Canadian Dairy Commision
Commision canadienne du lait

Canadian Dairy Commission

Annual Report

15-16

Canada

Mandate of the Canadian Dairy Commission

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

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

Mission statement

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

Values

Excellence Integrity Leadership Respect.

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

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Message From the Chairman

I am pleased to present the Canadian Dairy Commission's Annual Report for the 2015-2016 dairy year. As we conclude the year, the Canadian Dairy Commission (CDC) is in a sound financial position and has achieved most of the objectives it had set for itself.

The CDC continued to encourage the Canadian dairy industry to grow the market, innovate and adapt to new market realities. In order to encourage new markets and investments for milk solids non fat (SNF), the CDC has adopted and communicated a new policy to limit its purchases of surplus solids non fat. This policy started on March 1; it helped raise awareness amongst the various stakeholders about the importance of finding solutions to the growing SNF surpluses. At the same time, the CDC reopened the Plan B Seasonality Program for butter to assist butter makers in building stocks in the spring and be in a better position to meet fall demand.

In the fall of 2015, the CDC launched the Milk Access for Growth Program, which promotes investments in milk processing facilities by guaranteeing milk supply. In June 2016, the CDC renewed the Matching Investment Fund, which provides non-repayable contributions for innovative projects and products that increase the use of dairy ingredients.

As the administrator of the Comprehensive Agreement on the Pooling of Milk Revenues, the CDC asked signatories to submit a written report commenting on the effectiveness and relevancy of the agreement including any suggestions for improvements. This five-year cyclical review is a requirement stated in the Agreement. All signatories responded indicating that the Agreement remained effective and relevant and no changes were suggested.

To improve its efficiency, the CDC continued to transfer Special Milk Class Permit Program participants to the web-based application that allows them to see and enter their own data. As of July 31, 2016, 80% of Special Class participants (processors, further processors and distributors) have registered into the new system. Associated efficiency gains allow the CDC to administer the program for mozzarella cheese, which has more than 9,000 participating restaurants, without the need for additional resources. Furthermore, the CDC started to integrate its routine calculations into an umbrella application called Euclid, which is directly connected to a central database. This saves time on calculations and leaves more time for verifications and analyses.

The world prices of dairy products remain volatile. This volatility is reflected on CDC revenues from the sale of skim milk powder destined for the export and animal feed markets. Setting the purchase price for these products to allow the CDC to break even at the time of their resale requires close monitoring of world prices, of milk production and stocks in the various areas of the world, of the geopolitical landscape, and of demand in emerging economies.

In the area of governance, the CDC adjusted its administrative budget to comply with the Government of Canada freeze of the federal operating budget announced in the 2013 Speech from the Throne. Furthermore, the CDC implemented the new Directive on Travel, Hospitality, Conference and Event Expenditures, as directed by the Governor in Council. The Audit Committee approved the quarterly financial statements of the CDC, as well as the statements found in this Annual Report. In light of the changes taking place in the dairy industry this year, the board decided to meet every month instead of every two months.

As CDC Chairman, I would like to express my appreciation for the co-operation we receive from industry stakeholders, provincial governments, the Minister's Office and our colleagues at Agriculture and Agri-Food Canada and the other Agriculture and Agri-Food Portfolio organizations. We are also indebted to the CDC employees who run our operations with efficiency and fairness.

Alistair Johnston

Message From the CEO

The Canadian Dairy Commission (CDC) is proud to partner with the Canadian dairy industry, an industry characterized by a spirit of collaboration and a desire to continuously improve. Each link of the value chain endeavours to ensure that Canadians have access to a continuous and adequate supply of high quality, nutritious dairy products. The CDC plays a central facilitating role for the dairy industry. In addition to operating elements of the milk supply management system, setting support prices for butter and skim milk powder and ensuring milk production meets demand, the CDC also administers several programs and encourages the industry to grow the market and innovate. Activities such as audits, pooling calculations, exports, imports, and setting quota are also part of the CDC's role and are progressing as per the CDC Strategic Plan.

Dairy Industry Trends

Consumption

Over the last 10 years, Canadian consumers reduced their per capita consumption of fluid milk and ice cream but increased their consumption of cream, cheeses and yogurt[1]. Manufacturers have responded to these trends. Canada now produces over 1,050 cheeses, most of which are made with cow milk. Innovation programs administered by the CDC have certainly been a factor in the development of some of these new products. For example, since the beginning of the Domestic Dairy Product Innovation Program[2] in 1989, 382 projects to create new cheeses, yogurt products and other dairy products used close to 102 million litres of milk. The Matching Investment Fund, launched in 2009, has financed 20 innovation projects that have received a total of almost $800,000. Cheese, skim milk powder, and fluid milk are the main ingredients involved in these projects for the development or reformulation of dairy desserts, cheese-based and nutraceutical[3] products, and dairy-based confectionery products.

In 2015-2016, retail sales of dairy products were strong for most categories. Demand for butter and cream remained strong with a respective 2.7% and 4.2% rate of increase. In addition, cheese consumption has picked up, particularly for cheddar, everyday cheeses like Mozzarella, Feta, and Havarti, and fine cheeses such as Brie and Camembert. Yogurt sales recovered over the dairy year, showing a 2.9% increase over the previous year. Even ice cream, which was a decreasing market for several years, is now showing signs of recovery.

A recent trend has been the steady increase in demand for higher butterfat dairy products, which required a 4.9% year over year increase in quota to serve the Canadian market. Repeated quota increases along with a 5% growth allowance have boosted milk production, which has not yet reached a level sufficient to allow rebuilding CDC butter inventories. To ensure proper supply of the butterfat market, the CDC imported more than 11,000 tonnes of butter this year.

Production

Over the course of the 2015-2016 dairy year, milk production increased to 338.8 million kg of butterfat, a 3.4% increase. The increase in production combined with imports allowed for a moderate increase in stock levels. Continued increases in milk production should allow the CDC to rebuild its stocks to normal levels by the end of the 2016-2017 dairy year.

Given that demand for solids non fat (SNF) grew more slowly than production, CDC year-end stocks of skim milk powder destined for animal feed reached 56,900 tonnes in 2015-2016 compared to 30,700 tonnes a year earlier. In the coming year, the CDC will continue its sales of this product to the animal feed sector and examine other measures to reduce its inventories. During certain periods of the year, surplus of SNF exceeded the industry's capacity to dry resulting in skim milk receiving special treatment with no return to producers.

In the last five years, Canada lost 1,282 dairy farms, a 10% reduction[4]. This attrition rate is close to the rate for non supply-managed commodities and slightly lower than for United States or European dairy farms[5]. This trend is expected to continue. As a result, the remaining farms produce more milk.

1 Source: www.dairyinfo.gc.ca

2 Replaced by the Dairy Innovation Program on August 1, 2013. Program parameters are essentially the same.

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

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

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

Since February 2015, we have observed a steady decline in average producer revenues per hectolitre produced. This is partly due to a decline in world prices, which directly impacts the price that producers get for the 9% of their milk that is exported or used to make ingredients for the further processing sector. Another reason for this decline in revenue is the increase in butterfat demand on the Canadian market. Milk production increased to supply this demand but the demand for the other portion of the milk (solids non fat) did not increase as rapidly. Also, increased imports of milk proteins from the U.S. displaced domestic milk proteins, adding to the surplus of solids non fat in Canada. As a result, greater quantities of skim milk, mostly in the form of skim milk powder, were sold in the animal feed market which generates the lowest return for producers.

Processing

In 2015, Canada's dairy processing sector contributed $17.0 billion and 23,322 jobs to Canada's economy. During the last 12 months, some large Canadian processors have increased their imports of concentrated milk proteins in liquid form to use them in cheese and yogurt-making.

Trade

World Trade Organization (WTO) members have reached an agreement on export subsidies in the agriculture sector on December 19, 2015, in Nairobi, Kenya. According to this agreement, Canada is to eliminate all subsidized exports of dairy products by the end of 2020. In the meantime, Canada must also limit its subsidized exports to the average quantities exported in the 2003-2005 base period. For the CDC, this means that rules for the exports of the surplus solids non fat will change.

On October 5, 2015, the Canadian government announced the conclusion of the Trans-Pacific Partnership (TPP), a trade deal between 12 nations representing 40% of the world market. If ratified in its current form by all participating countries, the TPP will increase imports of dairy products into Canada over the 18 years that will follow its effective date. These imports represent approximately 3.25% of Canada's milk production. The CDC will take these imports into account when setting the quota for milk production in Canada.

Canada and the European Union (EU) reached an agreement in September 2014 towards a Comprehensive Economic and Trade Agreement (CETA). This agreement will increase the EU access to the Canadian cheese market by 17,700 tonnes (approximately 1.6% of the current milk production in Canada) and will also give Canada duty-free access to the EU dairy markets. These additional imports will also be taken into account to set quota once CETA is in place.

Workplace Trends

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

In 2016, as part of an ongoing workplace assessment exercise, the CDC conducted its third annual employee satisfaction survey. The objective of the survey is to provide a snapshot of a number of themes and issues relevant to the CDC. The response rate this year was 87%, down from 94% in 2015. The overall satisfaction rate increased slightly, from 90% in 2015 to 92% in 2016. This increase is not significant but still demonstrates that the overall health of the organization remains positive. The CDC is committed to addressing any organizational concerns identified by the survey over the next year.

