# Quarterly Financial Report

## Third quarter

## August to October 2019

# Contents

# Quarterly Financial Report

# First quarter (Q1) – August to October 2019

## Management Discussion and Analysis

The following discussion and analysis of the operating results and financial position of the Canadian Dairy Commission (CDC) for the quarter ending in October 2019 should be read in conjunction with the financial statements enclosed herein and the 2018-2019 Annual Report.

### *1. Basis of Preparation*

This discussion was prepared in accordance with the Treasury Board Standard on Quarterly Financial Reports for Crown Corporations (Treasury Board Standard). This narrative discussion is not intended to be a full Management Discussion and Analysis (MD&A). Disclosures and information in the Canadian Dairy Commission's July 31, 2019, annual report are assumed to apply to the current quarter unless otherwise updated below.

The financial statements are unaudited and have been prepared in Canadian dollars in accordance with International Accounting Standard 34, *Interim Financial Reporting* (IAS 34) and the Treasury Board Standard. This narrative discussion and the accompanying financial statements were reviewed and approved by the CDC Board of directors.

### *2. Financial Results*

#### *Domestic Activities*

| | For the quarter ended October 31 | | |
|---|---|---|---|
| (in thousands) | 2019 | 2018 | $ change |
| Domestic sales revenue | $ 115,269 | $ 179,341 | $ (64,072) |
| Cost of goods sold - domestic | $ 114,115 | $ 176,488 | $ (62,373) |
| Transport and carrying charges | $ 1,111 | $ 963 | $ 148 |
| Finance costs | $ 425 | $ 154 | $ 271 |
| **Gross profit on domestic sales** | **$ (382)** | **$ 1,736** | **$ (2,118)** |

The CDC purchases and sells butter in order to regulate the supply of dairy products in the domestic market throughout the year. The CDC depleted its remaining inventories of skim milk powder (SMP) through domestic sales in 2018.

Domestic sales revenue is lower in the first quarter of 2019 compared to the same period in 2018, as a result of lower Plan A and Plan B inventory at the beginning of 2019 compared to 2018. A total of 12,927 tonnes of domestic butter was sold in the first quarter this year compared to 20,993 tonnes over the same period last year. Gross profits were higher in 2018 as it included the sale of skim milk powder, for which there were none in the current year.

## *Export Activities*

| (in thousands) | For the quarter ended October 31 2019 | 2018 | $ change |
|---|---|---|---|
| Export sales revenue | $ - | $ 839 | $ (839) |
| Cost of goods sold - exports | $ - | $ 685 | $ (685) |
| Transport and carrying charges | $ - | $ 7 | $ (7) |
| Finance costs | $ - | $ - | $ - |
| **Gross profit on export sales** | **$ -** | **$ 147** | **$ (147)** |

There were no sales through export activities in the current quarter, compared to a small quantity of butter sold in the first quarter of the previous year.

## *Other Income*

| (in thousands) | For the quarter ended October 31 2019 | 2018 | $ change |
|---|---|---|---|
| Funding from milk pools | $ 2,372 | $ 1,923 | $ 449 |
| Funding from the Government of Canada | $ 898 | $ 962 | $ (64) |
| Audit services | $ - | $ (1) | $ 1 |
| **Total other income** | **$ 3,270** | **$ 2,884** | **$ 386** |

Funding from milk pools represents funds received from producers and the marketplace to finance a portion of the CDC's administrative expenses, the Cost of production study, as well as the carrying charges associated with the CDC's butter stocks. The increase in the first quarter this year was mainly due to higher carrying costs for butter.

Funding from the Government of Canada represents funding received from parliamentary appropriations and is recognized in the Statement of Operations and Comprehensive Income as government-funded administrative expenses are incurred. Generally, the utilization of the funding varies based on the timing of related expenses.

Audit services income relates to the milk utilization audits performed by the CDC on a cost-recovery basis in plants of 6 provinces. The income is recognized when the audit reports are delivered.

## Operating and Administrative Expenses

| | For the quarter ended October 31 | | |
|---|---|---|---|
| (in thousands) | 2019 | 2018 | $ change |
| *Operating expenses* | | | |
| Industry initiatives | $ 443 | $ 1,051 | $ (608) |
| Cost of Production study | $ 207 | $ 204 | $ 3 |
| Other charges | $ 1 | $ 5 | $ (4) |
| **Total operating expenses** | **$ 651** | **$ 1,260** | **$ (609)** |
| *Administrative expenses* | | | |
| Salaries and employee benefits | $ 1,703 | $ 1,619 | $ 84 |
| Other administrative expenses | $ 373 | $ 470 | $ (97) |
| **Total administrative expenses** | **$ 2,076** | **$ 2,089** | **$ (13)** |
| **Total operating and administrative expenses** | **$ 2,727** | **$ 3,349** | **$ (622)** |

*Operating Expenses*

Expenses relating to Industry initiatives decreased in the first quarter of 2019 compared to the same period in the previous year, which is mainly attributable to lower disbursements made under the Workforce Development Initiative. Expenses under this program are expected to increase over the coming quarters.

Expenses relating to the Cost of Production study are similar when compared to the same period in the previous year.

