



Quarterly Financial Report

Second quarter of 2021



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Second Quarter 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 quarter ended on January 31, 2021 should be read in conjunction with the financial statements enclosed herein and the 2019-2020 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, 2020, 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 Sales Activities

(in thousands)	For the three-months ended			For the six months ended		
	Jan 31, 2021	Jan 31, 2020	\$ change	Jan 31, 2021	Jan 31, 2020	\$ change
Sales revenue	\$ 59,316	\$ 82,154	\$ (22,838)	\$ 132,153	\$ 197,423	\$ (65,270)
Cost of goods sold	\$ 58,460	\$ 81,826	\$ (23,366)	\$ 129,111	\$ 195,941	\$ (66,830)
Transport and carrying charges	\$ 660	\$ 872	\$ (212)	\$ 1,699	\$ 1,983	\$ (284)
Finance costs	\$ 24	\$ 169	\$ (145)	\$ 82	\$ 594	\$ (512)
Gross profit (loss) on domestic sales	\$ 172	\$ (713)	\$ 885	\$ 1,261	\$ (1,095)	\$ 2,356

The CDC purchases and sells butter in order to regulate the supply of dairy products in the domestic market throughout the year.

Domestic sales in the second quarter of this year and on a year-to-date basis are lower compared to the same period last year mainly as a result of smaller sales of Plan B butter, which is consistent with an overall decrease in Plan B butter inventories over the previous periods. Note that transport and carrying charges, as well as finance costs, continue to be entirely recovered from the marketplace and producers as part of the funding from milk pools. Therefore, the impact of domestic activities on total comprehensive income is limited to the difference between sales revenue and cost of goods sold, which has increased by \$1.56 million on a year-to-date basis as some Plan A butter sold in the current period had been purchased by the CDC at a price below the support price.



Other Income

(in thousands)	For the three-months ended			For the six months ended		
	Jan 31, 2021	Jan 31, 2020	\$ change	Jan 31, 2021	Jan 31, 2020	\$ change
Funding from milk pools	\$ 2,855	\$ 2,094	\$ 761	\$ 5,633	\$ 4,465	\$ 1,168
Funding from the Government of Canada	\$ 1,184	\$ 1,077	\$ 107	\$ 2,234	\$ 1,975	\$ 259
Professional services	\$ 175	\$ -	\$ 175	\$ 175	\$ -	\$ 175
Total other income	\$ 4,214	\$ 3,171	\$ 1,043	\$ 8,042	\$ 6,440	\$ 1,602

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 the annual production study, as well as to finance the carrying charges associated with Plan A and Plan B butter stocks, the program expenses associated with Plan C cheese and any recoverable industry committee expenses. The funding increased compared to the previous year mainly to cover higher expected carrying charges.

Funding from the Government of Canada represents funding received from parliamentary appropriations and is recognized in the Statement of Operations and Comprehensive Income (Loss) as government-funded administrative expenses are incurred. Generally, the utilization of the funding varies based on the timing of related expenses. The increase compared to the same periods last year is explained by an overall increase in total administrative expenses.

Professional services include cost-recovery income relating to milk utilization audits, as well as compensation received to administer the Dairy Direct Payment Program on behalf of Agriculture and Agri-Food Canada. The income from audit services is recognized as revenue when the services are rendered. The income from administrative services is recognized as revenue over time as recoverable administration costs are incurred up.

Operating and Administrative Expenses

(in thousands)	For the three-months ended			For the six months ended		
	Jan 31, 2021	Jan 31, 2020	\$ change	Jan 31, 2021	Jan 31, 2020	\$ change
<i>Operating expenses</i>						
Industry initiatives	\$ 107	\$ 333	\$ (226)	\$ 118	\$ 776	\$ (658)
Cost of Production study	\$ 212	\$ 208	\$ 4	\$ 423	\$ 415	\$ 8
Plan C program costs	\$ 192	\$ -	\$ 192	\$ 354	\$ -	\$ 354
Other recoveries	\$ (38)	\$ (141)	\$ 103	\$ (38)	\$ (141)	\$ 103
Total operating expenses	\$ 473	\$ 400	\$ 73	\$ 857	\$ 1,050	\$ (193)
<i>Administrative expenses</i>						
Salaries and employee benefits	\$ 1,901	\$ 1,857	\$ 44	\$ 3,768	\$ 3,560	\$ 208
Other administrative expenses	\$ 407	\$ 442	\$ (35)	\$ 761	\$ 815	\$ (54)
Total administrative expenses	\$ 2,308	\$ 2,299	\$ 9	\$ 4,529	\$ 4,375	\$ 154
Total operating and administrative expenses	\$ 2,781	\$ 2,699	\$ 82	\$ 5,386	\$ 5,425	\$ (39)

Operating Expenses

Industry initiatives includes expenses relating to various CDC programs that provide benefits to the industry such as research, the Matching Investment Fund, and the Workforce Development Initiative and scholarships. The expenses decreased because of less expenses related to the Workforce Development Initiative and scholarship contributions.