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

Jacques Laforge

The Canadian Dairy Commission

The Canadian Dairy Commission (CDC) is a Crown corporation created in 1966 by the *Canadian Dairy Commission Act*. The CDC reports to Parliament through the Minister of Agriculture and Agri-Food to whom it serves as an advisor on matters related to the dairy industry. The CDC is part of the Agriculture and Agri-Food Portfolio along with Agriculture and Agri-Food Canada, the Canadian Grain Commission, Farm Credit Canada, the Farm Products Council of Canada, and the Canada Agricultural Review Tribunal. The CDC also works in partnership with the Canadian Food Inspection Agency.

CDC at a glance

Created in 1966

61 employees (as of July 31, 2016)

Location: Ottawa

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

Budget 2015-2016 (dairy year): $7.77 million

Dairy year: August 1 to July 31

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

Since supply management was first applied to the dairy sector, the CDC has been in charge of two critical parts of the system: setting support prices[6] and recommending milk production quota. The CDC sets the support price of butter and skim milk powder based on consultations with industry stakeholders and a study on the cost of production. These prices are used as references by the provincial milk marketing boards to establish the price of industrial milk in each province. Through its many roles and central facilitating function in the dairy industry, the CDC ensures that Canadian dairy farmers receive sufficient revenues from the marketplace to achieve decent living standards and invest in their businesses.

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

To achieve its mandate, the CDC works with provincial governments and dairy industry stakeholders such as dairy producers, processors, further processors and consumers. On behalf of the dairy industry, it administers the revenue and market pooling agreements and develops, implements, and administers major programs such as the Special Milk Class Permit Program, the Dairy Innovation Program, the Dairy Marketing Program, the Dairy Export Program and the Skim Milk Redirection Program[7].

The CDC chairs the Canadian Milk Supply Management Committee (CMSMC)[8] and in this capacity, apprises the committee on matters that require resolution and, when necessary, proposes various solutions, alternatives or recommendations to enhance orderly and efficient marketing with an eye to avoiding deficit or surplus milk production. The CDC performs a similar role for the Eastern Canadian Milk Pool (P5) and the Western Milk Pool (WMP)[9].

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

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

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

9 See p. 21 for more information on these pools.

The Canadian Dairy Industry

Farm receipts

As a key contributor to the Canadian economy in 2015, the dairy industry ranked third (based on farm cash receipts) in the Canadian agriculture sector following grains and oilseeds and red meat. It generated $6.07 billion in total farm receipts that year.

Number of farms and production per farm

In 2015, 11,683 dairy farms were shipping milk in Canada. The average farm had 82 cows and an average annual production of 28,998 kg of butterfat[10], a production higher than that of 2014. Quebec and Ontario had the greatest percentage of dairy farms at 82%, followed by 13% in the Western provinces, and 5% in the Atlantic Provinces.

Milk processing

In 2015, the dairy processing industry generated $17.0 billion worth of products shipped from 477 processing plants (273 of which were federally registered) accounting for 16% of all processing sales in the food and beverage industry. The dairy processing sector employed 23,322 workers.

[10] Milk production in Canada is expressed in kg of butterfat.

Milk markets

Provincial marketing boards and agencies purchase milk from producers and sell it to processors for the manufacture of dairy products. The milk sold to processors in Canada is classified according to its end use based on the Harmonized Milk Classification System[11]. The price paid for milk by processors varies according to the milk class. The following table shows how Canadian milk production was used in 2015-2016.

Milk utilization per class

Class	Million kg of butterfat	% of total milk
1	97.8	28.9
2	27.5	8.1
3	119.8	35.5
4(a) and 4(a)1	62.8	18.6
4(b), 4(c), 4(d), 4(m)	4.0	1.2
5(a), 5(b), 5(c)	25.1	7.4
5(d)	1.0	0.3
TOTAL	**338.0***	**100.0**

* This total cannot be compared to the data on page 63 because it excludes milk supplied to food banks, milk sold at fairs and losses.

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

In the 2015-2016 dairy year, the fluid milk market accounted for approximately 29% of total sales or 97.8 million kg of butterfat. The industrial milk market accounted for the remaining 71% of total sales or 240.2 million kg of butterfat.

Governance

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

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

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

Governing Board

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

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

Board Members

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

Alistair Johnston

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

Commissioner (appointed on October 1, 2013, for a three-year term)

Henricus Bos

Mr. Bos graduated with a B. Sc. in Dairy in 1974 in the Netherlands. Before moving to Canada, he took on various governance roles in the Netherlands dairy industry, while at the same time owning and operating a dairy farm. He immigrated to Lacombe, Alberta

Henricus Bos, Commissioner; **Alistair Johnston**, Chairman; **Jacques Laforge**, Chief Executive Officer in 1994, where he and his family established a successful dairy farm and in 1996, founded their natural yogurt business.

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

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

Jacques Laforge

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

Board Committees

Audit Committee

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

Members

- Commissioner (chair)
- Chairperson
- Chief Executive Officer

Senior Management Team

On May 15, 2016, the COO position was terminated following the departure of the incumbent. This led to a change in the organizational structure of the CDC which had an effect on the membership of the Senior Management Team (SMT). As a temporary measure, the managers who reported to the COO, namely the Chief, Communications and Strategic Planning, the Chief, Policy and Economics, the Chief, Information Technology and Management, and the Manager, Domestic Marketing Programs, were added to the SMT.

Since June 2016, the Domestic Marketing Programs are the responsibility of the Senior Director, Commercial Operations and Marketing. A new director position will be created in the upcoming dairy year to oversee Communications and Strategic Planning, Information Technology and Management and HR.

The incumbent of that new position will become a member of the SMT, replacing the two chiefs and the HR Program Manager.

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

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

Members

As of July 31, 2016, in addition to the CEO, the following people make up the SMT.

- Senior Director, Commercial Operations and Marketing
- Director, Audit and Evaluation
- Director, Finance and Administration
- Director, Policy and Economics
- Chief, Communications and Strategic Planning
- Chief, Information Technology and information Management
- Manager, Human Resources Programs

From left to right, top row: **Richard Rancourt**, Chief, Information Technology; **Christine Boutin**, Senior Director, Commercial Operations and Marketing; **Chantal Laframboise**, Director, Finance and Administration; middle row: **Josée Pigeon-Laplante**, Manager, Domestic Marketing Programs; **Danie Cousineau**, Corporate Secretary; **Chantal Paul, Chief**, Communications and Strategic Planning; bottom row: **Hossein Behzadi**, Director, Audit and Evaluation; **Benoit Basillais**, Director, Policy and Economics; **Corinne Canuel-Jolicoeur**, Manager, Human Resources Programs.

Management Committees

Human Resources Advisory Committee

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

Members

- Chief Operating Officer (chair)[12]
- Manager, Human Resources Programs (secretary)
- A representative of each service

[12] As the COO position no longer exists, a new chair will be selected in the new dairy year.

Information Technology Advisory Committee

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

Members

Chief, Communications and Strategic Planning (chair)

Director, Finance and Administration

Manager, Audit

Chief, Information Technology and Management

Chief, Commercial Operations and Marketing

Director, Policy and Economics

Internal Audit and Program Evaluation Advisory Committee

The mandate of the Internal Audit and Program Evaluation Advisory Committee is to develop internal audit and program evaluation plans for the review of the CDC's systems, programs, policies, and practices. It is also responsible for monitoring the progress of internal audits and program evaluations as per the approved plans and of the resulting management actions. It meets at least three times per year and at the request of the committee chair.

Members

Chief Executive Officer (chair)

Senior Director, Commercial Operations and Marketing

Director, Audit and Evaluation

Director, Finance and Administration

Manager, Audit

Senior Financial Officer

Occupational Safety and Health Committee

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

Members

1 employee representative (co-chair)

1 employer representative (co-chair)

1 secretary

1 employee representative

Risk and Security Committee

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

Members

Departmental Security Officer

Chief, Communications and Strategic Planning

Senior Financial Officer

Governance at the CDC

In the fall of 2015, the board approved the Annual Report and Financial Statements of the CDC for the 2014-2015 dairy year. In April 2016, the board also approved the CDC's Corporate Plan for the period starting in 2016-2017 and ending in 2020-2021. The Corporate Plan contains all the major directions of the corporation as well as its forecasted budgets and borrowing plan. It was approved by Treasury Board on June 2, 2016.

The CDC updated its Corporate Risk Profile in January and April 2016. The profile defines each risk, describes the existing measures for managing the risk and the group responsible for implementing these strategies, and it is taken into account when performing the environmental analysis during the strategic planning process. The Audit Committee approves the measures contained in the Corporate Risk Profile and these measures are monitored by the Internal Audit and Program Evaluation Advisory Committee on a regular basis.

The Audit and Evaluation division started planning an internal audit on core controls in two phases, which will mainly assess the CDC's effective and efficient management of its resources, both financial and non-financial. This internal audit has been a priority among various government departments with the Office of the Comptroller General placing a great importance on the prudent stewardship of public resources.

The CDC held its annual public meeting in January 2016 in Ottawa. This meeting is open to the public but is generally attended by about 50 representatives of the dairy industry. It gives the CDC the opportunity to report on its financial statements and strategic objectives for the past and current dairy years and to answer any questions from participants.

