Quarterly Financial Report

Third quarter

February to April 2018

DD 1846579

Contents

Quarterly Financial Report

Third quarter (Q3) – February to April 2018

Management Discussion and Analysis

The following discussion and analysis of the operating results and financial position of the Canadian Dairy Commission (CDC) for the quarter ending April 2018 should be read in conjunction with the financial statements enclosed herein and the 2016-2017 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, 2017, 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 April 30			For the nine months ended April 30		
(in thousands)	2018	2017	$ change	2018	2017	$ change
Domestic sales revenue	$ 63,599	$ 42,577	$ 21,022	$ 232,243	$ 224,246	$ 7,997
Cost of goods sold - domestic	$ 59,795	$ 38,645	$ 21,150	$ 220,851	$ 205,384	$ 15,467
Transport and carrying charges	$ 1,340	$ 1,984	$ (644)	$ 4,224	$ 5,270	$ (1,046)
Finance costs	$ 180	$ 108	$ 72	$ 503	$ 246	$ 257
Gross profit on domestic sales	**$ 2,284**	**$ 1,840**	**$ 444**	**$ 6,665**	**$ 13,346**	**$ (6,681)**

The CDC purchases and sells butter and skim milk powder (SMP) in order to regulate the supply of dairy products in the domestic market throughout the year.

Domestic sales revenue increased in the third quarter and the first three quarters of 2018 compared to the same periods in 2017, as a result of higher Plan A and Plan B butter inventories. A total of 22,359 tonnes of domestic butter was sold in the first three quarters of 2018 compared to 10,315 tonnes in the same period in 2017. The increase in domestic sales had no material effect on the gross profit as this butter is purchased and resold by the CDC at the support price.

Gross profit on domestic sales was lower in the first three quarters of 2018 when compared to the same period in 2017. This variation was mainly due to a decrease in the quantity of imported butter sold on the domestic market. Only 2,486 tonnes of imported butter were sold in the first three quarters of 2018 compared to 14,199 tonnes in the same period in 2017. Unlike last year, the CDC did not purchase butter under supplementary import permits given domestic production was sufficient to meet demand in the further processing industry.

Export Activities

	For the quarter ended April 30			For the nine months ended April 30		
(in thousands)	2018	2017	$ change	2018	2017	$ change
Export sales revenue	$ -	$ 10,720	$(10,720)	$ -	$ 29,544	$(29,544)
Cost of goods sold - exports	$ -	$ 11,249	$(11,249)	$ -	$ 26,799	$(26,799)
Transport and carrying charges	$ -	$ 615	$ (615)	$ -	$ 2,051	$ (2,051)
Finance costs	$ -	$ 1	$ (1)	$ -	$ 12	$ (12)
Gross profit on export sales	**$ -**	**$ (1,145)**	**$ 1,145**	**$ -**	**$ 682**	**$ (682)**

As of August 1, 2017, the CDC no longer sells skim milk powder on the export market.

Other Revenues

	For the quarter ended April 30			For the nine months ended April 30		
(in thousands)	2018	2017	$ change	2018	2017	$ change
Funding from milk pools	$ 2,130	$ 1,645	$ 485	$ 6,254	$ 4,787	$ 1,467
Funding from the Government of Canada	$ 805	$ 935	$ (130)	$ 2,673	$ 2,856	$ (183)
Audit services	$ -	$ -	$ -	$ (11)	$ -	$ (11)
Total Other Revenues	**$ 2,935**	**$ 2,580**	**$ 355**	**$ 8,916**	**$ 7,643**	**$ 1,273**

Funding from milk pools represents funding 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. Milk pool funding increased by $0.36 million in the third quarter of 2018 and by $1.27 million in the first three quarters of 2018, when compared to the same periods in 2017. The increases in 2017-2018 were mainly due to greater funding received for administrative expenses, as well as growth in total industrial milk production which impacts the amount collected from the marketplace through the milk pools.

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. The funding reported for the first three quarters of 2018 is lower, when compared to the same period in 2017, due to 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 service is rendered. As at April 30, 2018, the account's credit balance is explained by a small billing correction reported in the current year for services rendered in 2017.