The cost of production study includes expenses relating to the annual survey on cost of production. The CDC uses the survey results when it sets support prices.

Plan C program expenses includes storage, insurance and interest costs incurred for cheese purchased under this program. There were no expenses in the previous periods as the CDC started receiving cheese under this program in July 2020.

Other recoveries include unrealized gains or losses on outstanding foreign exchange contracts as at the Statement of Financial Position date, which vary in accordance with the fluctuations in exchange rates and the carrying amount of outstanding foreign exchange contracts at the end of a given period. Changes in Other recoveries are mainly due to these variations.

Administrative Expenses

Salary expenses incurred during the three-month period and six-month period of this year have increased compared to the same periods last year because of new collective agreements. Other administrative expenses are lower partly due to the timing of certain expenses and a decrease in travel costs due to the COVID-19 pandemic.

Inventories

The value of inventory as at January 31, 2021, was \$45.51 million, which is lower than the value of inventory of \$132.31 million as at July 31, 2020.

Butter stocks as at January 31, 2021, were approximately 5,433 tonnes, a decrease of approximately 10,642 tonnes since July 31, 2020. This is a normal seasonal cycle as sales of butter increase during the pre-Christmas period and manufacturers repurchase their Plan B butter from the CDC at that time, therefore reducing the inventory.

Plan C repurchase agreement

Last year, due to the COVID-19 pandemic, the CDC launched a storage program for cheese in partnership with cheese manufacturers as a temporary measure to help the dairy industry deal with surplus raw milk. The program consists of repurchase agreements for which the CDC initially purchases cheese from a processor up to an agreed quantity at a pre-established price, and temporarily storing the product for a set period of time, after which the processor is contractually obligated to repurchase the product at the same price.

As at January 31, 2021, Plan C repurchase agreements amounted to \$19.01 million for 2,132 tonnes of cheese compared to \$9.44 million for 1,049 tonnes of cheese as at July 31, 2020.

Loans from the Government of Canada

There is a direct correlation between variations in the balance of outstanding loans from the Government of Canada and variations in the total balance of inventory and Plan C repurchase agreements because these assets are financed by the loans. The loans from the Government of Canada as at January 31, 2021, was \$25.56 million compared to \$95.02 million as at July 31, 2020. The decrease in the total balance of inventory and Plan C repurchase agreements resulted in lower loan requirements.



Cash Flows

(in thousands)	For the three-months		For the six months ended	
	Jan 31, 2021	Jan 31, 2020	Jan 31, 2021	Jan 31, 2020
Net cash flows from operating activities	\$ 42,332	\$ 45,807	\$ 68,667	\$ 103,392
Net cash flows used in financing activities	\$ (42,753)	\$ (45,109)	\$ (69,576)	\$ (104,780)
Net decrease (increase) in net bank overdraft	\$ (421)	\$ 698	\$ (909)	\$ (1,388)
Net bank overdraft at beginning of the period	\$ (5,011)	\$ (5,452)	\$ (4,523)	\$ (3,366)
Net bank overdraft at the end of the period	\$ (5,432)	\$ (4,754)	\$ (5,432)	\$ (4,754)

The CDC's closing bank cash position as at January 31, 2021, was a net bank overdraft of \$5.43 million compared to a net overdraft of \$5.45 million as at July 31, 2020. This represents an increase in the net cash position of \$0.02 million.

Cash Flows from Operating Activities

Net cash inflows from operating activities during the three-month period ending January 31, 2021, amounted to \$42.33 million compared to \$45.81 million over the same period last year. Over the six-month period ending January 31, 2021, the net cash inflows from operating activities amounted to \$68.67 million compared to \$103.39 million over the same period last year.

The \$3.48 million decrease in net cash inflow from operating activities over the three-month period is mainly explained by the fact that the decrease in the net amount of cash receipts from the sale of butter inventories is greater than the decrease in the net amount of cash paid for the purchase of butter inventories during the period. The \$34.72 million decrease in cash movement from operating activities over the six-month period is mainly explained by the fact that the decrease in the net amount of cash receipts from the sale of butter inventories is greater than the decrease in the net amount of cash paid for the purchase of butter inventories and Plan C cheese during the period.

Cash Flows from Financing Activities

Net cash outflows from financing activities during the three-month period ended January 31, 2021, amounted to \$42.75 million compared to \$45.11 million over the same period last year. Net cash outflows from financing activities during the six-month period ended January 31, 2021, amounted to \$69.58 million compared to \$104.78 million over the same period last year. The CDC's financing activities are directly correlated to its day-to-day commercial operations given Loans from the Government of Canada fluctuate daily depending on the CDC's cash position at the end of a given day. Therefore, the \$2.36 million change in cash movement from financing activities for the three-month period, as well as the \$35.20 million change for the six-month period, are explained by less cash generated from commercial activities which, in turn, resulted in lower net loan repayments.