Activities and Programs

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

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

Supply Management

Determining and Adjusting Quota

The CDC monitors trends in total demand[13] and milk production (supply) on a monthly basis. This allows it to adjust the production quota every month to reflect changes in the domestic demand for milk products, as well as changes in planned exports. The objective when establishing production quota is to minimize the possibility of shortages or surpluses in the domestic market. Any surplus that occurs is managed by adjusting the quota, by temporarily storing surpluses at the expense of producers or by exporting dairy products within Canada's trade commitments.

From August 1, 2015, to July 31, 2016, total milk demand increased by 4.9 % from the previous year, to reach 344.8 million kg of butterfat. Significant quota increases were announced at the producer level. As a result, milk production increased by 3.4% to 338.8 million kg of butterfat. Production is now very close to demand, but needs to surpass it to replenish butter stocks that were used the previous year. With milk production being very strong, butter stocks are expected to return to normal by the end of dairy year 2016-2017.

Supplying Growth

In January 2016, the CMSMC increased the growth allowance from 2% to 5% from December 1, 2015, to July 31, 2016. The CMSMC also approved a quota adjustment of more than 2 million kg of butterfat that had the same effect as if the growth allowance had been in place since August 1, 2015. This measure provides additional milk that is allocated in priority to the manufacture of dairy products experiencing growth.

Removing Surplus

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

In 2015-2016, 93,900 tonnes of skim milk powder equivalent were removed from the market. This quantity is broken down as follows.

Surplus Removal

Product	Market	Tonnes of SMP equivalent ('000)
CDC purchases of skim milk powder	Export	12.4
CDC purchases of skim milk powder	Animal feed	48.9
Processor sales of skim milk powder	Animal feed	16.7
Dairy blends	Export	8.8
Milk protein concentrate	Export	4.4
Other products	Export	2.7
TOTAL		**93.9**

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

Given that increased demand for butterfat outpaced demand for solids non fat (SNF) over the last dairy year, CDC inventories of surplus 4(m) SMP rose significantly. CDC stocks went from 30,700 tonnes to 56,900 tonnes. Sales of 4(m) SMP to the animal feed sector will continue in the next dairy year while CDC considers other measures to reduce surplus SNF.

Adjusting Supply

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

Imports

Under the terms of the 1994 WTO Agreement on Agriculture, Canada has established tariff rate quotas (TRQ) for a number of dairy products. TRQs are the quantities of products that can enter Canada with little or no tariff. With the support of the industry, the CDC has acted as the receiver of butter imports under federal permit since 1995 and has directed this product to the food sector through butter manufacturers. The TRQ for butter is 3,274 tonnes. Of this, approximately two thirds (2,000 tonnes) is specifically allocated to New Zealand.

Summary of transactions under the Domestic Seasonality Programs

	Opening inventory	Purchases	Sales	Closing inventory
	tonnes			
Butter	6,018	14,303	11,853	8,468
Skim milk powder	975	756	1,397	334

Data include imported butter and butter oil.

In 2015-2016, to supply demand, the CDC largely depleted its stocks, and then imported butter. The CDC imported Canada's mandatory butter imports first but that quantity was not enough to supply the market. The CDC therefore asked Global Affairs Canada (GAC) for a supplementary import permit for 4,000 tonnes of butter; the permit was granted in November 2015 and was later increased to 4,400 tonnes. It allowed the CDC to import more butter without having to pay the tariff normally applied to over-access imports. These imports were mostly directed to the further processing sector, which had serious supply issues. This quantity was sufficient to supply the market until March 2016. Given that the demand for butterfat was showing no sign of slowing down, the CDC asked GAC for another supplementary import permit of 4,000 tonnes of butter in February 2016. This permit was granted to the CDC in April and the 4,000 tonnes were imported by the end of the dairy year.

Producer Revenues

Pricing

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

Two elements of the CDC's mandate are taken into account in the pricing decision: providing efficient producers with an adequate return on their labour and investment, and providing Canadian consumers with an adequate supply of high quality dairy products. Each year, the CDC holds pricing consultations and the views of stakeholders are carefully considered before making this decision. Commissioners also examine the results of the annual study on the cost of producing milk in Canada which is conducted by data collection agencies under CDC supervision.

On December 15, 2015, the CDC announced adjustments to the support prices of butter and skim milk powder which came into effect on February 1, 2016. The support price of butter went from $7.4046 to $7.7815 per kg and the support price for skim milk powder went from $6.3109 to $4.4176 per kg. These adjustments recognized a 3.11% increase in the cost of producing milk in Canada. The projected net result was an overall revenue increase for producers of approximately 2.2%, everything else being equal.

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

The price paid by processors for fluid milk is established by the provinces using a formula. This formula was modified in 2012-2013 and was in effect until February 1, 2016. It triggered an increase in the price of fluid milk of 2.19% as of February 1, 2016, when compared to February 1, 2015.

Pooling of Markets and Producer Returns

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

Comprehensive Agreement on Pooling of Milk Revenues (P10 Agreement)

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

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

Further processors used the equivalent of 25.09 million kg of butterfat in the 2015-2016 dairy year, a decrease of 16% over the previous year. The decrease is mostly explained by the tight supplies of Canadian butter which were mostly offset by additional imports of butter by the CDC. The average revenue obtained by producers from these three classes amounted to $38.99/hl compared to $44.89/hl for the previous year. The number of active participants registered in the program on July 31, 2016, amounted to 1760.

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

Class		2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
5(a) (cheese)	Volume	7.46	7.35	7.61	8.09	7.96
	Price	$40.73	$40.95	$48.24	$50.42	$44.18
5(b) (other ingredients)	Volume	13.59	14.97	17.50	16.05	11.82
	Price	$39.26	$38.59	$50.89	$46.88	$40.66
5(c) (confectionery)	Volume	4.95	5.15	6.37	5.86	5.31
	Price	$33.74	$36.87	$48.60	$33.35	$27.68
Total	**Volume**	**26.00**	**27.47**	**31.48**	**30.00**	**25.09**
	Price	**$38.24**	**$39.08**	**$48.99**	**$44.89**	**$38.99**

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

Regional Pooling Agreements

Agreement on the Eastern Canadian Milk Pooling (P5 Agreement)

The Agreement on the Eastern Canadian Milk Pooling provides a means for revenues from all milk sales, transportation costs, markets, and the responsibility for skim-off[14] to be pooled among dairy producers in Ontario, Quebec, New Brunswick, Nova Scotia and Prince Edward Island. The CDC chairs the meetings of the Supervisory Body of the pool, administers the pooling agreement, completes pooling calculations, and provides technical expertise and secretariat services to the P5.

To better understand the status of surplus milk in the P5, the P5 Supervisory Body (SB) created a Surplus Milk Working Group. This led to the adoption of a harmonized policy to both deal with and share surplus milk between P5 provinces. Additionally, the P5 SB adopted a new Integrated Model for milk movement between provinces. The adoption of these two policies in July 2016 will further streamline milk movements between provinces, and improve the ability to serve demand. Other important milestones in the P5 for the 2015-2016 dairy year include the creation of a Skim Milk Redirection Program, an ongoing policy on the pooling of skim milk losses, and a series of productive exploratory discussions with Newfoundland and Labrador on the possibility of integrating that province in the Agreement on the Eastern Canadian Milk Pooling.

Western Milk Pooling Agreement

Since 1997, Manitoba, Saskatchewan, Alberta and British Columbia form the Western Milk Pool (WMP) which shares revenues and markets for all milk classes. The CDC chairs the WMP Coordinating Committee and administers the pooling agreement, performs the pooling calculations and provides technical expertise and secretariat services. Starting on August 1, 2015, the CDC reduced its support to producer-only committees to focus its efforts on committees involving all stakeholders such as the WMP Coordinating Committee. This allowed the CDC to allocate more resources to important national issues.

In August 2015, the WMP hired a WMP Coordinator. The WMP faced many challenges with milk supply and processing capacity throughout the dairy year, particularly in the province of Manitoba. As a result, the WMP adopted a policy on the pooling of skim milk losses.

Harmonization of policies and activities amongst P5 and WMP provinces continues to progress. For instance, in November 2015 both pools agreed to harmonize the price of their solids non fat in fluid milk. Efforts continued throughout the dairy year, leading to the adoption of a national pricing formula for all dairy products in July 2016. The formula is based on the existing national fluid pricing formula (50% cost of production + 50% Consumer Price Index). In addition, it was decided that the two pools would collaborate to transport milk as needed between the East and the West in order to supply markets.

Milk deliveries by pool (million kg of butterfat)

	P5	WMP
Fluid milk	76.85	36.05
Industrial milk	178.13	45.79
Total	254.98	81.84

Market Development

Class 3(d)

Class 3(d) was launched in June 2013 to encourage restaurants to use Mozzarella on fresh pizzas. In 2015-2016, 1,867 new restaurants joined the program for a total of 9,018 restaurants. As a consequence, the total amount of Mozzarella used in the program increased by 33%, reaching 44 million kg.

Dairy Marketing Program

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

In 2015-2016, the CDC participated in the Restaurants Canada trade show to promote the Dairy Innovation Program, the Matching Investment Fund, the

[14] Excess butterfat from the fluid milk market

Special Milk Class Permit Program as well as other services the CDC offers to dairy processors and food manufacturers.

