90 million for the same period in the previous year. Export sales of skim milk powder in Q1 2014-2015 decreased significantly compared to the Q1 2013-2014. This is largely explained by the CDC's timing of its export sales, choosing to delay export in the hope of obtaining better prices later in the 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 break even by year-end.

Other Revenues

(in thousands)	Q1 ending October 31 2014	2013	$ change
Funding from milk pools	$ 1,431	$ 1,563	$ (132)
Funding from the Government of Canada	$ 586	$ 1,070	$ (484)
Audit services	$ 31	$ 1	$ 30
Total Other Revenues	**$ 2,048**	**$ 2,634**	**$ (586)**

The funding from milk pools represents the revenues obtained from producers and the marketplace to finance a portion of the CDC's administrative expenses, the cost of production study, as well as the carrying charges associated with the CDC butter stocks. The Q1 results for 2014-2015 are lower compared to the previous year's due to a decrease in the butter carrying costs charged to the pools as a result of lower levels of butter inventories compared to the previous year.

Parliamentary appropriations for operating expenditures are recognized in the Statement of Operations and Comprehensive Income based on government-funded administrative expenses.

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

(in thousands)	Q1 ending October 31 2014	2013	$ change
Operating expenses			
Industry initiatives	$ 151	$ 129	$ 22
Cost of Production study	$ 184	$ 193	$ (9)
Other charges (recoveries)	$ (247)	$ 446	$ (693)
Total operating expenses	**$ 88**	**$ 768**	**$ (680)**
Administrative expenses			
Salaries and employee benefits	$ 1,359	$ 1,416	$ (57)
Other administrative expenses	$ 247	$ 430	$ (183)
Total administrative expenses	**$ 1,606**	**$ 1,846**	**$ (240)**
Total operating and administrative expenses	**$ 1,694**	**$ 2,614**	**$ (920)**

Operating Expenses

"Other charges (recoveries)" include amounts representing unrealized gains or losses on outstanding foreign exchange contracts as of the statement of financial position date. These gains or losses are determined using the difference between the contracted rates and exchange rates as of the statement of financial position date, applied to the contract amount. They vary with the movement of exchange rates as well as with the value of outstanding foreign exchange contracts at the end of the period.

Administrative Expenses

Total administrative expenses for the Q1 ending October 31, 2014 decreased by $0.24 million compared to the previous year's result.

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 a result, the CDC has budgeted and acted to apply fiscal restraint such that administrative expenses for the current year will be in line with the 2013-2014 budget, as outlined in our Corporate Plan Summary.

Inventories and Loans

Inventory value as of October 31, 2014 was $76.3 million compared to $119.26 million as of October 31, 2013.

CDC butter stocks at the end October 2014 were 8,000 t lower as compared to the same time last year. As a result of a decrease in milk production and higher demand for butter, CDC stocks were drawn upon to fill the market. Measures have been taken to encourage milk production to satisfy the demand and enable the CDC to rebuild its butter stocks by the end of the dairy year. Skim milk powder stocks were 4,800 t higher than in Q1 of 2013-2014.

As there is usually a direct correlation between stock levels and outstanding loans, the loan from the Government at the end of Q1 2014-2015 was $49.3 million compared to $88.39 million at the same time last year. Higher retained earnings combined with lower inventory value resulted in lower loan requirements as of the end of October 2014.

Cash Flows

	Q1 ending October 31	
(in thousands)	2014	2013
Cash flows from operating activities	$ 7,994	$ 33,065
Cash flows used in financing activities	$ (9,096)	$ (33,933)
Net increase in bank overdraft	**$ (1,102)**	**$ (868)**
Net cash (bank overdraft) at beginning of period	$ (406)	$ 1,194
Net cash (bank overdraft) at end of period	**$ (1,508)**	**$ 326**

The CDC's closing bank cash position for the end of the Q1 2014-2015 was an overdraft of $1.51 million compared to a net cash position of $0.33 million for the same period in the previous year. This represents a year-over-year decrease in net cash position of $1.83 million.

Cash flows from operating activities

Net cash inflows from operating activities during Q1 2014-2015 was $7.99 million compared to net cash inflows of $33.07 million during Q1 2013-2014. The change is a result of an increase in operating surplus refunded to the provinces combined with lower volume of export sales.