3. Outlook against the Corporate Plan Summary

Key factors that may impact the budget reported in the Corporate Plan Summary are the total industrial milk production, the domestic requirements, the support prices, and the 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 387.4 M kg of butterfat. Due to the pandemic, the total requirements forecasts have been revised downward. The July 2021 12-m total requirements are forecasted at 401.3 M kg of butterfat.

Levels of CDC and private stocks reached 25,547 tonnes on January 31, 2021.

The COVID-19 pandemic has resulted in unforeseen and rapid fluctuations in the demand for many key dairy products. Since March 2020, the entire dairy supply chain has been working diligently to ensure adequate supplies of milk and dairy products while implementing measures to adapt production to demand during these unprecedented times.

COVID-19 will also continue to have an impact on the CDC's administrative expenses, which are expected to be lower than budgeted mainly a result of lower travel and meeting costs.

4. Appropriations

The following table reconciles the appropriations received and disbursed.

(in thousands)	For the three-months ended			For the six-months ended		
	Jan 31, 2021	Jan 31, 2020	\$ change	Jan 31, 2021	Jan 31, 2020	\$ change
Opening Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Parliamentary appropriations	\$ 1,184	\$ 1,077	\$ 107	\$ 2,234	\$ 1,975	\$ 259
Amount disbursed	\$ (1,184)	\$ (1,077)	\$ (107)	\$ (2,234)	\$ (1,975)	\$ (259)
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 February 26, 2020, the CDC Board adopted an updated Corporate Risk Profile for dairy year 2020-2021. There are no high risks for that year. Cybersecurity continues to be a concern but due to the support of central government agencies, it is deemed to be a moderate risk. It is monitored on a continuous basis by the IT Team. The CDC continued the implementation of the Policy on Government Security.



6. Significant Changes

The following significant changes in operations, industry initiatives, programs, personnel, objectives, and Governing Board occurred between August 1, 2020, and January 31, 2021, in comparison with the Corporate Plan Summary.

Operations, industry initiatives, and programs	Due to the COVID-19 pandemic, CDC staff worked from home and meetings were in virtual format during the quarter. Despite that, the CDC continued to offer all the regular programs and services to the dairy industry and continued its collaboration with other government departments.
Personnel	No significant changes occurred in this quarter.
Objectives	No significant changes occurred in this quarter.
Governing Board	No significant changes occurred in this quarter.



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

March 29, 2021



Canadian Dairy Commission Statement of Financial Position

(unaudited)

(in thousands of Canadian dollars)

	As at	
	January 31, 2021	July 31, 2020
Assets		
Current		
Cash	\$ 3,334	\$ 1,393
Trade and other receivables		
Trade receivables	490	423
Advance to provincial milk boards and agencies	8,766	5,916
Milk pools	2,024	1,979
Derivative asset - foreign exchange contracts	18	22
Inventory (Note 4)	45,507	132,313
	<u>60,139</u>	<u>142,046</u>
Non-Current		
Plan C repurchase agreements (Note 5)	19,010	9,441
Equipment	55	68
Intangible asset	93	108
Right-of-use asset (Note 6)	2,169	2,345
	<u>\$ 81,466</u>	<u>\$ 154,008</u>
Liabilities		
Current		
Bank overdraft (Note 7)	\$ 8,766	\$ 5,916
Trade and other payables		
Trade payables and accruals	17,617	25,238
Distribution to provincial milk boards and agencies	-	1,250
Other payables	837	820
Deferred revenue (Note 8)	3,365	4,248
Loans from the Government of Canada (Note 9)	25,558	95,022
	<u>56,143</u>	<u>132,494</u>
Non-Current		
Lease liability (Note 6)	2,253	2,361
Equity		
Retained earnings	23,070	19,153
	<u>\$ 81,466</u>	<u>\$ 154,008</u>

Commitments (Note 15)

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

These financial statements were approved and authorized for issue on March 29, 2021.

Serge Riendeau
Chief Executive Officer

Robert Ingratta
Chairperson

Chantal Laframboise
Director, Finance and Administration



Canadian Dairy Commission
Statement of Operations and Comprehensive Income

(unaudited)
(in thousands of Canadian dollars)

	For the three-months ended		For the six-months ended	
	January 31, 2021	January 31, 2020	January 31, 2021	January 31, 2020
Domestic sales and cost of sales				
Sales revenue (Note 11)	\$ 59,316	\$ 82,154	\$ 132,153	\$ 197,423
Cost of goods sold	58,460	81,826	129,111	195,941
Transport and carrying charges	660	872	1,699	1,983
Finance costs	24	169	82	594
Gross profit (loss) on domestic sales	172	(713)	1,261	(1,095)
Other income				
Funding from milk pools (Note 11)	2,855	2,094	5,633	4,465
Funding from the Government of Canada	1,184	1,077	2,234	1,975
Professional services (Note 11)	175	-	175	-
	4,214	3,171	8,042	6,440
Gross profit (loss) on domestic sales and other income	4,386	2,458	9,303	5,345
Operating expenses				
Industry initiatives	107	333	118	776
Cost of Production study	212	208	423	415
Plan C program costs (Note 5)	192	-	354	-
Other recoveries	(38)	(141)	(38)	(141)
	473	400	857	1,050
Administrative expenses				
Salaries and employee benefits (Note 13)	1,901	1,857	3,768	3,560
Other administrative expenses	407	442	761	815
	2,308	2,299	4,529	4,375
Total operating and administrative expenses	2,781	2,699	5,386	5,425
Profit (loss) before distribution to provincial milk boards and agencies	1,605	(241)	3,917	(80)
Distribution to provincial milk boards and agencies	-	-	-	-
Total comprehensive income (loss)	\$ 1,605	\$ (241)	\$ 3,917	\$ (80)