Dairy Innovation Program

The Dairy Innovation Program (DIP) encourages the manufacture of new and innovative products on the domestic market. It allows for the addition of specific volumes of milk to provincial quotas to ensure that the milk supply needed to produce innovative products is available to successful applicants.

During the 2015-2016 dairy year, dairy processing companies across Canada used 41.8 million litres of milk under the DIP compared to 103.5 million litres in 2014-2015. This decline is a result of the expiry of several large Domestic Dairy Product Innovation Program (DDPIP) contracts. Quota previously allotted to the manufacture of products approved under DDPIP is allotted to the provinces upon expiry of DDPIP contracts. DDPIP was replaced with the DIP program in 2013.

This year, the DIP selection committee met on two occasions. It received a total of 11 applications, most of which were for specialty cheeses. Of these, 11 applications, 3 were approved, 5 were rejected, 2 are pending review and 1 was withdrawn by the applicant.

Matching Investment Fund

The Matching Investment Fund (MIF) is designed to help eligible companies and Food Technology Centres with product development initiatives that help stimulate demand for Canadian dairy products and ingredients. During the 2015-2016 dairy year, the MIF received 16 applications, and as of July 31, 2016, 6 projects were evaluated and received funding approval. Approved projects include consultation services, recipe formulation and technology transfer activities.

Exports

During the 2015-2016 dairy year, dairy products were exported by the CDC as well as exporting companies who were issued Class 5(d) export permits. The main role of the CDC was to dispose of the structural surplus of solids non fat mainly in the form of skim milk powder or blends containing skim milk solids. During the 2015-2016 dairy year, Canada exported 11,321 tonnes of skim milk powder.

In regard to cheese exports, the CDC issues Class 5(d) export permits to Canadian exporters that give them access to the aged cheddar market in the United Kingdom (UK). In 1980, Canada negotiated a special access quota with the UK which amounts to 4,000 tonnes. Again this year, Canada did not export the full access quota. This was partly compensated by issuing traditional Class 5(d) export permits under the CDC's Dairy Export Program for other destinations. In total, Canada exported 4,358 tonnes of cheese. With no surplus butter production available again in 2015-2016, no export activity was authorized by the CDC.

Export limits and products exported

Category	Subsidy limit (million $)	Subsidy value on exported products (million $)
Butter	11.025	0
Cheese	16.228	8.842
Skim milk powder	31.149	31.145
Other dairy products	22.505	21.982
Incorporated products	20.276	19.154

Dairy Export Program

In an effort to create long-term export opportunities for Canadian dairy products, the CDC, following consultations with the industry, put in place the Dairy Export Program, as an expansion of the Planned Export Program for Cheese. It aims to support other dairy products as well as the export of up to 3,000 tonnes of cheese per dairy year. Applicants must be federally licensed plants or exporters.

Market Development Initiative

The CDC has been actively involved in providing assistance to investors (foreign and domestic) in order to promote the development of new markets with a focus on solid non fat. The goal is to arrive at private investments from Canadian or foreign enterprises to grow markets both in Canada and abroad and reduce substantially the Canadian structural surplus of milk solids non fat.

Auditing

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

Type of audit	Auditee	Purpose of audit
Revenue sharing	Provincial boards	Verify completeness of pooled revenues from all 10 provinces
Milk utilization	Processors	Verify accuracy and completeness of milk components reported in utilization classes and related programs (i.e. School Milk Program, Dairy Innovation Program, etc.) in 6 provinces (NL, PE, NB, NS, MB, SK)
Special Milk Class Permit Program	Distributors	Verify compliance with program requirements
Mozzarella used on fresh pizza	Class 3(d) participants	Verify compliance with class requirements
Special Milk Class Permit Program/Import for Re-export Program	Further processors	Verify compliance with program requirements

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

During the 2015-2016 dairy year, 64 companies, including 4(m) permit holders and IREP participants, were audited compared to 68 the previous year. Some audits were jointly conducted with provincial auditors in Ontario. The CDC also performs the milk plant utilization audits in Manitoba, Newfoundland and Labrador, Nova Scotia, Prince Edward Island, New Brunswick, and Saskatchewan (33 plants in 6 provinces) on a cost-recovery basis. Such audits cover procedures specific to each class as well as other CDC and provincial programs (i.e. DDPIP/DIP, School Milk Program, etc.).

Audits for Class 3(d) (Mozzarella for fresh pizzas) were performed and covered two major chains and independents for a total of 699 pizzeria restaurants.

As of July 31, 2016, overall audit recoveries totalled $513,441.

National Milk Utilization Audit Standards and Harmonization of Practices

In parallel with its auditing work, the CDC provides expertise and promotes the harmonization of procedures to the National Milk Audit Advisory Committee. This committee brings together all CDC auditors, provincial auditors, as well as representatives from milk marketing boards and the dairy processing industry twice a year. One meeting was held in December 2015 via Webinar and a face-to-face meeting was held in August 2016.

Industry Support

Secretariat, IT and Translation Services

The CDC coordinated 75 meetings as well as several webinars and conference calls and translated approximately 300 documents in support of the regional pools, the Canadian Milk Supply Management Committee and several working groups and national committees,

In 2015-2016, the CDC continued to migrate the SMCPP participants to its new Milk Ingredient Reporting System (MIRS). MIRS is a web-based system that simplifies the reporting activities and reconciliations of the further processors and distributors registered in the SMCPP. Eighty percent of large companies and distributors are registered in MIRS and have access to the Web-based system. The CDC continues to encourage and assist the remaining twenty percent of participants in adopting the MIRS Web portal. Thanks to this system, the speed of data reconciliations has improved significantly over the past three years.

CDC Scholarship Program

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

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

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

* Now affiliated with Dalhousie University.

Between 2006 and July 31, 2016, the CDC funded 93 masters' projects and 31 doctorates.

The institutions listed above have been granted until July 31, 2017, to award the unspent funds. Institutions will then return all outstanding funds including accrued interest to the CDC by October 20, 2017.

Dairy Research Cluster

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

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

Performance and Goals

ACHIEVEMENTS FOR 2015-2016

The CDC has achieved most of its objectives. The departure of key staff and changing industry priorities have hindered the achievement of some of them.

Growing markets

5-year objective	Performance measure for 2015-2016	Target	Results	% complete
Create an environment that is conducive to market growth and innovation.	Total quota	At least 2% growth	Total quota increased by 4%	100%
Promote the timely supply of milk to growing markets.	Time to respond to requests for a supply of skim milk to manufacture dairy products, if any	100% within 30 days	A framework has been established. Due to ongoing industry negotiations, this activity was put on hold.	n.a.

A Well-Administered Supply Management System

5-year objective	Performance measure for 2015-2016	Target	Results	% complete
Ensure that efficient producers receive fair returns	Total overall producer revenues per dairy year	A 1% increase from the previous dairy year	Total producer revenues increased by 0.7%[15].	70%
	Number of audits	50 audits of participants to the Special Milk Class Permit Program	61 audits completed	100%
		750 audits of restaurants participating in Class 3(d)	699 audits completed	93%
Ensure that Canadian milk production meets demand.	Plan A butter stocks[16]	No less than 3,000 tonnes on August 1, no less than 1,000 tonnes on January 1	Plan A stocks were well below target all year because they were used to supply demand for butter. They were at 230 tonnes on August 1 and at 129 tonnes on January 1. With the current upward trend in milk production, CDC stocks are expected to return to normal by the end of next dairy year.	0%
	Total quota *vs*. total demand	Total quota is between 99.5 and 101% of demand	Total quota is at 100.8% of demand as of July 31, 2016.	100%

[15] Although total revenues increased by 0.7%, the revenue per hl decreased by 6% in the last 18 months. That is why the CDC announced a second support price adjustment that will apply on September 1, 2016.

[16] Stocks of butter in 25kg blocks that the CDC owns fully and can sell to any butter maker. In the case of Plan B butter, in one-pound prints, butter manufacturers repurchase their own product.