Operating and Administrative Expenses

(in thousands)	For the quarter ended April 30						For the nine months ended April 30					
	2018		2017		$ change		2018		2017		$ change	
Operating expenses												
Industry initiatives	$	289	$	38	$	251	$	498	$	229	$	269
Cost of Production study	$	228	$	247	$	(19)	$	631	$	628	$	3
Other charges (recoveries)	$	(40)	$	39	$	(79)	$	76	$	40	$	36
Total operating expenses	**$**	**477**	**$**	**324**	**$**	**153**	**$**	**1,205**	**$**	**897**	**$**	**308**
Administrative expenses												
Salaries and employee benefits	$	1,585	$	1,415	$	170	$	4,679	$	4,450	$	229
Other administrative expenses	$	566	$	561	$	5	$	1,611	$	1,387	$	224
Total administrative expenses	**$**	**2,151**	**$**	**1,976**	**$**	**175**	**$**	**6,290**	**$**	**5,837**	**$**	**453**
Total operating and administrative expenses	**$**	**2,628**	**$**	**2,300**	**$**	**328**	**$**	**7,495**	**$**	**6,734**	**$**	**761**

Operating Expenses

Expenses relating to Industry initiatives increased in the third quarter and the first three quarters of 2018 compared to the same periods in 2017. This increase is mainly attributable to the fact that 2017-2018 third quarter expenses include the final payment of $0.25 million for the Dairy Research Cluster.

Expenses relating to Cost of Production study in the third quarter and the first three quarters of 2018 are similar when compared to the same periods in 2017.

Other charges (recoveries) are slightly higher on a year-to-date basis as a result of more expenses incurred on behalf of milk pools.

Administrative Expenses

Total administrative expenses increased by $0.45 million for the first three quarters of 2018, compared to the same period in 2017. This increase is mainly attributable to additional staff hired to address industry needs and to an increase in building rent expenses

Inventories and Loans

The value of Inventory as at April 30, 2018, was $179.04 million, which is similar to the value of Inventory of $176.91 million as at July 31, 2017.

Butter stocks at the end of the third quarter of 2018 were approximately 19,709 t, an increase of approximately 3,000 t since July 2017. The increase results from measures taken to stimulate milk production in the industry and satisfy demand for butter and butterfat.

Skim milk powder (SMP) stocks at the end of the third quarter of 2018 were approximately 18,000 t, a decrease of approximately 20,000 t since July 2017. This is the result of the CDC no longer purchasing SMP under the Surplus Removal and Domestic Seasonality Programs as of February 1, 2017, following the implementation of some elements of the National Ingredient Strategy.

Loans from the Government of Canada at the end of the third quarter of 2018 reached $112.12 million compared to $118.71 million as of July 2017, which represents a decrease of 6% or $6.59 million. Given the inventory is primarily financed by these loans, debt requirements are usually in line with variations in the value of Inventory. The discrepancy between the variation in Inventory and Loans from the Government of Canada when comparing April 30, 2018, with July 31, 2017, is mainly due to inventory purchases made in April 2018 that remained unpaid in Trade payables at the end of April 2018, pending payment through additional loans.

Cash Flows

	For the quarter ended April 30		**For the nine months ended April 30**	
(in thousands)	2018	2017	2018	2017
Cash flows from operating activities	$ (71,647)	$ (90,402)	$ 4,589	$ (21,295)
Cash flows used in financing activities	$ 70,669	$ 83,435	$ (6,595)	$ 21,975
Net increase (decrease) in cash	**$ (978)**	**$ (6,967)**	**$ (2,006)**	**$ 680**
Net bank overdraft at beginning of period	$ (6,812)	$ 3,664	$ (5,784)	$ (3,983)
Net cash (bank overdraft) at end of period	**$ (7,790)**	**$ (3,303)**	**$ (7,790)**	**$ (3,303)**

The CDC's net cash position at the end of the third quarter of 2018 was an overdraft of $7.79 million compared to an overdraft of $3.30 million for the same period in 2017. This represents a decrease in net cash position of $4.49 million.