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



Canadian Dairy Commission
Statement of Changes in Equity

(unaudited)
(in thousands of Canadian dollars)

	For the three-months ended		For the six-months ended	
	January 31, 2021	January 31, 2020	January 31, 2021	January 31, 2020
Retained earnings, beginning of the period	\$ 21,465	\$ 26,287	\$ 19,153	\$ 26,126
Total comprehensive loss for the period	1,605	(241)	3,917	(80)
Retained earnings, end of the period	\$ 23,070	\$ 26,046	\$ 23,070	\$ 26,046

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



Canadian Dairy Commission
Statement of Cash Flows

(unaudited)

(in thousands of Canadian dollars)

	For the three-months ended		For the six-months ended	
	January 31, 2021	January 31, 2020	January 31, 2021	January 31, 2020
Cash flows from (used) in operating activities				
Cash received from customers and others	\$ 63,218	\$ 82,779	\$ 131,948	\$ 195,439
Cash paid to suppliers and others	(21,371)	(35,108)	(57,277)	(93,351)
Net cash receipts (paid) from provincial milk boards and agencies for pooling	(911)	3,212	2,738	6,098
Cash distributed to provincial milk boards and agencies	-	(5,750)	(1,250)	(5,750)
Cash receipts from the Government of Canada	1,184	1,077	2,234	1,975
Cash paid for Plan C repurchase agreements	-	-	(9,930)	-
Cash receipts from Plan C repurchase agreements	296	-	361	-
Interest paid on loans and the lease liability	(84)	(403)	(157)	(1,019)
Net cash flows from operating activities	42,332	45,807	68,667	103,392
Cash flows from (used) in financing activities				
New loans from the Government of Canada	13,209	20,261	42,729	51,462
Loan repayments to the Government of Canada	(55,850)	(65,247)	(112,193)	(156,119)
Principal payments on the lease liability	(112)	(123)	(112)	(123)
Net cash flows used in financing activities	(42,753)	(45,109)	(69,576)	(104,780)
Net decrease (increase) in net bank overdraft	(421)	698	(909)	(1,388)
Net bank overdraft at beginning of the period	(5,011)	(5,452)	(4,523)	(3,366)
Net bank overdraft at the end of the period	\$ (5,432)	\$ (4,754)	\$ (5,432)	\$ (4,754)
Components:				
Cash	\$ 3,334	\$ 3	\$ 3,334	\$ 3
Bank overdraft	(8,766)	(4,757)	(8,766)	(4,757)
Net bank overdraft	\$ (5,432)	\$ (4,754)	\$ (5,432)	\$ (4,754)

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

Canadian Dairy Commission

Notes to the unaudited interim financial statements

January 31, 2021

(in thousands of Canadian dollars, unless otherwise indicated)

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 Corporate Plan. As at January 31, 2021, 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 the International Financial Reporting Standards (IFRS).

The financial statements were approved and authorized for issue by the CDC Board on March 29, 2021.

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.

Canadian Dairy Commission

Notes to the unaudited interim financial statements

January 31, 2021

(in thousands of Canadian dollars, unless otherwise indicated)

Reporting period

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

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. The CDC has also considered the impact of the COVID-19 pandemic on the valuation of its assets and has determined that assets are appropriately valued and that no impairments are required.

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 had two contracts with a performance obligation satisfied over time, which includes the administration of the pooling agreements and the administration of the Dairy Direct Payment Program. For the contract pertaining to the pooling agreements, management has concluded that the satisfaction of this performance obligation is achieved on a monthly basis as pooling calculations are conducted. As for the contract pertaining to the administration of the Dairy Direct Payment Program, management has concluded that the satisfaction of this performance obligation was achieved over time as the CDC incurred recoverable administration costs. 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

Under section 9(1) of the *Canadian Dairy Commission Act*, the CDC operates domestic seasonality programs which include the purchase of Plan B butter. The butter is purchased from processors who are contractually obligated to repurchase the product at the prevailing support price at the end of an agreed upon period of time. Although the CDC customarily honours processors' requests to repurchase the product, the CDC is not contractually obligated to sell the Plan B butter back to the processors. Additionally, the CDC bears the significant risks of ownership when it holds the product, including theft and damage.