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

5-year objective	Performance measure for 2015-2016	Target	Results	% complete
Ensure the respect of federal-provincial and international agreements.	Number of tools implemented	2	As per its modalities, the Comprehensive Agreement on the Pooling of Milk Revenues was reviewed and none of the signatories requested changes. A computer application that automates calculations has been created and relevant calculations are being integrated gradually.	75%
	Time to perform pooling calculations	Monthly, within 3 business days of data reception	Calculations are on target.	100%
	Time to transfer funds among provinces and send quota figures	Monthly, within 5 business days of the end of calculations	Fund and data transfers are on target.	100%
	Time to send milk movement figures	Monthly, before the 10th of each month	Data transfers are on target.	100%
	Quantities of exports	At least 99% of permitted exports of cheese and products containing high quantities of milk solids non fat	Cheese Skim milk powder Other products Blends	54% 100% 98% 94%
	Quantities of butter imports	3,274 tonnes	The CDC imported the butter TRQ of 3,274 tonnes of butter.	100%

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

5-year objective	Performance measure for 2015-2016	Target	Results	% complete
Propose and support measures that improve the administration of the supply management system	Perform a business process improvement analysis (BPIA) of imports, exports, seasonality and surplus removal programs	BPIA 100% completed	The BPIA is 20% complete. Its need is being reassessed given the end of subsidized exports of dairy products at the end of 2020.	20%

An Industry that Adapts

5-year objective	Performance measure for 2015-2016	Target	Results	% complete
Help the Canadian dairy industry adapt to changing market conditions, within the framework of supply management	Number of proposals made or specific actions taken	At least 3	The CDC reduced the support price of skim milk powder by 30%. The CDC adopted and communicated a new policy to limit its purchases of surplus solids non fat to encourage processors to use these milk components in other markets and to increase their drying capacity. The CDC implemented the Milk Access for Growth Program. The CDC renewed the Matching Investment Fund.	100%
Create an environment conducive to the development of new markets for solids non fat (SNF)	Number of private investment commitments	At least 3	2 projects are under discussion but no formal agreement has been signed.	66%
	Forecasted additional use of SNF as ingredient in subsequent dairy years	At least 10,000 tonnes of skim milk powder equivalent per year	Quantities are unknown for the moment	n.a.
	Number of partners identified to develop the Asian market for existing Canadian dairy products	At least 1	Several discussions took place with several partners	100%

A Well-Managed CDC

5-year objective	Performance measure for 2015-2016	Target	Results	% complete
The CDC adapts to remain a high-performing organization	Employee satisfaction rate as measured by the annual employee satisfaction survey	Satisfaction rate of 70%	The CDC employee satisfaction as per the CDC Employees Annual Survey is of 92%.	100%
	Degree of implementation of HR plan	Plan 80% completed	Plan is 100% completed	100%
	Performance management ratings	Less than 5% of employees require action plans	No employee requires an action plan	100%
	Time to complete staffing actions	90% of positions staffed within 3 months of departure or end of classification process for internal staffing processes	100% of positions	100%

Performance Goals for 2016-2017

The CDC's performance objectives for 2016-2017 are based on the strategic themes and 5-year objectives identified in its Corporate Plan.

Growing Markets

5-year goals	2016-2017 objectives	Performance indicators	Target
Create an environment that is conducive to market growth and innovation	Demand for Canadian dairy products has grown	Total requirements	At least 2% growth
		MAG applications approved	At least 2
		Number of innovative dairy products introduced through DIP or other initiatives	4 products
Promote the timely supply of milk to growing markets	Ample milk supply is available at the right place at the right time in the Canadian market	Quantity of butter imported	A maximum of 3,274 t
		Number of unfulfilled requests for skim milk in any dairy product	0

An Industry that Adapts

5-year goals	2016-2017 objectives	Performance indicators	Target
Help the Canadian dairy industry adapt to changing market conditions, within the framework of supply management	The industry understands the forces that are changing the market and is taking steps to adapt	Number of proposals made by the CDC to support the industry in addressing changing market conditions	At least 2
Create an environment conducive to the development of new markets for solids non fat (SNF)	Ensure that the private sector makes new investment commitments to increase the use of SNF as ingredients in value-added products	Number of investment commitments	At least 3
	New investments have been made by the processing sector to improve processing efficiency and capacity	Investment commitments	At least 2

A Well-Administered Supply Management System

5-year goals	2016-2017 objectives	Performance indicators	Target
Ensure that efficient producers receive fair returns	The increase in overall producer revenues is driven mostly by market growth and better farm efficiencies	Total overall producer revenues per dairy year	A 1% increase from the previous dairy year
	Ensure that milk components sold under various programs are used in eligible products	Number of audits	50 audits of participants to the Special Milk Class Permit Program 100 audits of participants in Class 3(d)
Ensure that Canadian milk production meets demand	Increase market responsiveness of milk supply through improved market analysis and forecasts	Total quota *vs.* total demand	Total quota is between 99.5% and 101% of demand
		Total butter inventories on July 31, 2017 (CDC + private)	24,000 tonnes

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

5-year goals	2016-2017 objectives	Performance indicators	Target
Ensure the respect of federal-provincial and international agreements	The federal-provincial pooling agreements are working smoothly	Time to perform pooling calculations	Monthly, within 5 business days of data reception
		Time to transfer funds among provinces and send quota figures	Monthly, within 4 business days of the end of calculations
		Time to send milk movement figures	Monthly, before the 10th of each month
	The CDC respect its obligations under the WTO Agreement on Agriculture	Quantities of exports	Between 99% and 100% of permitted exports of cheese and products containing high quantities of milk solids non fat
		Quantities of butter imports	3,274 tonnes
Propose and support measures that improve the administration of the supply management system	Review some of CDC's programs	Number of programs reviewed	2 programs

A Well-Managed CDC

5-year goal	2016-2017 objectives	Performance indicators	Target
The CDC adapts to remain a high-performing organization	The CDC has the appropriate workforce to achieve its objectives (the right number of engaged employees with the right skill set in the right structure)	Employee satisfaction rate as measured by an annual employee satisfaction survey	Satisfaction rate of at least 80%
		Performance management ratings	Less than 5% of employees require action plans
		Rate of position filled	95% of positions are filled at any time
	The CDC has the right tools to achieve its objectives	Number of tools developed or adapted	3 tools including Euclid
	There is a process in place to measure industry stakeholders'/partners' level of satisfaction with the CDC.	Intelligence gathered	Report received from external agency and submitted to CDC board

Financial Report

Management Discussion and Analysis

The following discussion and analysis of the operating results and financial position of the Canadian Dairy Commission (CDC) for the year ending July 31, 2016, should be read in conjunction with the financial statements of the CDC enclosed herein and the annual report.

Selected Key Results of Operations

Domestic activities

The CDC purchases and sells butter and skim milk powder (SMP) in order to regulate the supply of dairy products in the domestic market throughout the year. In the 2015-2016 dairy year, total revenues from domestic sales increased by $11.7 million or 6% compared to the previous year. This is mainly due to higher sales revenues for imported butter, which were offset by a decrease in revenues for domestic butter and skim milk powder. The net effect was very similar gross profits for both years.

The CDC purchases butter in bulk under Plan A which is resold to processors when domestic seasonal demand increases. As a result of lower inventories, the CDC sold less Plan A butter on the domestic market. A quantity of 1,500 tonnes (t) was sold this year compared to 1,940 t the previous year, representing a decrease in revenue of $3.0 million. Because of strong demand for butter, processors served the market directly rather than selling to the CDC. As a result, Plan A stocks were very low for the entire year.

The CDC also purchases Plan B butter and SMP from processors who must repurchase those dairy products within a predetermined period. This year, the CDC sold 10,353 t of Plan B butter compared to 11,938 t last year, representing a decrease in revenues of $9.9 million. In the case of Plan B for SMP, sales decreased by 1,358 t, amounting to a decrease in revenues of $9.5 million. Plan B butter and SMP are purchased and resold at prevailing support prices and therefore have minimal impact on gross profit.

SMP sold to the animal feed sector amounted to 23,265 t in 2015-2016, only 249 t below the previous year's volume. Nevertheless, revenues decreased by $16.7 million or 32% compared to the previous year, due to a lower average sale price compared to the previous year. The decline in world market prices for whey protein concentrate and skim milk powder explains this decrease in average selling price.

The CDC continues to import butter as part of Canada's obligations under the World Trade Organization (WTO) Agreement on Agriculture. Tight supplies of Canadian butter this past year required that the CDC obtain supplementary import permits for a total of 8,400 t of butter, in addition to its butter TRQ of 3,274 t. A quantity of 11,213 t of imported butter was sold this year compared to 4,369 t the previous year. This is a very significant increase in sales which, combined with higher sale prices, generated an additional $50.7 million in revenues compared to the previous year.

Domestic Activities

For the year ended July 31			
(in thousands)	**2016**	**2015**	**$ change**
Domestic sales revenue	$ 209,376	$ 197,706	$ 11,670
Cost of goods sold - domestic	$ 178,070	$ 169,507	$ 8,563
Transport and carrying charges	$ 7,312	$ 4,055	$ 3,257
Finance costs	$ 297	$ 263	$ 34
Gross profit on domestic sales	**$ 23,697**	**$ 23,881**	**$ (184)**

Export activities

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

Export sales revenues for 2015-2016 were lower than in the previous year due to a decline in world prices. The CDC sold 13,823 t of SMP in 2015-2016, an increase of 2,015 t compared to the previous year. In spite of this, revenues decreased by $3.5 million or 10% compared to the previous year.

Export Activities

(in thousands)	2016	2015	$ change
	For the year ended July 31		
Export sales revenue	$ 30,306	$ 33,844	$ (3,538)
Cost of goods sold - exports	$ 29,479	$ 33,285	$ (3,806)
Transport and carrying charges	$ 553	$ 1,144	$ (591)
Finance costs	$ 5	$ 5	$ -
Gross profit (loss) on export sales	**$ 269**	**$ (590)**	**$ 859**

Transport, carrying, and finance costs

"Transport, carrying, and finance costs" are mostly comprised of transportation expenses, interest expenses on loans, handling and storage charges, and insurance. Transport and carrying costs for domestic activities increased by $3.3 million compared to those of 2014-2015 mainly as a result of higher inventories of skim milk powder. On the export side, the costs decreased by $0.6 million in 2015-2016.

Finance costs for both the domestic and export activities were the same as the previous year at $0.3 million. After several years of low interest rates, the CDC expects to see similar rates in 2016-2017.