Cash flows from financing activities

Net cash outflows from financing activities were $9.10 million for Q1 2014-2015 compared to net outflows of $33.93 million for Q1 2013-2014. 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. This decrease was due to fewer cash receipts from customers as well as an increase in the payment of the operational surplus to provincial milk boards and agencies.

3. Outlook against the 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 sale of dairy products. Any significant changes in the assumptions will affect the budgeted results.

In the first quarter, milk production increased compared to last year. Milk supply is still below demand, which keeps increasing, but is catching up. CDC butter stocks are lower than last year as milk is needed to supply the market for fresh products. Provincial milk marketing boards have put measures in place to encourage milk production. Industrial milk production is expected to reach 206 M kg of butterfat, which is 4% more than what was forecasted in the Corporate Plan Summary (198 M kg). To ensure adequate supply of the market, the CDC has started importing Canada's mandatory butter imports. Canadian requirements are expected to end the dairy year around 204 M kg of butterfat, which is higher also than the forecast in the Corporate Plan Summary (199 M kg).

World prices have decreased drastically since the end of the last dairy year because of good production in most exporting countries, a lower demand in the Chinese market, and the Russian embargo on European dairy products. Because of the anticipated improvement in world prices later in the year, there is no pressing need to export surpluses at such low prices.

4. Appropriations

The following table reconciles the appropriations received and disbursed.

	Q1 ending October 31		
(in thousands)	2014	2013	$ change
Opening Balance	$ -	$ -	$ -
Parliamentary appropriations	$ 586	$ 1,070	$ (484)
Amount disbursed	$ (586)	$ (1,070)	$ 484
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 are funded by dairy producers, commercial operations, and the market place.

Government of Canada funding for administrative expenses is appropriated to the CDC 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 CDC does present the use of its appropriations on a Government fiscal year basis in the Public Accounts of Canada.

5. Risk Management

There have been no changes in the risk that the CDC faces since the publication of the CDC's 2013-2014 Annual Report.

6. Significant Changes

The following significant changes in operations, personnel, objectives, industry initiatives and programs have occurred between August 1 and October 31, 2014, 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.
Personnel	There has been no significant change in personnel compared to the Corporate Plan Summary.
Objectives	The CDC had set the objective of reducing its skim milk powder stocks in Class 4(m) (animal feed) from 14,000 to 11,000 tonnes. However, given the current upward trend in milk production, the CDC estimates that a more realistic goal for its 4(m) skim milk powder stocks at the end of the dairy year is 14,300 tonnes.
Governing Board	The CEO of the CDC, Mr. Jacques Laforge, has been reappointed for a three-year term on October 15, 2014.

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 are 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.

Original signed by

Jacques Laforge, Chief Executive Officer

Chantal Laframboise, Director, Finance and Administration

Ottawa, Canada

December 10, 2014

Canadian Dairy Commission
Statement of Financial Position

(unaudited)
(in thousands of Canadian dollars)

	As at October 31, 2014	As at July 31, 2014
Assets		
Current		
Cash	$ 1,076	$ 858
Trade and other receivables		
Trade receivables	230	2,385
Advance to provincial milk boards and agencies	2,584	1,264
Milk pools	1,012	905
Derivative asset - foreign exchange contracts	311	103
Inventory (Note 4)	76,333	111,444
	81,546	116,959
Non-Current		
Equipment (Note 5)	39	40
Intangible asset (Note 6)	277	284
	$ 81,862	$ 117,283
Liabilities		
Current		
Bank overdraft (Note 7)	$ 2,584	$ 1,264
Trade and other payables		
Trade payables	10,024	19,924
Distribution to provincial milk boards and agencies	-	27,388
Other liabilities	1,137	2,017
Derivative liability - foreign exchange contracts	34	67
Loans from the Government of Canada (Note 8)	49,308	58,404
	63,087	109,064
Non-Current		
Post-employment benefits	136	148
Equity		
Retained earnings	18,639	8,070
	$ 81,862	$ 117,282

Commitments (Note 15)

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

These financial statements were approved and authorized for issue on December 10, 2014

Jacques Laforge
Chief Executive Officer

Randy Williamson
Chairman

Chantal Laframboise
Director, Finance and Administration

Canadian Dairy Commission
Statement of Operations and Comprehensive Income

(unaudited)