*Administrative Expenses*

Administrative expenses incurred in the first quarter of 2019 is comparable to the same period in 2018. Salaries and employee benefits, which amounted to $1.70 million in the first quarter, represents the bulk of administrative expenses. Other administrative expenses are mainly composed of administrative support and travel related expense, as well as the depreciation on the lease liability.

## Inventories and Loans

The value of inventory as at October 31, 2019, was $115.69 million, which is lower than the value of inventory of $178.16 million as at July 31, 2019.

Butter stocks at the end of the first quarter were approximately 13,970 tonnes, a decrease of approximately 7,710 tonnes since July 31, 2019. This decrease is explained by measures taken to reduce production to allow stocks to return to more normal levels.

The loan from the Government at the end of the first quarter was $67.93 million compared to $127.60 million as of July 31, 2019. Lower overall inventory values resulted in lower loan requirements.

## *Cash Flows*

| (in thousands) | For the quarter ended October 31 2019 | 2018 |
|---|---|---|
| Cash flows from operating activities | $ 57,585 | $ 117,265 |
| Cash flows from (used in) financing activities | $ (59,671) | $ (123,685) |
| **Net decrease in net bank overdraft** | **$ (2,086)** | **$ (6,420)** |
| Net bank overdraft at beginning of the year | $ (3,366) | $ (657) |
| **Net bank overdraft at the end of the year** | **$ (5,452)** | **$ (7,077)** |

The CDC's closing bank cash position at the end of the first quarter of 2020 was a net overdraft of $5.45 million compared to a net overdraft of $7.08 million at the end of the first quarter of 2019. This represents an increase in the net cash position of $1.63 million.

*Cash Flows from Operating Activities*

Net cash inflows from operating activities occurring during the first quarter this year amounted to $57.59 million compared to $117.27 million over the same period last year. The near $60 million difference in cash movements is mainly explained by lower inventory sales and higher inventory purchasing activities in the current three-month period.

*Cash Flows from Financing Activities*

Net cash outflows from financing activities occurring during the first quarter this year amounted to $59.67 million compared to $123.69 million over the same period last year. The CDC's financing activities are directly correlated to its day-to-day commercial operations as Loans from the Government of Canada fluctuates daily depending on the CDC's cash position at the end of a given day. Therefore, the lower net cash outflows in the first quarter this year is explained by higher loan requirements due to fewer cash inflows from commercial operation activities.

# *3. Outlook against the Corporate Plan Summary*

Key factors that may impact the budget reported in the Corporate Plan Summary are total industrial milk production, domestic requirements, support prices, and world market conditions for the sale of dairy products. Any significant changes in these key assumptions would affect the budgeted results.

Total milk production for the most recent 12-month period reached 380.5 M kg of BF. For December 31, CDC forecasted a total production of 385.7 M kg of BF. This represents a slight increase compared to the forecast published in the last corporate plan. Total requirements forecast for the end of December 2019 is now expected to reach 390 M kg of BF.

Levels of CDC and private stocks reached 41,100 tonnes on July 31, 2019. The industry must take several measures to allow stocks to return to normal levels in the next dairy year. Leading up to December 31, 2019, stocks are forecasted to decrease to 35,000 tonnes.

## 4. Appropriations

The following table reconciles the appropriations received and disbursed.

| | For the quarter ended October 31 | | |
|---|---|---|---|
| (in thousands) | 2019 | 2018 | $ change |
| Opening Balance | $ - | $ - | $ - |
| Parliamentary appropriations | $ 898 | $ 962 | $ (64) |
| Amount disbursed | $ (898) | $ (962) | $ 64 |
| **Ending Balance** | **$ -** | **$ -** | **$ -** |

These appropriations were granted via the Main Estimates. Parliamentary appropriations are used to fund part of the CDC's administrative expenses. The remainder of the CDC's administrative expenses are funded by dairy producers, commercial operations, and the marketplace.

Funding from the Government of Canada is granted based on the Government fiscal year of April to March, while the funds are used and reported in accordance with the dairy year of August to July. The CDC reports the use of its appropriations on a Government fiscal year basis in the Public Accounts of Canada.

## 5. Risk Management

On January 18, 2018, the CDC Board adopted an updated Corporate Risk Profile for dairy year 2018-2019. Cyber security was identified as an important risk and various measures are being implemented to mitigate this risk. The Policy on Government Security will be implemented once it becomes available.

## 6. Significant Changes

The following significant changes in operations, industry initiatives, programs, personnel, objectives, and Governing Board occurred between August 1, 2019, and October 31, 2019, in comparison with the Corporate Plan Summary.

| | |
|---|---|
| Operations, industry initiatives, and programs | Following the ratification of the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Government of Canada announced in August 2019, that it will make available $1.75 billion over eight years to supply-managed milk producers. In the first year, $345 million will be provided through the Dairy Direct Payment Program. Payments are based on the quota each producer holds on August 31, 2019. This quarter, the CDC undertook the administration of the Dairy Direct Payment Program following the signature of an MOU with Agriculture and Agri-Food Canada. |
| Personnel | No significant changes occurred in this quarter. |

## 6. Significant Changes (continued)

| | |
|---|---|
| Objectives | No significant changes occurred in this quarter. |
| Governing Board | No change in the membership of the governing board occurred in this quarter. The position of Chair was still vacant and the Commissioner was acting as Chair. |