Other income

"Funding from milk pools" represents the revenues obtained from producers and the marketplace to finance a portion of CDC's administrative expenses, the cost of production study, as well as the carrying charges associated with the CDC butter stocks. In 2015-2016, this funding was slightly higher than the previous year mainly because of an increase in the industrial milk production which impacts the amount the CDC collects from the marketplace through the milk pools.

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

Other Income

(in thousands)	2016	2015	$ change
	For the year ended July 31		
Funding from milk pools	$ 6,053	$ 5,902	$ 151
Funding from the Government of Canada	$ 3,689	$ 3,639	$ 50
Audit Services	$ 196	$ 195	$ 1
Total Other Revenues	**$ 9,938**	**$ 9,736**	**$ 202**

Operating and administrative expenses

Operating expenses

"Industry initiatives" includes expenses relating to various CDC programs such as the Matching Investment Fund and the Dairy Research Cluster.

The cost of production study is an annual survey. The CDC uses the results of this survey when it sets support prices. The cost of this study increased slightly in 2015-2016.

"Other charges/(recoveries)" includes amounts representing unrealized gains or losses on outstanding foreign exchange contracts as of the Statement of

Financial Position date. Other amounts in this category are comprised of credits from CDC's contribution to the cost of production study, charges incurred by the CDC on behalf of the milk pools, and bank charges for the milk pool accounts. The most volatile amount in "Other charges/(recoveries)" is the gain or loss on outstanding foreign exchange contracts. These gains or losses are determined using the difference between the contracted rates and exchange rates as of the Statement of Financial Position date, applied to the contract amount. Therefore, they vary with exchange rates as well as with the value of outstanding foreign exchange contracts at the end of the year.

Administration expenses

The 2015-2016 administrative budget was $7.8 million and the actual administrative expenses for the year totalled the full $7.8 million. Salaries and employee benefits of $5.9 million make up the bulk of these expenses. The remaining significant expense groupings are for rent, travel and administrative support.

Distribution to provincial boards and agencies

The distribution to provincial boards and agencies represents a refund of surplus generated from the Domestic Seasonality and Surplus Removal Programs. As milk producers are responsible to finance these programs, any surpluses are reimbursed to provincial milk marketing boards and agencies. The 2015-2016 refund for these programs amounted to $5.9 million. This represents a decrease of $14.2 million compared to the previous year which was mainly the result of obtaining lower returns on sales of SMP to animal feed users.

Inventories and loans

Average inventory values for 2015-2016 were up by 37% compared to the previous year, resulting in an increase in our average loan.

CDC butter stocks increased by 2,879 t compared to last year, when these stocks were below normal. As a result of the measures that the provinces took to stimulate milk production, stocks have started to increase in order to meet the continued growth in demand for butterfat.

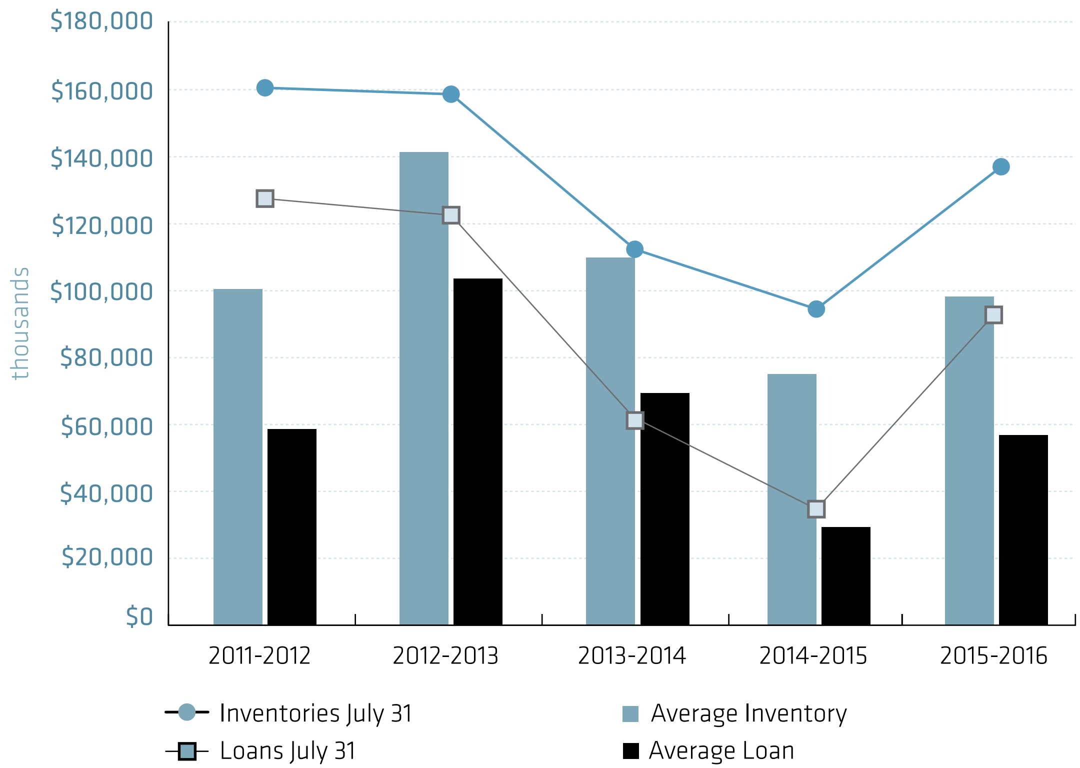
Total SMP stocks at the end of the dairy year were 59,712 t compared to 35,692 t last year. The growth in demand for butterfat resulted in an increase of surplus of solids non fat (SNF) that the CDC had to purchase in the form of SMP.

Because there is usually a direct correlation between stocks and outstanding loans, the loan from the Government of Canada at the end of the year was $94.2 million compared to $35.4 million at the end of the previous year. Higher inventories resulted in higher loan requirements.

Operating and Administrative Expenses

	For the year ended July 31		
(in thousands)	**2016**	**2015**	**$ change**
Operating expenses			
Industry initiatives	$ 605	$ 697	$ (92)
Cost of production study	$ 817	$ 787	$ 30
Other charges / (recoveries)	$ 246	$ (223)	$ 469
Total operating expenses	**$ 1,668**	**$ 1,261**	**$ 407**
Administrative expenses			
Salaries and employee benefits	$ 5,923	$ 5,650	$ 273
Other administrative expenses	$ 1,862	$ 1,916	$ (54)
Total administrative expenses	**$ 7,785**	**$ 7,566**	**$ 219**
Total operating and administrative expenses	**$ 9,453**	**$ 8,827**	**$ 626**

Inventories and Loans



The CDC, in consultation with the Minister of Finance, has retained its loan limit of $165 million for 2015-2016. The CDC determined that this limit would be sufficient to maintain its capacity to respond to unforeseen circumstances brought on by changing market conditions.

Risk management

All business enterprises are subject to risks in their ongoing operations. The CDC has identified its major risk factors and has established policies and procedures to manage these risks.

The CDC has prepared a Corporate Risk Profile which is reviewed and updated at least once per year by management. It is updated during the year as needed and the latest review was done in April 2016. It identifies the key risks associated with its business and activities. It also evaluates the probability and potential impact of risk occurrences and defines mitigation measures to avoid or reduce risk. The Profile is linked to the organization's annual planning process to ensure that higher-risk program areas and activities receive special consideration. The board and the Senior Management Team share the responsibility for risk management. Each plays an integral role in the risk management process at the CDC. The board ensures that management identifies, monitors, and manages CDC's corporate risks. It is responsible for providing clear direction on risk tolerance, and approving the Corporate Risk Profile. The board is kept apprised of any changes to the risk profile through quarterly briefings. At least every quarter, the CDC Audit Committee monitors these risks as well as progress in the implementation of the various mitigation measures. The Senior Management Team is responsible for assessing CDC's key risks, and ensuring that appropriate controls and mitigation strategies are carried out to effectively manage these risks. This includes supporting risk awareness and communicating risks throughout the organization.

Credit risk is the exposure to financial losses due to a customer failing to meet his financial obligations to the CDC. The CDC manages this risk by selling product on a "payment first" basis, securing bank guarantees and obtaining letters of credit. Other strategies include carrying out business with credit-worthy customers only.

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

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

Future accounting changes

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

Challenges for the future

Producers and processors announced in July 2016 the successful conclusion of negotiations to evolve the Canadian dairy system for the future. Discussion on the implementation and administration of the resulting national changes are ongoing. The CDC is currently evaluating the impact of the impending implementation of this strategy on the dairy industry and on CDC activities.

As demand for butterfat continues to grow and milk production gradually increases to meet this demand, the CDC expects to import more butter in the coming year than the tariff rate quota of 3,274 tonnes. These additional imports will have an impact on the financial results of the CDC.

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

Canada also joined the Trans-Pacific Partnership (TPP) negotiations, set to enhance the trade, innovation and investment for the 12-member countries. These negotiations were concluded in October 2015. If ratified in its current form by all participating countries, the TPP will increase imports of dairy products into Canada over the 18 years that will follow its effective date. These imports represent approximately 3.25% of Canada's milk production. The CDC will take these imports into account when setting the quota for milk production in Canada.