(in thousands of Canadian dollars)

	for the three months ended	
	October 31, 2014	October 31, 2013
Sales and cost of sales		
Domestic sales revenue	$ 84,614	$ 76,798
Cost of goods sold - domestic	73,803	69,575
Transport and carrying charges	1,137	1,176
Finance costs	115	298
Gross profit on domestic sales	9,559	5,749
Export sales revenue	5,659	22,743
Cost of goods sold - exports	4,919	20,391
Transport and carrying charges	84	447
Finance costs	-	1
Gross profit on export sales	656	1,904
Total gross profit	10,215	7,653
Other income		
Funding from milk pools (Note 11)	1,431	1,563
Funding from the Government of Canada (Note 12)	586	1,070
Audit services	31	1
	2,048	2,634
Total gross profit and other income	**12,263**	**10,287**
Operating expenses		
Industry initiatives	151	129
Cost of Production study	184	193
Other charges (recoveries)	(247)	446
	88	768
Administrative expenses		
Salaries and employee benefits (Note 13)	1,359	1,416
Other administrative expenses	247	430
	1,606	1,846
Total operating and administrative expenses	**1,694**	**2,614**
Profit before distribution to provincial milk boards and agencies	**10,569**	**7,673**
Distribution to provincial milk boards and agencies	-	-
Total comprehensive income	**$ 10,569**	**$ 7,673**

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

Canadian Dairy Commission
Statement of Changes in Equity

(unaudited)

(in thousands of Canadian dollars)

	For the three months ended	
	October 31, 2014	October 31, 2013
Retained earnings, beginning of the year	$ 8,070	$ 10,985
Total comprehensive income for the year	10,569	7,673
Retained earnings, end of the year	$ 18,639	$ 18,658

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

Canadian Dairy Commission
Statement of Cash Flows

(unaudited)
(in thousands of Canadian dollars)

	For the three months ended October 31, 2014	For the three months ended October 31, 2013
Cash flows from operating activities		
Cash receipts from sales of goods	$ 92,459	$ 100,946
Cash paid to suppliers and others	(57,509)	(54,273)
Cash receipts from provincial milk boards and agencies (pooling)	4	243
Cash paid to provincial milk boards and agencies (operating surplus)	(27,388)	(14,531)
Cash receipts from the Government of Canada	586	1,070
Interest paid on loans	(158)	(390)
Net cash flows from operating activities	**7,994**	**33,065**
Cash flows used in financing activities		
New loans from the Government of Canada	51,643	39,786
Loan repayments to the Government of Canada	(60,739)	(73,719)
Net cash flows used in financing activities	**(9,096)**	**(33,933)**
Net increase in bank overdraft	(1,102)	(868)
Net cash (bank overdraft) at beginning of period	(406)	1,194
Net cash (bank overdraft) at end of period	**$ (1,508)**	**$ 326**
Components:		
Cash	$ 1,076	$ 1,739
Bank overdraft	(2,584)	(1,413)
Net cash (bank overdraft)	**$ (1,508)**	**$ 326**

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

Notes to Unaudited Financial Statements – October 31, 2014

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 interim financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and IAS 34 – *Interim Financial Reporting*, using International Financial Reporting Standards (IFRS).

The financial statements were approved and authorized for issue by the CDC board on December 10, 2014.

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.

The reporting period for these interim financial statements and notes thereto is August 1, 2014 to October 31, 2014. This represents the first quarter (Q1 2014-2015) of operations for the CDC's dairy year ending July 31, 2015.

Key sources of estimation 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, as well as the reported amounts of revenues and expenses during the year. Valuation of inventories is the most significant item where estimates are used. Actual amounts could differ significantly from the current estimates. 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.

3. Significant accounting policies

Cash

Cash includes funds on deposit at financial institutions.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value. Their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the CDC’s designation of such instruments.

Classifications:

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

Loans and receivables

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

Financial liabilities measured at amortized cost

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

Financial assets or liabilities measured at FVTPL

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

Transaction costs

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

Derivative financial instruments

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

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

Inventory

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

Equipment

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

Depreciation is charged to “Other charges (recoveries)” on the Statement of Operations and Comprehensive Income and begins when the equipment is available for use by the CDC. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset less estimated residual value as follows:
Generator ………………………….10 years
Computer equipment ……………….. 3-5 years

Equipment is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such 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 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

Funding from milk pools is recognized as revenue in the period the services are rendered.

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.