# Management Responsibility for Financial Statements

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

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

Original signed by

Serge Riendeau, Chief Executive Officer

Chantal Laframboise, Director, Finance and Administration

Ottawa, Canada

December 18, 2019

# Canadian Dairy Commission
## Statement of Financial Position
(in thousands of Canadian dollars)

| | As at | |
|---|---|---|
| | October 31, 2019 | July 31, 2019 |
| **Assets** | | |
| **Current** | | |
| Cash | $ 5 | $ 2,610 |
| Trade and other receivables | | |
| Trade receivables | 294 | 436 |
| Advance to provincial milk boards and agencies | 5,457 | 5,976 |
| Milk pools | 1,824 | 1,820 |
| Inventory (Note 4) | 115,688 | 178,157 |
| | 123,268 | 188,999 |
| **Non-Current** | | |
| Equipment | 89 | 96 |
| Intangible asset | 130 | 137 |
| Right-of-use asset (Note 5) | 2,609 | - |
| | **$ 126,096** | **$ 189,232** |
| **Liabilities** | | |
| **Current** | | |
| Bank overdraft (Note 6) | $ 5,457 | $ 5,976 |
| Trade and other payables | | |
| Trade payables and accruals | 17,138 | 19,962 |
| Distribution to provincial milk boards and agencies | 5,750 | 5,750 |
| Other payables | 825 | 1,100 |
| Deferred revenue (Note 7) | 4 | 2,715 |
| Derivative liability - foreign exchange contracts | - | 3 |
| Loans from the Government of Canada (Note 8) | 67,929 | 127,600 |
| | 97,103 | 163,106 |
| **Non-Current** | | |
| Lease liability (Note 5) | 2,706 | - |
| **Equity** | | |
| Retained earnings | 26,287 | 26,126 |
| | **$ 126,096** | **$ 189,232** |

**Commitments** (Note 14)

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

These financial statements were approved and authorized for issue on December 18, 2019.

| | | |
|---|---|---|
| Serge Riendeau | Jennifer Hayes | Chantal Laframboise |
| Chief Executive Officer | Chairperson (Acting) | Director, Finance and Administration |

# Canadian Dairy Commission
## Statement of Operations and Comprehensive Loss
(in thousands of Canadian dollars)

| | For the three months ended | |
|---|---|---|
| | October 31, 2019 | October 31, 2018 |
| Sales and cost of sales | | |
| Domestic sales revenue (Note 10) | $ 115,269 | $ 179,341 |
| Cost of goods sold - domestic | 114,115 | 176,488 |
| Transport and carrying charges | 1,111 | 963 |
| Finance costs | 425 | 154 |
| Gross profit on domestic sales | (382) | 1,736 |
| Export sales revenue (Note 10) | - | 839 |
| Cost of goods sold - exports | - | 685 |
| Transport and carrying charges | - | 7 |
| Finance costs | - | - |
| Gross profit on export sales | - | 147 |
| Total gross profit | (382) | 1,883 |
| Other income | | |
| Funding from milk pools (Note 10) | 2,372 | 1,923 |
| Funding from the Government of Canada (Note 11) | 898 | 962 |
| Audit services (Note 10) | - | (1) |
| | 3,270 | 2,884 |
| **Total gross profit and other income** | **2,888** | **4,767** |
| Operating expenses | | |
| Industry initiatives (Note 14) | 443 | 1,051 |
| Cost of Production study | 207 | 204 |
| Other charges | 1 | 5 |
| | 651 | 1,260 |
| Administrative expenses | | |
| Salaries and employee benefits (Note 12) | 1,703 | 1,619 |
| Other administrative expenses | 373 | 470 |
| | 2,076 | 2,089 |
| **Total operating and administrative expenses** | **2,727** | **3,349** |
| **Profit before distribution to provincial milk boards and agencies** | **161** | **1,418** |
| Distribution to provincial milk boards and agencies | - | - |
| **Total comprehensive loss** | **$ 161** | **$ 1,418** |

*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 | |
|---|---|---|
| | October 31, 2019 | October 31, 2018 |
| Retained earnings, beginning of the quarter | $ 26,126 | $ 34,591 |
| Total comprehensive loss for the quarter | 161 | 1,418 |
| **Retained earnings, end of the quarter** | **$ 26,287** | **$ 36,009** |

*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 three months ended | |
|---|---|---|
| | October 31, 2019 | October 31, 2018 |
| **Cash flows from operating activities** | | |
| Cash receipts from sales of goods and services | $ 112,984 | $ 174,417 |
| Cash paid to suppliers and others | (58,568) | (49,854) |
| Cash receipts from provincial milk boards and agencies (pooling) | 2,887 | 3,130 |
| Cash paid to provincial milk boards and agencies | - | (10,900) |
| Cash receipts from the Government of Canada | 898 | 962 |
| Interest paid on loans and the lease liability | (616) | (490) |
| **Net cash flows from (used in) operating activities** | **57,585** | **117,265** |
| **Cash flows from (used in) financing activities** | | |
| New loans from the Government of Canada | 31,202 | 29,284 |
| Loan repayments to the Government of Canada | (90,873) | (152,969) |
| Principal payments on the lease liability | - | - |
| **Net cash flows from (used in) financing activities** | **(59,671)** | **(123,685)** |
| **Net decrease in net bank overdraft** | (2,086) | (6,420) |
| Net bank overdraft at beginning of the year | (3,366) | (657) |
| **Net bank overdraft at the end of the year** | **$ (5,452)** | **$ (7,077)** |
| **Components:** | | |
| Cash | $ 5 | $ 6 |
| Bank overdraft | (5,457) | (7,083) |
| **Net bank overdraft** | **$ (5,452)** | **$ (7,077)** |