Management Responsibility for Financial Statements

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

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

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

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

Jacques Laforge, CEO

Chantal Laframboise,
Director, Finance and Administration

Ottawa, Canada
September 28, 2016

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

Independent Auditor's Report

To the Minister of Agriculture and Agri-Food

Report on the Financial Statements

I have audited the accompanying financial statements of the Canadian Dairy Commission, which comprise the statement of financial position as at 31 July 2016, and the statement of operations and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Dairy Commission as at 31 July 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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

Further, in my opinion, the transactions of the Canadian Dairy Commission that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Dairy Commission Act* and regulations, the by-laws of the Canadian Dairy Commission, and the directive issued pursuant to section 89 of the *Financial Administration Act* described in Note 1 to the financial statements.

MK Kerrigan

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

28 September 2016
Ottawa, Canada

Canadian Dairy Commission

Statement of Financial Position

(in thousands of Canadian dollars)

	As at July 31, 2016	As at July 31, 2015
Assets		
Current		
Cash	$ 47	$ 6
Trade and other receivables		
Trade receivables	2,202	429
Advance to provincial milk boards and agencies	4,030	3,195
Milk pools	1,083	1,076
Derivative asset – foreign exchange contracts	2	473
Inventory (Note 4)	137,345	93,249
	144,709	98,428
Non-Current		
Equipment (Note 5)	26	33
Intangible asset (Note 6)	225	255
	$ 144,960	$ 98,716
Liabilities		
Current		
Bank overdraft (Note 7)	$ 4,030	$ 3,195
Trade and other payables		
Trade payables	9,182	26,615
Distribution to provincial milk boards and agencies	5,944	20,190
Other liabilities	946	915
Derivative liability – foreign exchange contracts	9	198
Loans from the Government of Canada (Note 8)	94,192	35,413
	114,303	86,526
Non-Current		
Post-employment benefits	69	109
Equity		
Retained earnings	30,588	12,081
	$ 144,960	$ 98,716

Commitments (Note 14)

The accompanying notes are an integral part of these financial statements.
These financial statements were approved and authorized for issue on September 28, 2016.

Jacques Laforge
Chief Executive Officer

Alistair Johnston
Chairman

Chantal Laframboise
Director, Finance and Administration

Canadian Dairy Commission

Statement of Operations and Comprehensive Income

(in thousands of Canadian dollars)

	For the year ended July 31, 2016	For the year ended July 31, 2015
Sales and cost of sales		
Domestic sales revenue	$ 209,376	$ 197,706
Cost of goods sold – domestic	178,070	169,507
Transport and carrying charges	7,312	4,055
Finance costs	297	263
Gross profit on domestic sales	23,697	23,881
Export sales revenue	30,306	33,844
Cost of goods sold – exports	29,479	33,285
Transport and carrying charges	553	1,144
Finance costs	5	5
Gross profit (loss) on export sales	269	(590)
Total gross profit	23,966	23,291
Other income		
Funding from milk pools	6,053	5,902
Funding from the Government of Canada (Note 11)	3,689	3,639
Audit services	196	195
	9,938	9,736
Total gross profit and other income	33,904	33,027
Operating expenses		
Industry initiatives	605	697
Cost of Production study	817	787
Other charges (recoveries)	246	(223)
	1,668	1,261
Administrative expenses		
Salaries and employee benefits (Note 12)	5,923	5,650
Other administrative expenses	1,862	1,916
	7,785	7,566
Total operating and administrative expenses	9,453	8,827
Profit before distribution to provincial milk boards and agencies	24,451	24,200
Distribution to provincial milk boards and agencies	5,944	20,190
Total comprehensive income	$ 18,507	$ 4,010

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

Canadian Dairy Commission

Statement of Changes in Equity

(in thousands of Canadian dollars)

	For the year ended July 31, 2016	For the year ended July 31, 2015
Retained earnings, beginning of the period	$ 12,081	$ 8,071
Total comprehensive income for the period	18,507	4,010
Retained earnings, end of the period	$ 30,588	$ 12,081

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

Canadian Dairy Commission

Statement of Cash Flows

(in thousands of Canadian dollars)

	For the year ended July 31, 2016	For the year ended July 31, 2015
Cash flows (used in) from operating activities		
Cash receipts from sales of goods	$ 238,105	$ 233,701
Cash paid to suppliers and others	(286,173)	(193,221)
Cash receipts from provincial milk boards and agencies (pooling)	5,211	3,799
Cash paid to provincial milk boards and agencies	(20,190)	(27,388)
Cash receipts from the Government of Canada	3,689	3,639
Interest paid on loans	(216)	(323)
Net cash flows (used in) from operating activities	(59,574)	20,207
Cash flows from (used in) financing activities		
New loans from the Government of Canada	207,136	141,123
Loan repayments to the Government of Canada	(148,356)	(164,114)
Net cash flows from (used in) financing activities	58,780	(22,991)
Net increase in net bank overdraft	(794)	(2,784)
Net bank overdraft at beginning of period	(3,189)	(405)
Net bank overdraft at end of period	$ (3,983)	$ (3,189)
Components:		
Cash	$ 47	$ 6
Bank overdraft	(4,030)	(3,195)
Net bank overdraft	$ (3,983)	$ (3,189)

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

Notes to Financial Statements

July 31, 2016

(In thousands of Canadian dollars unless otherwise indicated)

1. Authority and objectives

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

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

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

Directive on Travel, Hospitality, Conference and Event Expenditures

In July 2015, the CDC was issued a directive (P.C. 2015-1104) pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of this directive in the CDC's next Corporate Plan. As at July 31, 2016, the CDC has fully implemented the directive and has aligned its policies and practices to the Treasury Board instruments and reported on this directive in the 2016-2017 Corporate Plan.

2. Basis of preparation

Statement of compliance

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

The financial statements were approved and authorized for issue by the CDC board on September 28, 2016.

Basis of presentation

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

Reporting period

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

Use of judgement, estimates and assumptions

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

Plan B Inventory

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

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

(In thousands of Canadian dollars unless otherwise indicated)

Allowance for inventory write-down

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

Functional and presentation currency

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

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 impairments or changes exist, the carrying value would be adjusted accordingly.

Intangible asset

Software

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

Amortization of the intangible asset is charged to "Other charges (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 impairments or changes exist, the carrying value would be adjusted accordingly.

Distributions to provincial milk boards and agencies

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

Revenues

Sales revenues

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

Funding from milk pools

As acting agent in carrying out administrative functions of the Comprehensive Agreement on Pooling of Milk Revenues (a federal-provincial agreement), the CDC collects and redistributes producer market returns. For these services, the CDC receives from producers an annual fixed fee which offsets its cost for the administration of the agreement as well as the estimated carrying charges for normal levels of butter inventory. Furthermore, the CDC is reimbursed for other direct costs as set out in the agreement including carrying charges for surplus butter inventories.

Funding is recognized as revenue in the period as services are rendered and are accrued on a monthly basis over the fiscal year.

Funding from the Government of Canada

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

Audit services

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

Cost of sales

The CDC purchases all butter and skim milk powder tendered to it at either the Canadian support price or at other prices established by the CDC, depending on the intended resale markets, except for a portion of butter imported by the CDC at international market prices. These costs are charged to cost of sales when the goods are shipped to customers.

Foreign currency translation

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

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

Most sales and purchases in foreign currencies have corresponding foreign exchange forward contracts (see "Derivative financial instruments" above and Note 13: *Financial Instruments – Currency risk)*.

Employee benefits

Pension benefits

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

Post-employment benefits

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

Application of new and revised accounting standards

There were no new or revised IFRS issued by the International Accounting Standards Board (IASB) that became effective for accounting periods that begin on August 1, 2015 that affected amounts reported or disclosed in the financial statements.

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

A number of new accounting standards and amendments effective on or after August 1, 2016 have been issued by the IASB. As of the date of the financial statements, the following applicable standards and amendments have been assessed as having a possible impact on the CDC:

- Disclosure Initiative – Amendments to IAS 1 – *Presentation of Financial Statements* was issued to provide additional guidance to help entities apply judgment when meeting the presentation and disclosure requirements in IFRS. The amendments clarify that materiality applies to the whole financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments clarify that entities should use professional judgment in determining where and in what order information is presented in the financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016. The CDC is currently assessing these amendments and therefore the extent of the impact of the adoption of the amendments is unknown.

(In thousands of Canadian dollars unless otherwise indicated)

- Disclosure Initiative – Amendments to IAS 7 – *Statement of Cash Flows* clarifies the disclosures required for changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017. The CDC is currently assessing these amendments and therefore the extent of the impact of the adoption of the amendments is unknown.

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

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

- IFRS 16 – *Leases* provides a single lessee accounting model, requiring assets and liabilities to be recognized for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. The new standard is effective for annual periods beginning on or after January 1, 2019. The CDC is currently assessing this new standard therefore, the extent of the impact of the adoption of the standard is unknown.

4. Inventory

The CDC's inventory is comprised of butter and skim milk powder purchased under the Domestic Seasonality and Surplus Removal Programs. The CDC also imports butter under the World Trade Organization (WTO) Agreement on Agriculture.

Inventory:

	July 31, 2016		July 31, 2015	
	in $	in tonnes	in $	in tonnes
Plan B				
Butter	$ 66,194	8,468	$ 42,569	5,716
Skim milk powder	1,475	334	6,213	975
Other butter	2,328	432	2,290	305
Other skim milk powder	67,416	59,378	43,121	34,717
	137,413		94,193	
Less: allowance for inventory write-down	(68)		(944)	
Total net realizable value	$ 137,345		$ 93,249	

Inventory expensed in the current year was $207.55 million (July 31, 2015: $202.79 million) and is presented on the Statement of Operations and Comprehensive Income in "Cost of goods sold (domestic and exports)".