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

Most sales and purchases in foreign currencies have corresponding foreign exchange forward contracts (see “Derivative financial instruments” above and Note 14: *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

A number of new standards, interpretations, amendments and improvements were issued by the International Accounting Standards Board (IASB). The following standards relevant to the CDC were adopted for the annual period beginning August 1, 2014:

> IAS 32 – *Financial Instruments* was amended to provide additional guidance related to the offsetting of financial assets and financial liabilities presented on a net basis on the Statement of Financial Position. There were no changes introduced as a result of this amendment.
>
> IAS 36 – *Impairment of Assets* was amended to provide additional guidance in regards to recoverable amount disclosures for non-financial assets. There were no changes introduced as a result of this amendment.
>
> IAS 39 – *Financial Instruments: Recognition and Measurement* provides clarification as to the applicability of hedging when a hedge derivative is novated. There were no changes introduced as a result of this amendment.
>
> IAS 19 – *Employee Benefits* was amended to provide additional guidance related to employee contributions set out in the formal terms of a defined benefit plan. There were no changes introduced as a result of this amendment.

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

A number new accounting standards and amendments effective on or after August 1, 2015 have been issued by the IASB. As of the date of these financial statements, the following applicable standards and amendments have been assessed as having a possible impact on the CDC:

> IFRS 15 – *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, 2017. The CDC has not yet determined the impact of the adoption of IFRS 15.
>
> IFRS 9 – *Financial Instruments* provides requirements for classifying and measuring financial assets and liabilities. This standard is the first in a three-phase project in progress by the IASB to replace IAS 39 – *Financial Instruments: Recognition and Measurement* in its entirety. The new standard is effective for annual periods beginning

(In thousands of Canadian dollars, unless otherwise indicated)

on or after January 1, 2018. The CDC has not yet determined the impact of the adoption of IFRS 9.

Other amendments and improvements issued but not yet effective are not expected to have a significant impact on future financial results of the CDC.

4. 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. While manufacturers are contractually obligated to repurchase Plan B inventory within the course of the next dairy year at the prevailing support prices, the CDC is not contractually bound to sell to the manufacturers. However, the CDC has customarily honoured all manufacturers' requests.

Inventory in dollars:

	October 31, 2014	July 31, 2014
Plan B:		
Butter	$ 23,513	$ 60,375
Skim milk powder	13,981	13,492
Other butter	6,763	13,781
Other skim milk powder	36,046	28,784
	80,303	116,432
Less: allowance for inventory write-down	(3,970)	(4,988)
Total net realizable value	$ 76,333	$ 111,444

Inventory in tonnes:

	October 31, 2014	July 31, 2014
Plan B:		
Butter	3,176	8,159
Skim milk powder	2,159	2,084
Other butter	1,339	2,376
Other skim milk powder	22,961	14,003

Inventory expensed in the first quarter was $78.72 million (Q1 2013-2014: $89.97 million) and is presented on the Statement of Operations and Comprehensive Income in cost of goods sold (domestic and exports).

(In thousands of Canadian dollars, unless otherwise indicated)

5. Equipment

The carrying value of equipment is determined as follows:

	Balance July 31, 2014	Additions	Disposals	Balance October 31, 2014
Cost	$ 67	-	-	$ 67
Accumulated depreciation	$ 27	1	-	$ 28
Carrying amount	$ 40			$ 39

6. Intangible asset

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

	Balance July 31, 2014	Additions	Disposals	Balance October 31, 2014
Cost	$ 294	-	-	$ 294
Accumulated amortization	$ 10	7	-	$ 17
Carrying amount	$ 284			$ 277

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 October 31, 2014 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 October 31, 2014 was 3.00 % per annum (October 31, 2013: 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.

(In thousands of Canadian dollars, unless otherwise indicated)

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:

	October 31, 2014	October 31, 2013
Interest rates		
Low	1.00%	1.04%
High	1.07%	1.14%
Interest expense	$ 115	$ 299

9. Capital disclosures

The CDC's capital consists of its loans from the Government of Canada (see Note 8) and retained earnings. As of October 31, 2014 these accounts totaled $49.31 million (July 31, 2014: $58.40 million) and $18.64 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.

	October 31, 2014	October 31, 2013
Net gain (loss) on:		
Export sales	$ 48	$ 227
Domestic cost of sales	$ (37)	$ 6

(In thousands of Canadian dollars, unless otherwise indicated)

11. 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.