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

# Notes to the Unaudited Interim Financial Statements

## *1. Authority and objectives*

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

The objectives of the CDC are to provide efficient producers of milk with the opportunity to obtain a fair return for their labour and investment, and to provide consumers with a continuous and adequate supply of dairy products. To achieve its objectives, the CDC works closely with the Canadian Milk Supply Management Committee (CMSMC), which it chairs, as well as with provincial governments and provincial milk marketing boards and agencies. 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 October 31, 2019, the CDC continues to meet the requirements of this directive.

## *2. Basis of preparation*

### Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements were approved and authorized for issue by the CDC Board on December 18, 2019.

### Basis of presentation

The financial statements are 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 October 31, 2019.

**Key accounting judgments, 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.

*Judgments in determining the timing of satisfaction of performance obligations and incremental costs in contracts with customers*

The CDC's contracts each contain a single performance obligation, the majority of which are satisfied at a point in time within a year. The CDC's only contract with a performance obligation satisfied over time pertains to the administration of the pooling agreements. Management has concluded that the satisfaction of this performance obligation is achieved on a monthly basis as pooling calculations are conducted. Given that the CDC's contracts' performance obligations are satisfied within a year, the CDC recognizes the incremental contract costs as an expense when incurred.

*Key sources of estimation uncertainty*

The CDC has no key sources of estimation uncertainty relating to revenue for the reporting period.

*Plan B Butter Inventory*

Under section 9(1) of the *Canadian Dairy Commission Act*, the CDC operates domestic seasonality programs, which includes the purchase of Plan B butter inventory from manufacturers who are contractually obligated to repurchase the inventory.

Although the CDC customarily honours manufacturers' requests for repurchase, the CDC has determined that the significant risks and rewards of ownership of the asset are transferred to the CDC when the inventory is initially purchased (until it is sold), given conditions set out in the purchase agreements do not obligate the CDC to sell the inventory to the manufacturers, and the CDC bears all costs of holding the inventory, including theft and damage.

*Allowance for inventory write-down*

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

### Functional and presentation currency

These financial statements are reported 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. The exception is trade receivables that do not contain a significant financing component, which is initially measured at the transaction price. The classification and subsequent measurement model of financial instrument categories are described below.

Classifications and subsequent measurements:

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

*Financial assets and financial liabilities measured at amortized cost*

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

*Financial assets or financial liabilities measured at FVTPL*

Financial assets or financial 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 Loss.

*Transaction costs*

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

*Impairment*

As the CDC's trade and other receivables' payment terms do not include significant financing components, the simplified approach for trade receivables must be applied when determining an impairment provision for trade and other receivables. Under the simplified approach, the CDC measures the loss allowance at an amount equal to lifetime expected credit losses.

*Derivative financial instruments*

The CDC uses derivative financial instruments such as foreign exchange forward contracts to counter the adverse changes 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 does not use 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, when held, are reported 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 are recognized as gains or losses in "Other charges" on the Statement of Operations and Comprehensive Loss.

**Inventory**

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

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

Generator...................................... 10 years
Computer equipment.................... 3-5 years

Equipment is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such impairments or changes exist, the carrying value is adjusted accordingly.

**Intangible asset**

*Software*

Internally developed application software is reported 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.

Depreciation is reported in "Other administrative expenses" on the Statement of Operations and Comprehensive Loss and is calculated 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 is adjusted accordingly.

**Leases**

At inception of a contract, an assessment is performed to determine whether a contract is, or contains, a lease. If it does, the CDC would recognise a right-of-use asset and lease liability on the Statement of Financial Position at the commencement date of the contract. A right-of-use asset represents the lessee's right to use the underlying asset for the lease term and a lease liability represents the lessee's obligation to make the lease payments in exchange for the right to use the underlying asset.

The CDC does not recognise a right-of-use asset or lease liability for a lease with a term of 12 months or less or a lease for which the underlying asset is of low value, in which case the lease payments are recognized as an expense on a straight-line basis over the term of the lease.

*Office Lease*

The lease contract on the building used for office space is reported through a right-of-use asset and ensuing lease liability, which initial recognition occurred on August 1, 2019 in accordance with transition provisions under the new *IFRS 16 - Leases* as set out in section *Application of new accounting standards* below.

The carrying amount of the right-of-use asset is reported at cost less accumulated amortization. Cost comprise the amount of the initial measurement of the ensuing lease liability. There were no lease payments made at or before the commencement date, lease incentives received or initial direct costs. The right-of-use asset is reviewed annual for indications of impairment. If impairments exist, the carrying value is adjusted accordingly.