Given the CDC has a present ability to direct the use and obtain substantially all of the remaining benefits of the asset, and bears the significant risks of ownership of the asset, management has

Canadian Dairy Commission

Notes to the unaudited interim financial statements

January 31, 2021

(in thousands of Canadian dollars, unless otherwise indicated)

concluded that control over the product is transferred to the CDC. Therefore, the CDC recognizes the Plan B butter purchased as inventory.

Plan C Cheese

Under section 9(1) of the *Canadian Dairy Commission Act*, the CDC operates programs which include the Plan C cheese program, for which a description and additional context is provided in Note 5 Plan C cheese program to better understand the judgment that is required.

Due to its financial arrangement's nature, IFRS requires the CDC to account for the Plan C repurchase agreements as financial assets. *IFRS 9 Financial Instruments* requires a financial asset to be measured at fair value at initial recognition if it differs from the transaction price. The CDC calculates the fair value of the financial asset based on a discount rate for which management has used judgment to establish.

Building lease

The CDC has a lease contract as a lessee on a building used for office accommodation and storage space. In concluding that the contract is or contains a lease, management made judgments in its assessment of whether the lease conveys the right to control the building, as demonstrated when the lessee has the right to obtain substantially all of the economic benefits and the right to direct the use of the asset. Management also used judgments in determining that the renewal option will be reasonably exercised which increases the lease term.

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 Income (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 classification and subsequent measurement model of financial instrument categories are described below.

Canadian Dairy Commission

Notes to the unaudited interim financial statements

January 31, 2021

(in thousands of Canadian dollars, unless otherwise indicated)

Classifications and subsequent measurements:

Cash	Financial asset measured at amortized cost
Trade and other receivables.....	Financial asset measured at amortized cost
Plan C repurchase agreements.....	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 financial 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 Income (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, loss allowance is measured at an amount equal to lifetime expected credit losses, if any.

As the credit risk of Plan C repurchase agreements has not increased significantly since initial recognition, the loss allowance is measured at an amount equal to the 12-month expected credit losses, if any.

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

Canadian Dairy Commission

Notes to the unaudited interim financial statements

March 31, 2021

(in thousands of Canadian dollars, unless otherwise indicated)

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.

Derivatives are initially recognized at fair value at the date the derivative contracts are acquired and are subsequently remeasured to their fair value at the end of each reporting period. Changes in fair value are recognized as gains or losses in “Other recoveries” on the Statement of Operations and Comprehensive Income (Loss). A derivative with a positive fair value is recognized as a financial asset while a derivative with a negative fair value is recognized as a financial liability.

Inventory

Inventory is reported at the lower of cost, which is the purchase cost, or the 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 Income (Loss) and begins when the equipment is available for use by the CDC. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset less estimated residual value as follows:

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

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

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Depreciation is reported in “Other administrative expenses” on the Statement of Operations and Comprehensive Income (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 – as a lessee

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 recognize 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 recognize 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 cases the lease payments are recognized as an expense on a straight-line basis over the term of the lease.

Building Lease

The lease contract on the building used for office accommodation and storage 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*.

The carrying amount of the right-of-use asset on the office lease is reported at cost less accumulated amortization. Cost comprise the amount of the initial measurement of the lease liability. There were no lease payments made in advance or accrued lease payments relating to the lease immediately before the date of initial application, lease incentives received or initial direct costs, that otherwise would have been considered in the initial measurement of the right-of-use asset. The right-of-use asset is reviewed annually 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, discounted using the CDC’s incremental borrowing rate, 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.

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 Income (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.

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

The CDC administers the Surplus Removal Program, the Domestic Seasonality Program and the newly created Plan C cheese program throughout the year. Any 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 Income (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 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 dairy producers an annual fixed fee which offsets the costs associated with the administration of the agreement. Furthermore, the CDC is reimbursed for estimated carrying charges for normal levels of butter inventory and for other direct costs, including carrying charges for surplus butter inventories and Plan C cheese program costs. 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.

Professional Services

Income from professional services includes revenues from audit services and revenues from administrative services rendered as part of the Dairy Direct Payment Program.

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.

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The CDC agreed to a Memorandum of Understanding with Agriculture and Agri-Food Canada (AAFC) to administer the Dairy Direct Payment Program for the government years ending March 2021, 2022 and 2023. As administrator, the CDC collects information on eligible dairy producers, registers eligible applicants, calculates individual payments based on framework established by AAFC, and issues payments to eligible applicants using funding from the Government of Canada appropriated to AAFC. As part of the arrangement, in exchange for rendering these services, the CDC is entitled to receive from AAFC administration funding to offset the costs associated with the administration of the program. As an agent in this relationship, the CDC recognizes administration services income by way of revenue over time as recoverable administration costs are incurred up.

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

The CDC's sources of funding for its administrative expenses are comprised of funding from dairy producers and the marketplace, gross margins from commercial operations, and funding received from the Government of Canada. Funding from the Government of Canada is appropriated by Parliament to cover certain administrative expenses. The funding 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 sale of goods is recognized as revenue.

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

Transactions in currencies other than Canadian dollars are recognized at the prevailing exchange rate at the date of the transaction. At the end of each reporting period, trade receivables and trade payables denominated in foreign currencies are adjusted to reflect the prevailing exchange rate on that date.