12. 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:

	October 31, 2014	October 31, 2013
Funded by Government	$ 586	$ 1,070
Total administrative expenses	$ 1,606	$ 1,846

13. Salaries and employee benefits

Salaries and employee benefits includes:

	October 31, 2014	October 31, 2013
Salaries expense	$1,146	$1,177
Pension contributions	137	157
Medical insurance expense	44	51
Others	31	31
Total	$1,359	$1,416

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 quarter ended October 31, 2014 was on average 1.45 times the employee's rate (1.53 times for the prior year).

(In thousands of Canadian dollars, unless otherwise indicated)

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.

14. 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 1.1271 at October 31, 2014 (1.0904 at July 31, 2014).The CDC's foreign exchange forward contracts as of the Statement of Financial Position date were as follows:

		October 31, 2014		July 31, 2014	
Currency sold	Currency purchased	In USD	In CAD	In USD	In CAD
USD	CAD	$ 548	$ 617	$ 6,958	$ 7,587
CAD	USD	$ 7,159	$ 8,254	$ 6,272	$ 7,018

These contracts will mature over the period ending December 24, 2014. 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 include $0.24 million representing net gains incurred during the current quarter (Q1 2013-2014: net losses of $0.49 million) arising from the determination of unrealized fair value remeasurements of the CDC's derivative financial instruments.

(In thousands of Canadian dollars, unless otherwise indicated)

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

In CAD	October 31, 2014	July 31, 2014
Trade receivable	$ 126	$ 1,877
Trade payable	(1,891)	(3,831)
Net derivative asset (liability)	277	36
Net exposure	$ (1,488)	$ (1,918)

Based on the net exposure as of October 31, 2014, and assuming that all other variables remained constant, had the Canadian dollar appreciated 10% against the US dollar, net income for the quarter ended October 31, 2014 would have increased by $0.59 million (Q1 2013-2014: decreased by $0.96 million). Conversely, a 10% weakening in the Canadian dollar against the US dollar would have had the equal but opposite effect for the same period.

Interest rate risk

Interest rate risk is the risk that a financial asset containing a fixed interest rate component decreases in fair value with a rise in interest rates or that a financial liability with a floating interest rate component results in increased cash outflow requirements as a result of an increase in interest rates. Other than the line of credit, for which interest expense varies as a function of prime, and loans from the Government of Canada, which vary as a function of the yield on comparable Treasury bills, the CDC does not have any other such financial assets or liabilities exposed to this risk. The CDC's exposure to interest rate risk is not significant given its low interest bearing loans.

Other price risk

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

Liquidity risk

Liquidity risk is the risk that the CDC will not be able to meet its financial obligations as they fall due. As of the Statement of Financial Position date, virtually all of the CDC's assets and liabilities were current and the CDC had a current ratio equal to 1.29 (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 $115.69 million as of October 31, 2014 (July 31, 2014: $106.60 million) as well as $2.42 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 of bank guarantees and obtaining letters of credit. As of October 31, 2014 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.

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, 2014 and July 31, 2013, there were no transfers between levels.

(In thousands of Canadian dollars, unless otherwise indicated)

15. Commitments

a) Industry Initiatives

Summary:	October 31, 2014
Dairy Research Cluster	$ 750
Matching Investment Fund	115
Scholarship Program	100
Total commitments for industry initiatives	$ 965

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. Payment will be made in 3 installments, $0.25 million in March 2015, $0.25 million 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 July 31, 2016. As of October 31, 2014, CDC has outstanding commitments of $0.12 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 October 31, 2014, 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 October 31, 2014, the CDC was committed to purchase certain quantities of butter and skim milk powder. These commitments amounted to approximately $4.24 million (July 31, 2014: $1.26 million) and were fulfilled by December 2014.

(In thousands of Canadian dollars, unless otherwise indicated)

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 2015 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 quarter ended October 31, 2014 was $3.88 million (Q1 2013-2014: $2.74 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:

	October 31, 2014	July 31, 2014
Less than one year	$ 351	$ 351
Greater than one year and less than five years	$ 587	$ 587

16. 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 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.

(In thousands of Canadian dollars, unless otherwise indicated)

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	October 31, 2014	October 31, 2013
Public Works and Government Services Canada	$ 228	$ 275
Agriculture and Agri-Food Canada	62	144
Other related Government entities	39	44
Total	$ 329	$ 463

Key management personnel

The CDC's key management personnel are the CEO, the Chairman, the Commissioner, the COO and the 3 directors.

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

The post-employment benefit liability for key management personnel as of October 31, 2014 was $0.09 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 quarter ended October 31, 2014 was $0.22 million (Q1 2013-2014: $0.30 million).