The carrying amount of the lease liability is reported at the present value of the future lease payments as at the date of initial recognition, increased to reflect the interest on the lease liability and reduced to reflect the lease payments made or payable as at the date of the financial statements. The sort-term portion of the lease liability is presented in the notes to the financial statements.

Depreciation on the right-of-use asset and the interest on the lease liability are both recognized in “Other administrative expenses” on the Statement of Operations and Comprehensive Loss. Depreciation is calculated on a straight-line basis over the term of the lease. The interest rate on the lease liability is the same as the discount rate used at initial recognition of the lease liability.

**Distribution to provincial milk boards and agencies and recovery from provincial milk boards and agencies**

The CDC administers the Surplus Removal Program and the Domestic Seasonality Program throughout the year, but operating surplus or deficits generated by these programs are respectively returned to or recovered from the provincial milk marketing boards and agencies on an annual basis at year-end. In both cases, they are reported on the Statement of Operations and Comprehensive Loss in the year that they are determined. In the event of an operating surplus at year-end, the return is reported under “Distribution to provincial milk boards and agencies”. For an operating deficit, the recovery is reported under “Recovery from provincial milk boards and agencies”.

**Revenue from contracts with customers**

*Sales revenues*

Domestic and export sales of dairy products are recognized as revenue at a point in time when control of the asset is transferred to a customer. Control is typically transferred when the product is loaded into the customer’s transportation equipment at the CDC’s warehouse facilities – the customer being responsible for the transportation of the product. The transaction prices are based on the Canadian support price or other prices established by the CDC.

Payments received in advance for the sale of dairy products not transferred to the purchaser as at the end of the reporting period are reported in “Deferred revenue” on the Statement of Financial Position. Deferred revenue is recognized as revenue when control is transferred as described above.

*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 as the intermediary of the provincial milk marketing boards and agencies. For these services, the CDC receives from producers an annual fixed fee which offsets the costs associated with 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 from milk pools is recognized as revenue over time, which typically occurs on a monthly basis when pooling calculations are completed and producer market returns are collected and redistributed among the provincial milk marketing boards and agencies.

*Audit services*

Revenues from audit services are recognized at a point in time when the audit reports are delivered. The transaction price for audit services is based on individual service contracts.

*Performance Obligation*

The CDC has elected to apply the practical expedient to not disclose the information about its remaining performance obligations at the end of the reporting period given they are part of contracts that have an original expected duration of one year or less.

**Funding from the Government of Canada**

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

**Cost of sales**

All butter and skim milk powder sold were purchased by the CDC 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 recognized as expense under cost of sales when the goods are shipped to customers.

**Other expenses**

All other expenses are recognized in the period in which they are incurred. Estimates for accruals are made at the end of each period.

**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 trade payables in foreign currencies are adjusted to reflect the exchange rate in effect as at the Statement of Financial Position date. Any ensuing exchange 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 Loss.

For derivative foreign exchange contracts, changes in fair value are recognized in “Other charges” on the Statement of Operations and Comprehensive Loss.

### Employee benefits

*Pension benefits*

Eligible CDC employees 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*.*

### Application of new accounting standards

The adoption of the following new accounting standard, issued by the International Accounting Standards Board (IASB), is required for annual accounting periods beginning on or after January 1, 2019. Given the CDC's year-end is July 31, the initial date of application for the new standards was August 1, 2019. The transition impacted the financial statements as follows:

IFRS 16 – Leases

This new standard, which replaces *IAS 17 – Leases* and *IFRIC 4 – Determining Whether an Arrangement* Contains *a Lease*, 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 in the lease is of low value.

In conformity with the new standard's transition provisions, the CDC has elected to apply this standard to its leases retrospectively with the cumulative effect of initially applying the standard recognized to the opening statement of financial position on August 1, 2019. With this election, the comparative information (2018) was not restated for these financial statements. Also, the CDC is required to recognize a lease liability for a lease previously classified as an operating lease under IAS 17, unless the lease is 12 months or less or the underlying asset in the lease is of low value.

At the date of transition, the CDC did not have any lease classified as finance leases applying IAS 17. However, under IAS 17, the CDC did have an operating lease that is not short-term or for which the underlying asset is not of low value, and it pertains to a building leased for office space. Therefore, a lease liability and right-of use asset were recognized for the building lease. The lease liability was measured at the present value of the remaining lease payments, discounted using the CDC's incremental borrowing rate as at August 1, 2019; the rate was 1.37%. The right-of-use asset was measured at an amount equal to the lease liability. There were no prepaid or accrued lease payments relating to that lease recognised in the statement of financial position on July 31, 2019.

The new standard does not require any adjustment on transition in connection to leases previously classified as operating leases under IAS 17 and for which the underlying asset is of low value. Furthermore, no adjustment was required on transition for leases previously classified as operating leases under IAS 17 and for which the lease term ends within the 12-month period following August 1, 2019, as the CDC has elected to adopt the corresponding practical expedient as permitted in the standard.