Exchange differences resulting from the settlement of transactions denominated in foreign currency, as well as exchange differences resulting from the adjustment of trade receivables and trade payables denominated in foreign currency at the end of the reporting period, are recognized

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in “Export sales revenue” for receivables and “Cost of goods sold – domestic” for payables on the Statement of Operations and Comprehensive Income (Loss).

Exchange differences resulting from the adjustment of foreign exchange forward contracts at the period are recognized in “Other recoveries” on the Statement of Operations and Comprehensive Income (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.

4. Inventory

The CDC’s inventory as at January 31, 2021 includes butter purchased under the domestic seasonality program, and butter imported by the CDC under the World Trade Organization (WTO) Agreement on Agriculture.

Inventory:

	January 31, 2021		July 31, 2020	
	in \$	in tonnes	in \$	in tonnes
Plan B butter	\$ 37,411	4,277	\$ 111,665	12,936
Other butter	8,166	1,156	21,750	3,139
	<u>\$ 45,577</u>		<u>\$ 133,415</u>	
Less: allowance for inventory write-down	<u>(70)</u>		<u>(1,102)</u>	
Total net realizable value	<u>\$ 45,507</u>		<u>\$ 132,313</u>	

Inventory expensed is reported on the Statement of Operations and Comprehensive Income (Loss) in cost of goods sold domestic and exports. Inventory expensed in the reporting periods are as follows:

	Three-month period ending		Six-month period ending	
	Jan 31, 2021	Jan 31, 2020	Jan 31, 2021	Jan 31, 2020
Inventory expensed	\$ 58,460	\$ 81,826	\$ 129,111	\$ 195,941

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5. Plan C cheese program

Under section 9(1) of the *Canadian Dairy Commission Act*, the CDC operates programs which include the Plan C cheese program, which provides temporary support to the dairy industry during the COVID-19 pandemic. The program consists of repurchase agreements to initially purchase cheese from a processor up to an agreed quantity at a pre-established purchase price, and temporarily storing the product for a set period of time, after which the processor is contractually obligated to repurchase the product. As part of the agreement, the CDC is contractually obligated to resell the cheese back to the processor.

Although legally the cheese is purchased and owned by the CDC, an activity that is consistent with permissible use of government loans under the *Canadian Dairy Commission Act*, IFRS requires the CDC to account for the Plan C repurchase agreements as financial arrangements. Therefore, the CDC must report a financial asset as opposed to inventory for each purchase of Plan C cheese. This financial asset is reported in "Plan C repurchase agreements" on the Statement of Financial Position.

The following represents a reconciliation of the current and non-current portions of Plan C repurchase agreements based on their maximum repurchase dates:

	<u>Jan 31, 2021</u>	<u>Jul 31, 2020</u>
Current	\$ 1,652	\$ -
Non-current	<u>17,358</u>	<u>9,441</u>
Balance as at Jan 31, 2021	<u>\$ 19,010</u>	<u>\$ 9,441</u>
August 1, 2020 to July 31, 2021	\$ 1,494	\$ -
August 1, 2021 to July 31, 2022	9,214	9,441
August 1, 2022 to July 31, 2023	<u>8,302</u>	<u>-</u>
Balance as at Jan 31, 2021	<u>\$ 19,010</u>	<u>\$ 9,441</u>

Program expenses are recognized in "Plan C program costs" on the Statement of Operations and Comprehensive Income (Loss).

6. 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 with the Government of Canada. The building is used for its office accommodation and storage space. The lease liability was initially recognized based on a lease term period that would extend past the current lease's end date of March 31, 2022, given it is reasonably certain that the CDC will exercise an option stipulated in the lease agreement to extend the lease through March 31, 2027. When the option is exercised, the lease payments will be subject to review which, in turn, could result in a remeasurement of the lease liability.

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

Balance as at August 1, 2020	\$ 2,345
Depreciation charge for the year	<u>(176)</u>
Carrying amount as at January 31, 2021	<u>\$ 2,169</u>

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

Balance as at August 1, 2020	\$ 2,361
Interest expense	15
Lease payments	<u>(123)</u>
Balance as at January 31, 2021	<u>\$ 2,253</u>
Current	\$ 466
Non-current	<u>1,787</u>
Balance as at January 31, 2021	<u>\$ 2,253</u>

The total cash outflow for the building lease liability, including principal and interest payments, were as follows:

	<u>Three-month period ending</u>		<u>Six-month period ending</u>	
	<u>Jan 31, 2021</u>	<u>Jan 31, 2020</u>	<u>Jan 31, 2021</u>	<u>Jan 31, 2020</u>
Cash outflow for the building lease liability	\$ 123	\$ 123	\$ 123	\$ 123

The total expense relating to short-term leases or leases for which the underlying asset is of low value, are not material.