Inventories of $34.02 million (July 31, 2015: $ 0) are expected to be recovered after more than 12 months.

(In thousands of Canadian dollars unless otherwise indicated)

5. Equipment

The carrying value of equipment is determined as follows:

	Balance July 31, 2015	Additions	Disposals	Balance July 31, 2016
Cost	$ 67	-	-	$ 67
Accumulated depreciation	$ 34	7	-	$ 41
Carrying amount	$ 33			$ 26

6. Intangible asset

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

	Balance July 31, 2015	Additions	Disposals	Balance July 31, 2016
Cost	$ 294	-	-	$ 294
Accumulated amortization	$ 39	30	-	$ 69
Carrying amount	$ 255			$ 225

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

7. Bank overdraft

The CDC has established a line of credit with a member of the Canadian Payments Association. The CDC has been granted the authority to establish this line of credit by the Minister of Finance up to a maximum of $50 million for advancing funds to the provincial milk marketing boards and agencies. On July 31, 2016 the available line of credit was $5 million (July 31, 2015: $5 million).

The bank overdraft incurred under the CDC's line of credit is due on demand and bears interest at prime, which as at July 31, 2016 was 2.70% per annum (July 31, 2015: 2.70%).

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, 2015: $165 million), are available to finance operations. Individual loans are repayable within one year from the date the loan is advanced. Principal and accrued interest is repaid regularly during the year when funds are available.

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

	July 31, 2016	July 31, 2015
Interest rates		
Low	0.50%	0.59%
High	0.79%	1.07%
Interest expense	$ 302	$ 268

9. Capital management

The CDC's capital consists of its loans from the Government of Canada (see Note 8) and retained earnings. As of July 31, 2016 these accounts totaled $94.19 million (July 31, 2015: $35.41 million) and $30.59 million (July 31, 2015: $12.08 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.

(In thousands of Canadian dollars unless otherwise indicated)

10. Foreign exchange gains and losses

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

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

	July 31, 2016	July 31, 2015
Net gain (loss) on:		
Export sales	$ (263)	$ (202)
Domestic cost of sales	$ 1,566	$ 512

11. Funding from the Government of Canada

Funding of the CDC's administrative expenses is shared among the federal government, dairy producers, commercial operations and the market place. Government of Canada funding of total administrative expenses is as follows:

	July 31, 2016	July 31, 2015
Funded by Government	$ 3,689	$ 3,639
Total administrative expenses	$ 7,785	$ 7,566

12. Salaries and employee benefits

Salaries and employee benefits includes:

	July 31, 2016	July 31, 2015
Salaries expense	$ 4,911	$ 4,675
Pension contributions	646	629
Medical insurance expense	210	196
Others	156	150
Total	$ 5,923	$ 5,650

Pension plan

Substantially all of the employees of the CDC are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the CDC. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate effective for the year ended July 31, 2016 was on average 1.20 times the employee's rate (1.35 times for the prior year).

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

13. Financial instruments

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

Market risk

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

(In thousands of Canadian dollars unless otherwise indicated)

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 1.3056 at July 31, 2016 (1.3080 at July 31, 2015).The CDC's foreign exchange forward contracts as of the Statement of Financial Position date were as follows:

		July 31, 2016		July 31, 2015	
Currency sold	**Currency purchased**	In USD	In CAD	In USD	In CAD
USD	CAD	$ 694	$ 898	$ 5,009	$ 6,552
CAD	USD	$ 35	$ 45	$ 5,632	$ 7,522

These contracts will mature over the period ending October 2016. 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 $0.28 million representing net losses incurred during the current year (July 31, 2015: net gains of $0.24 million) arising from the determination of unrealized fair value remeasurements of the CDC's derivative financial instruments.

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

In CAD	July 31, 2016	July 31, 2015
Trade receivable	$ 13	$ -
Trade payable	-	-
Net derivative asset (liability)	(7)	275
Net exposure	$ 6	$ 275

Based on the net exposure as of July 31, 2016, and assuming that all other variables remained constant, had the Canadian dollar appreciated 10% against the US dollar, net income for the year ended July 31, 2016 would have increased by $0.04 million (July 31, 2015: decreased by $0.10 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 1.27 (July 31, 2015: 1.14). In managing liquidity risk, the CDC has access to additional borrowings for commercial operations from the Government of Canada in the amount of $70.81 million as of July 31, 2016 (July 31, 2015: $129.59 million) as well as $0.97 million (July 31, 2015: $1.81 million) on its line of credit for the pooling of market returns.

Credit risk

Credit risk is the risk of loss due to a customer failing to meet its financial obligations to the CDC. Maximum credit exposure is the carrying amount of the pooling and trade receivable balances, net of any allowance for losses. The CDC manages this risk using several strategies which include selling product on a "payment first" basis, securing of bank guarantees and obtaining letters of credit. As of July 31, 2016 and July 31, 2015 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:

(In thousands of Canadian dollars unless otherwise indicated)

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, 2015: 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, 2016 and July 31, 2015, there were no transfers between levels.

14. Commitments

a) Industry Initiatives

Summary:	July 31, 2016
Dairy Research Cluster	$ 250
Matching Investment Fund	186
Total commitments for industry initiatives	$ 436

Dairy Research Cluster

The Dairy Farmers of Canada initiative enables key industry-led agricultural organizations to mobilize a critical mass of scientific and technical resources to support innovation strategies for enhanced profitability and competitiveness in their sector. The CDC has agreed to partially fund this project under an agreement that commenced April 1, 2014 and expires March 31, 2018. Under the terms of this agreement, the CDC will contribute $0.75 million. A first payment of $0.25 million was made in 2014-2015, a second payment of $0.25 million was made in 2015-2016 and the balance 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 was set to expire on July 31, 2016 however it has been extended indefinitely. As of July 31, 2016, the CDC has outstanding commitments of $0.19 million.

b) Purchase Commitments

As of July 31, 2016, the CDC was committed to purchase certain quantities of butter and skim milk powder. These commitments amounted to approximately $0.92 million (July 31, 2015: $8.71 million) and were fulfilled in August 2016.

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. Insufficient supply of Canadian butter required that the CDC obtain authorization from the Minister of International Trade to import 8,400 tonnes of butter in addition to its import butter TRQ of 3,274 tonnes. World prices at the time of purchase determine the total financial commitment.

The total cost to purchase imported butter for the year ended July 31, 2016 was $58.00 million (July 31, 2015: $14.92 million).

(In thousands of Canadian dollars unless otherwise indicated)

d) Operating Lease

The CDC is committed under a long term lease with Agriculture and Agri-Food Canada for office accommodation ending in March 31, 2017. The lease contains escalation clauses regarding maintenance costs and taxes. This lease may be automatically renewed at the CDC's option for another period of five years with rates possibly revised in order to reflect the rental market value pursuant to Treasury Board's Policy on Real Property.

The minimum lease payments are as follows:

	July 31, 2016	July 31, 2015
Less than one year	$ 117	$ 351
Greater than one year and less than five years	$ 0	$ 234

15. Related party transactions

Government of Canada entities

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

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

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

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

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

Loans from the Government of Canada at terms available to Crown corporations (Note 8), which are recorded at the transaction price, represent the CDC's largest related party transaction.

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

Government entity	July 31, 2016	July 31, 2015
Public Works and Government Services Canada	$ 1,093	$ 1,012
Agriculture and Agri-Food Canada (mainly operating lease – Note 14)	314	513
Other related Government entities	130	149
Total	$ 1,537	$ 1,674

Key management personnel

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

No loans or other such transactions with key management personnel were outstanding as of July 31, 2016 or July 31, 2015, or occurred at any time during either year.

The post-employment benefit liability for key management personnel as of July 31, 2016 was $0.06 million (July 31, 2015: $0.13 million) and is divided between "Post-employment benefits" and "Other liabilities" on the Statement of Financial Position.

Compensation of key management personnel for the year ended July 31, 2016 was $1.02 million (July 31, 2015: $0.97 million).

Tables and Data (unaudited)

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

	Total Quota	Total Production	Total requirements
2011-2012	311.73	314.12	309.63
2012-2013	311.68	315.51	311.95
2013-2014	316.55	313.68	321.36
2014-2015	326.57	327.67	328.67
2015-2016	336.57	338.78	344.81

Milk Production by Province* (million kg butterfat)

Province	2014-2015	2015-2016
Newfoundland and Labrador	1.96	1.97
Prince Edward Island	4.15	4.40
Nova Scotia	7.21	7.43
New Brunswick	5.57	5.82
Quebec	123.01	126.25
Ontario	107.43	111.08
Manitoba	13.39	13.41
Saskatchewan	9.55	10.07
Alberta	27.61	29.05
British Columbia	27.79	29.30
Total	**327.67**	**338.78**

* Before pooling

Number of Farms and Cows

	Number of farms	Number of cows (thousands)
2011-2012	12,746	985.3
2012-2013	12,529	960.6
2013-2014	12,234	959.1
2014-2015	11,962	956.7
2015-2016	11,683	954.6