(In thousands of Canadian dollars, unless otherwise indicated)

The following table summarizes the impact of the standard on the opening statement of financial position as at the date of initial application - August 1, 2019:

| | August 1, 2019 | Effect of transition to IFRS 16 | July 31, 2019 |
|---|---|---|---|
| Assets | | | |
| Right-of-use asset | $ 2,697 | $ 2,697 | $ - |
| All other assets | 189,232 | - | 189,232 |
| | 191,929 | 2,697 | 189,232 |
| Liabilities | | | |
| Lease liabilities | $ 2,697 | $ 2,697 | $ - |
| All other liabilities | 163,106 | - | 163,106 |
| | 165,803 | 2,697 | 163,106 |
| Equity | | | |
| Retained earnings | $ 26,126 | $ - | $ 26,126 |

### *4. Inventory*

The CDC's inventory as at October 31, 2019 includes butter purchased under the domestic seasonality and surplus removal programs. The CDC also imports butter under the World Trade Organization (WTO) Agreement on Agriculture.

*Inventory:*

| | October 31, 2019 | | July 31, 2019 | |
|---|---|---|---|---|
| | in $ | in tonnes | in $ | in tonnes |
| Plan B butter | $ 95,861 | 11,389 | $ 149,729 | 17,800 |
| Other butter | 20,806 | 2,582 | 29,826 | 3,883 |
| | 116,667 | | 179,555 | |
| Less: allowance for inventory write-down | (979) | | (1,398) | |
| Total net realizable value | $ 115,688 | | $ 178,157 | |

Inventory expensed in the current quarter was $114.12 million (July 31, 2019: $351.08 million) and is reported on the Statement of Operations and Comprehensive Loss in cost of goods sold (domestic and exports).

(In thousands of Canadian dollars, unless otherwise indicated)

### *5. Right of use asset and lease liability*

The CDC's only right-of-use asset and lease liability pertain to a building under a lease contract and used for its office space.

The following represents a reconciliation of the opening and closing balance of the right-of-use building:

| | | |
|---|---|---|
| Cost as at August 1, 2019 | $ | 2,697 |
| Accumulated depreciation | | (88) |
| Net book value as at October 31, 2019 | $ | 2,609 |

The following represents a reconciliation of the opening and closing balance of the building lease liability:

| | | |
|---|---|---|
| Balance as at August 1, 2019 | $ | 2,697 |
| Interest expense | | 9 |
| Lease payments | | - |
| Balance as at October 31, 2019 | $ | 2,706 |
| Current | $ | 460 |
| Non-current | | 2,246 |
| Balance as at October 31, 2019 | $ | 2,706 |

The total cash outflow for the building lease liability during the three-month period ending October 31, 2019 was nil. The total expense relating to short-term leases or leases for which the underlying asset is of low value, are not material.

### *6. Bank overdraft*

The CDC has established a line of credit with a member of the Canadian Payments Association. This line of credit was authorized by the Minister of Finance up to a maximum of $50 million with its intended use of advancing funds to the provincial milk marketing boards and agencies. The line of credit is provided in the form of a bank overdraft. As at October 31, 2019 the authorized credit limit from the bank is $10 million (July 31, 2019: $10 million). This loan is due on demand and bears interest calculated at the prime rate of 3.95% per annum as at October 31, 2019 (July 31, 2019: 3.95%).

(In thousands of Canadian dollars, unless otherwise indicated)

### *7. Deferred revenue*

Deferred revenue is comprised of payments received in advance for the sale of product not transferred to the purchaser as at the end of the reporting period. The balance of deferred revenue was higher as at July 31, 2019 when compared to October 31, 2019 due to the timing of payments received for the sale of product.

Revenue recognised in the reporting period that was included in deferred revenue at the beginning of the reporting period is as follows:

| | Q1 2019-2020 | Q1 2018-2019 |
|---|---|---|
| Deferred revenue recognized as revenue | $ 2,715 | $ 16,800 |

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

Loans from the Government of Canada's Consolidated Revenue Fund are available to finance operations, up to a maximum of $225 million (July 31, 2019: $225 million). Individually, the loans mature one year after the funds are advanced. Principal and interest is paid regularly during the year when funds are available. Changes in Loans from the Government of Canada are due to financing activities, limited to changes arising from cash flows, which is reflected in the Statement of Cash Flows.

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

| Interest rates | Q1 2019-2020 | Q1 2018-2019 |
|---|---|---|
| Low | 1.74% | 1.21% |
| High | 1.87% | 1.59% |
| Interest expense | $ 425 | $ 154 |

### *9. Capital management*

The CDC's capital consists of loans from the Government of Canada (see Note 8) and retained earnings. As at October 31, 2019 these accounts totalled $67.93 million (July 31, 2019: $127.60 million) and $26.29 million (July 31, 2019: $26.13 million) respectively. The CDC is not subject to any externally imposed capital requirements.

The CDC's capital management framework ensures sufficient liquidity to settle financial obligations and adequate funding for programs that benefit the dairy industry. The CDC does not utilize any quantitative measurements to monitor its capital, but the CDC adjusts its capital management framework on an ongoing basis as amounts fluctuate during the year. There were no adverse changes made to the capital management framework or its definition thereof.