7. 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 January 31, 2021 the authorized credit limit from the bank is \$25 million (July 31, 2020: \$25 million). This loan is due on demand and bears interest calculated at the prime rate of 2.45% per annum as at January 31, 2021 (July 31, 2020: 2.45%).

8. 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

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was lower as at January 31, 2021 compared to July 31, 2020, due to the timing of payments received for the sale of product.

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

	<u>Three-month period ending</u>		<u>Six-month period ending</u>	
	<u>Jan 31, 2021</u>	<u>Jan 31, 2020</u>	<u>Jan 31, 2021</u>	<u>Jan 31, 2020</u>
Revenue	\$ 38	\$ 4	\$ 4,248	\$ 2,715

9. 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 \$450 million (July 31, 2020: \$450 million).

Individually, the loans mature one year after the funds are advanced. Principal and interest are 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:

<u>Interest rates</u>	<u>Three-month period ending</u>		<u>Six-month period ending</u>	
	<u>Jan 31, 2021</u>	<u>Jan 31, 2020</u>	<u>Jan 31, 2021</u>	<u>Jan 31, 2020</u>
Low	0.18%	1.74%	0.18%	1.74%
High	0.42%	1.85%	0.50%	1.87%
<u>Interest expense</u>	\$ 25	\$ 169	\$ 84	\$ 594

10. Capital management

The CDC's capital consists of loans from the Government of Canada (see Note 9) and retained earnings. As at January 31, 2021 these accounts totalled \$25.56 million (July 31, 2020: \$95.02 million) and \$23.07 million (July 31, 2020: \$19.15 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.

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11. 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:

	Three-month period ending		Six-month period ending	
	Jan 31, 2021	Jan 31, 2020	Jan 31, 2021	Jan 31, 2020
Domestic sales				
Plan A butter	\$ 1,292	\$ 3,469	\$ 8,781	\$ 8,933
Plan B butter	52,285	73,959	111,644	176,857
Imported butter	5,739	4,726	11,728	11,633
Skim milk powder	-	-	-	-
Domestic sales revenue	<u>\$ 59,316</u>	<u>\$ 82,154</u>	<u>\$ 132,153</u>	<u>\$ 197,423</u>
Milk pools				
Funding for administrative expenses	\$ 1,130	\$ 1,130	\$ 2,260	\$ 2,260
Funding for Plan A and Plan B butter and Plan C cheese carrying charges	1,525	752	2,977	1,777
Other recoverable expenses	200	212	396	428
Funding from milk pools	<u>\$ 2,855</u>	<u>\$ 2,094</u>	<u>\$ 5,633</u>	<u>\$ 4,465</u>
Audit services	\$ 25	\$ -	\$ 25	\$ -
Administrative services	150	-	150	-
Professional services revenue	<u>\$ 175</u>	<u>\$ -</u>	<u>\$ 175</u>	<u>\$ -</u>
Total revenue from contracts with customers	<u>\$ 62,346</u>	<u>\$ 84,248</u>	<u>\$ 137,961</u>	<u>\$ 201,888</u>

12. Foreign exchange differences

Foreign exchange differences result from the settlement of transactions denominated in foreign currency, as well as the adjustment of trade receivables and trade payables denominated in foreign currency and foreign exchange forward contracts at the end of the reporting period.

The amount of exchange differences recognized in total comprehensive income on the Statement of Operations and Comprehensive Income (Loss) were not material for both periods ended January 31, 2021 and January 31, 2020.

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13. Salaries and employee benefits

Salaries and employee benefits includes:

	Three-month period ending		Six-month period ending	
	Jan 31, 2021	Jan 31, 2020	Jan 31, 2021	Jan 31, 2020
Salaries expense	\$ 1,627	\$ 1,569	\$ 3,182	\$ 2,976
Pension contributions	157	178	350	366
Medical insurance expense	66	68	136	133
Other expenses	51	42	100	85
Total	<u>\$ 1,901</u>	<u>\$ 1,857</u>	<u>\$ 3,768</u>	<u>\$ 3,560</u>

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 period ended January 31, 2021 was on average 1.00 times the employee's rate (January 31, 2020: 1.00 times the employee's rate).

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

14. Financial instruments

Fair value hierarchy and fair value techniques of financial instruments

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;

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

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Level 3: inputs are unobservable inputs for the asset or liability (i.e. not based on observable market data).

The fair value measurement of financial derivative assets, specifically the Derivative asset – foreign exchange contracts, was classified as level 2 of the fair value hierarchy as at January 31, 2021 and July 31, 2020. The fair value measurement of foreign currency forward contracts is based on the prevailing exchange rate at the end of the reporting period.

All other financial instruments that the CDC holds are reported at amortized cost. The fair value of these financial instruments approximates their carrying amount due to their short-term maturity or nature.

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 on sales and purchases. 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 the sale or purchase of goods on existing contracts requiring payment in US dollars.

The fair value of the derivative financial instruments is measured using the CDC's foreign exchange forward contract provider's (major Canadian financial institutions) published foreign exchange rate as at the date of the Statement of Financial Position. The exchange rate from US to Canadian dollars was 1.3203 as at January 31, 2021 (July 31, 2020: 1.3404).