(In thousands of Canadian dollars, unless otherwise indicated)

### *10. Disaggregation of revenue from contracts with customers*

The CDC derives most of its revenue from the transfer of goods and services to customers in the following segments:

| | Q1 2020-2019 | Q1 2019-2018 |
|---|---|---|
| Domestic sales | | |
| Plan A butter | $ 5,646 | $ 2,188 |
| Plan B butter | 102,898 | 166,763 |
| Imported butter | 6,907 | 3,178 |
| Skim milk powder | - | 7,212 |
| Domestic sales revenue | 115,269 | 179,341 |
| Export sales revenue - butter | - | 839 |
| Milk pools | | |
| Funding for administrative expenses | 1,130 | 1,130 |
| Carrying charges associated to butter inventory | 1,025 | 576 |
| Other recoverable expenses | 217 | 217 |
| Funding from milk pools | 2,372 | 1,923 |
| Audit services | - | (1) |
| Total revenue from contracts with customers | $ 117,641 | $ 182,102 |

(In thousands of Canadian dollars, unless otherwise indicated)

### *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:

| | Q1 2019-2020 | Q1 2018-2019 |
|---|---|---|
| Total administrative expenses | $ 2,076 | $ 2,089 |
| Funded by Government of Canada | 898 | $ 962 |

### *12. Salaries and employee benefits*

Salaries and employee benefits includes:

| | Q1 2019-2020 | Q1 2018-2019 |
|---|---|---|
| Salaries expense | $ 1,406 | $ 1,350 |
| Pension contributions | 189 | 153 |
| Medical insurance expense | 65 | 71 |
| Other expenses | 43 | 45 |
| Total | $ 1,703 | $ 1,619 |

*Pension plan*

Substantially all CDC employees are covered by the public service pension plan (the "Plan"). Given the Plan is sponsored by the Government of Canada, the President of the Treasury Board of Canada sets the required employer contributions, which are based on a multiple of the employee's required contribution. The general contribution rate effective for the quarter ended October 31, 2019 was on average 1.00 times the employee's rate (1.00 times for the year ended July 31, 2019).

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 normal course of operation, the CDC is exposed to the following risks, which are managed and mitigated with corresponding policies and procedures.

### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument.

*Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The CDC is exposed to this risk through normal international commercial operations. The CDC mitigates this exposure by only contracting in US and Canadian dollars. Also, the CDC uses foreign exchange forward contracts to lock future exchange rates on certain foreign currency exposures. This is done to stabilize the impact of exchange on future cash flows resulting from sales and purchases on existing contracts requiring payment in US dollars.

The fair value of the CDC's derivative financial instruments is measured using the Bank of Canada's published foreign exchange rate as at the date of the Statement of Financial Position. The exchange rate from US to Canadian dollars was 1.3160 as at October 31, 2019 (July 31, 2019: 1.3148).

Based on the current net exposure, and assuming that all other variables remain constant, had the Canadian dollar appreciated or weakened 10% against the US dollar as at October 31, 2019, the impact on net loss for 2019 would not have been material (July 31, 2019: no impact).

*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. The line of credit, for which interest varies as a function of prime, and loans from the Government of Canada, for which interest varies as a function of the yield on comparable Treasury bills, expose the CDC to a cash flow risk. The CDC's interest rate risk is not significant given its low interest-bearing loans, for which adverse rate increases are not expected over the next twelve months.

*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 at the Statement of Financial Position date, all of the CDC's financial instruments are current and the CDC has a current ratio equal to 1.27 (July 31, 2019: 1.18). In managing liquidity risk, the CDC has access to additional borrowings for commercial operations from the Government of Canada in the amount of $157.07 million (July 31, 2019: $97.40 million), as well as $4.54 million (July 31, 2019: $4.02 million) on its line of credit for the pooling of market returns, both as at October 31, 2019.

**Credit risk**

Credit risk is the risk of financial loss for one party due to another party failing to meet its financial obligations. The CDC's main credit risk exposure comes from the balances of trade and other receivables, net of any allowance for losses. The CDC manages the credit risk from trade receivables by selling product on a “payment first” basis, securing bank guarantees and obtaining letters of credit. The CDC considers the credit risk associated with other receivables not material given those amounts are withheld from amounts owed back to provincial milk boards and agencies. As at October 31, 2019 and July 31, 2019 the CDC does not have an allowance for doubtful accounts and all trade and other receivables are current.

The CDC is also exposed to credit risk when it holds foreign exchange contracts. This exposure is limited to the notional amount of Derivative asset – foreign exchange contracts, of which the CDC had none as at October 31, 2019 and July 31, 2019. The CDC manages this risk by only entering into foreign exchange contracts with major Canadian financial institutions. To date, no such counterparty has failed to meet its financial obligation to the CDC.

**Fair values**

The carrying amount of cash, trade and other receivables, bank overdraft, and trade and other payables approximate their fair value due to the immediate or short-term maturity of these financial instruments. Therefore, as at the Statement of Financial Position date, no amounts representing changes in fair value of these financial instruments are reported on the Statement of Operations and Comprehensive Loss.

**Fair value hierarchy**

Financial instruments reported at fair value on the Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs to valuation techniques used to measure fair value.

The fair value hierarchy, which for the CDC only applies to derivative financial instruments, has the following levels:

Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

(In thousands of Canadian dollars, unless otherwise indicated)

Level 2: inputs are 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: inputs are unobservable inputs for the asset or liability (i.e. not based on observable market data).

When the CDC holds foreign exchange derivatives, their fair value is calculated using the Bank of Canada's published foreign exchange rate as at the date of the Statement of Financial Position. This input to the valuation technique used to measure fair value is classified as Level 2 on the fair value hierarchy (July 31, 2019: Level 2).

### *14. Commitments*

*a) Industry Initiatives*

Industry initiatives are initiatives that provide benefits to the industry, such as the Matching Investment Fund and the Workforce Development Initiative.

The expected timing of expenditures in relation to industry initiatives is as follows:

| | Less than one year | | More than one year and less than five years | |
|---|---|---|---|---|
| *Summary:* | October 31, 2019 | July 31, 2019 | October 31, 2019 | July 31, 2019 |
| Matching Investment Fund | $ 8,477 | $ 8,467 | $ - | $ - |
| Workforce Development Initiative | 854 | 369 | 428 | 149 |
| Total commitments for industry initiatives | $ 9,331 | $ 8,836 | $ 428 | $ 149 |

**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 an investment matching basis. As at October 31, 2019, the CDC has outstanding contractual commitments of up to $8.48 million.

**Workforce Development Initiative**

The Workforce Development Initiative encourages productivity, competitiveness, and innovation in the Canadian dairy industry by supporting the education and recruitment of a qualified workforce. The CDC Board adopted this initiative in December 2017 and has agreed to grant $5.00 million over three years to qualifying learning institutions and dairy associations (producers or processors) across Canada. This initiative includes four programs: career promotion, development of full-time education programs, development of continuing education, and graduate scholarships. As at October 31, 2019, the CDC has outstanding contractual commitments of $1.28 million.

(In thousands of Canadian dollars, unless otherwise indicated)

*b) Purchase Commitments*

As at October 31, 2019, the CDC has commitments to purchase predetermined quantities of butter. These commitments amounted to approximately $1.54 million (July 31, 2019: $1.41 million) and will be fulfilled by November 2019.

*c) WTO Tariff Rate Quotas for Butter*

The Government of Canada establishes tariff rate quotas (TRQ) for a number of dairy products, limiting the quantity of product that can enter the country with little or no duty. For butter products, under the terms of the 1994 WTO Agreement, Canada is committed to providing minimum annual market access opportunities totalling 3,274 tonnes, setting the minimum TRQ on butter products at the same level. Since 1995, subject to renewal each quota year (August to July), the CDC is mandated by the Minister of International Trade to ensure that Canada's butter TRQ is fully used, and that imported butter is redistributed to the Canadian food sector through butter manufacturers.

As at October 31, 2019, the unused portion of the 2019-2020 TRQ on butter is 50 tonnes. The financial impact of this commitment for the next period is affected by the price variability between countries and type of eligible butter products, as well as the foreign exchange rates.

The total cost to purchase imported butter for the quarter ended:

| | Q1 2019-2020 | Q1 2018-2019 |
|---|---|---|
| Cost to purchase imported butter | $ 437 | $ - |

## *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 gives the Government of Canada significant influence over the CDC and its activities.

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

Under IAS 24 – *Related Party Disclosures,* the CDC is exempt from certain disclosure requirements relating to transactions and outstanding balances with:

- a government that has control, joint control or significant influence over the reporting entity; and

(In thousands of Canadian dollars, unless otherwise indicated)

- 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.

Accordingly, the CDC discloses limited information regarding transactions entered with the Government of Canada and its departments, and with all federal Crown corporations not considered to be individually or collectively significant.

The CDC's transactions with government-related entities that were individually significant relate to Loans from the Government of Canada (Note 8) and Funding from the Government of Canada (Note 11).
Other transactions with government-related entities that were collectively, but not individually, significant are:

| Government-related entities | Q1 2019-2020 | Q1 2018-2019 |
|---|---|---|
| Public Works and Government Services Canada | $ 285 | $ 310 |
| Agriculture and Agri-Food Canada | - | 123 |
| Other Government-related entities | 19 | 29 |
| Total | $ 304 | $ 462 |

*Key management personnel*

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

No loans or similar transactions with key management personnel are outstanding as at October 31, 2019 or July 31, 2019. There were no transactions of this nature during either quarter.

Post-employment benefit liability for key management personnel reported under "Other payables" on the Statement of Financial Position amounts to $0.10 million as at October 31, 2019 (July 31, 2019: $0.11 million).

Compensation of key management personnel for the reporting period is as follows:

| | Q1 2019-2020 | Q1 2018-2019 |
|---|---|---|
| Compensation of key management personnel | $ 260 | $ 280 |

### *16. Reclassification*

The CDC has changed the presentation of “Other liabilities” in the statement of financial position. The change is limited to the label used for this line item, which has been changed to “Other payables” to better reflect the nature of this amount.

Also, the reporting of depreciation on equipment and intangible assets in the Statement of Operations and Comprehensive Loss was previously done in “Other charges”. In an effort to improve the reporting of financial information in the financial statements, these expenses have been moved to “Other administrative expenses” to be consistent with where the depreciation on the right-of-use asset is reported following the application of *IFRS 16 - Leases*. The comparative information has been adjusted to reflect this reporting change. Had the change not been done, “Other charges” would have been $0.12 million and “Other administrative expenses” would have been $2.26 million for the year ending July 31, 2019, and respectively $0.02 million and $0.46 million for the quarter ended October 31, 2018.