The CDC's foreign exchange forward contracts as at the Statement of Financial Position dates are for the purchase of USD in exchange for CAD:

	January 31, 2021		July 31, 2020	
	In USD	In CAD	In USD	In CAD
USD in exchange for CAD	\$ 3,727	\$ 4,921	\$ 741	\$ 1,016

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The CDC's exposure to currency risk is the following, based on Canadian dollar equivalent amounts:

	<u>January 31, 2021</u>	<u>July 31, 2020</u>
Derivative asset – foreign exchange contracts	\$ 18	\$ 22
Trade payables	1,785	995

Based on the current net exposure as at January 31, 2021, and assuming that all other variables remain constant, had the Canadian dollar appreciated 10% against the US dollar as at January 31, 2021, the impact on total comprehensive income (loss) would not have been significant (January 31, 2020: impact would not have been significant). 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. 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. Interest rates have decreased considerably since March 2020 as a reaction to the COVID-19 pandemic. Though it is difficult to predict when interest rates might recover, adverse rate increases beyond the level they were at before the decreases 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, other than Plan C repurchase agreements, all of the CDC's financial instruments are current and the CDC has a current ratio equal to 1.07 (July 31, 2020: 1.07). In managing liquidity risk, the CDC has access to additional borrowings for commercial operations from the Government of Canada in the amount of \$424.4 million (July 31, 2020: \$354.98 million), as well as \$16.2 million (July 31, 2020: \$19.08 million) on its line of credit for the pooling of market returns, both as at January 31, 2021.

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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 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 January 31, 2021 and July 31, 2020 the CDC does not have an allowance for doubtful accounts and all trade and other receivables are current.

The CDC manages the credit risk from Plan C repurchase agreements by only entering into agreements secured by the right to the Plan C cheese inventory, and agreements that provide recourse to the CDC if the processor fails to meet its repurchasing obligation. As at January 31, 2021 and July 31, 2020 the CDC does not have a loss allowance for Plan C repurchase agreements given no credit loss is expected within the next 12 months.

The CDC is exposed to credit risk when it holds foreign exchange forward contracts. This exposure is limited to the notional amount of Derivative asset or liabilities – foreign exchange contracts when held. The CDC manages this risk by only entering into foreign exchange forward contracts with major Canadian financial institutions. To date, no such counterparty has failed to meet its financial obligation to the CDC.

15. Commitments

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:

<i>Summary:</i>	Less than one year		More than one year and less than five years	
	Jan 31, 2021	Jul 31, 2020	Jan 31, 2021	July 31, 2020
Matching Investment Fund	\$ 16	\$ 160	\$ 2,003	\$ 2,003
Workforce Development Initiative	1,162	1,186	234	215
Total commitments for industry initiatives	<u>\$ 1,178</u>	<u>\$ 1,346</u>	<u>\$ 2,237</u>	<u>\$ 2,218</u>

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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 January 31, 2021, the CDC has outstanding contractual commitments of up to \$2.02 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 January 31, 2021, the CDC has outstanding contractual commitments of \$1.40 million.

Butter Purchase Commitments

As at January 31, 2021, the CDC has commitments to purchase predetermined quantities of butter. These commitments amounted to approximately \$2.14 million (July 31, 2020: \$0.83 million) and will be fulfilled by February 2021.

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.

The CDC is committed under the same conditions for quota year 2020-2021 and the TRQ on butter remains at 3,274 tonnes. As at January 31, 2021, the unused portion this TRQ is 2,461 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 was as follows:

	<u>Three-month period ending</u>		<u>Six-month period ending</u>	
	<u>Jan 31, 2021</u>	<u>Jan 31, 2020</u>	<u>Jan 31, 2021</u>	<u>Jan 31, 2020</u>
Cost to purchase imported butter	\$ 4,237	\$ 264	\$ 4,411	\$ 524

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16. Related party transactions

Government of Canada entities

The CDC, as per the *Canadian Dairy Commission Act*, is an agent of Her Majesty the Queen in right of Canada. This effectively 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
- 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 9) and Funding from the Government of Canada.

All other transactions with government-related entities are individually and collectively not material for both the three-month period and six-month period ended January 31, 2021 and January 31, 2020.

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 January 31, 2021 or July 31, 2020. There were no transactions of his nature during either period.

Post-employment benefit liability for key management personnel reported under "Other payables" on the Statement of Financial Position amounts to \$0.14 million as at January 31, 2021 (July 31, 2020: \$0.12 million).

Canadian Dairy Commission

Notes to the unaudited interim financial statements

January 31, 2021

(in thousands of Canadian dollars, unless otherwise indicated)

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

	<u>Three-month period ending</u>		<u>Six-month period ending</u>	
	<u>Jan 31, 2021</u>	<u>Jan 31, 2020</u>	<u>Jan 31, 2021</u>	<u>Jan 31, 2020</u>
Compensation of key management personnel	\$ 289	\$ 264	\$ 570	\$ 524