Cash flows from operating activities

In the first three quarters of 2018, net cash inflows from operating activities amounted to $4.59 million compared to net cash outflows of $21.30 million for the same period in 2017. The change was mainly a result of lower payments made to suppliers in the first three quarters of 2018 compared to the same period in 2018.

Cash flows from financing activities

In the first three quarters of 2018, net cash outflows from financing activities amounted to $6.60 million compared to net inflows of $21.98 million for the same period in 2017. 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. This decrease in cash flows was mainly due to higher loan repayments made in the first three quarters of 2018 compared to the same period in 2017.

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.

As of April 30, 2018, total milk production for the most recent 12-month period reached 377 M kg of BF. Total production will likely exceed the forecast by approximately 4 million kg BF due to higher than expected producer response to last year's quota increases. Total requirement forecasts for the end of July 2018 will be slightly lower than initially included in the Corporate Plan summary due to delays in the implementation of new market initiatives.

Current levels of CDC and private stocks reached almost 40,000 tonnes on April 30, 2018. Total stocks are expected to reach 42,000 tonnes, which exceed the industry's target of 35,000 tonnes by year-end. The industry has taken several measures and will continue to implement measures to realign production with demand and allow stocks to return to normal levels within the coming year.

The CDC will purchase and sell more butter under the Domestic Seasonality Program than forecasted in our Corporate Plan Summary. The increase in sales has no material effect on the gross profit as this butter is purchased and resold by the CDC at the support price. Although the CDC will have higher inventories of butter than anticipated at the end of the year, most of these stocks will be sold in the fall 2018 to meet demand.

4. Appropriations

The following table reconciles the appropriations received and disbursed.

	For the quarter ended April 30			For the nine months ended April 30		
(in thousands)	2018	2017	$ change	2018	2017	$ change
Opening Balance	$ -	$ -	$ -	$ -	$ -	$ -
Parliamentary appropriations	$ 805	$ 935	$ (130)	$ 2,673	$ 2,856	$ (183)
Amount disbursed	$ (805)	$ (935)	$ 130	$ (2,673)	$ (2,856)	$ 183
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 will be implemented to mitigate this risk, including the implementation of the upcoming 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, 2017, and April 30, 2018, in comparison with the Corporate Plan Summary.

Operations, industry initiatives, and programs	On April 12, the CDC launched its Workforce Development Initiative, a 3-year, $5 million project that provides funding for 4 programs: graduate scholarships in the field of dairy science, career promotion, full-time education programs, and part-time continuing education programs. This initiative is funded by the Imported Butter Fund.
Personnel	No significant changes occurred in this quarter.
Objectives	No significant changes occurred in this quarter.
Governing Board	Mr. Jacques Laforge's term as CEO of the CDC ended in February. His mandate was extended until a new CEO was appointed. On May 3, 2018, Mr. Serge Riendeau was appointed as the new CEO of the CDC for a three-year term starting on May 14, 2018.

Management Responsibility for Financial Statements

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

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

Original signed by

Serge Riendeau, Chief Executive Officer

Chantal Laframboise, Director, Finance and Administration

Ottawa, Canada

June 6, 2018

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

	As at April 30, 2018	As at July 31, 2017
Assets		
Current		
Cash	$ 7	$ 205
Trade and other receivables		
Trade receivables	453	772
Advance to provincial milk boards and agencies	7,797	5,989
Milk pools	1,575	1,740
Derivative asset - foreign exchange contracts	54	-
Inventory (Note 4)	179,044	176,905
	188,930	185,611
Non-Current		
Equipment	130	53
Intangible asset	174	196
	$ 189,234	$ 185,860
Liabilities		
Current		
Bank overdraft (Note 5)	$ 7,797	$ 5,989
Trade and other payables		
Trade payables	23,762	12,881
Distribution to provincial milk boards and agencies	-	8,400
Other liabilities	1,501	3,908
Loans from the Government of Canada (Note 6)	112,120	118,714
	145,180	149,892
Equity		
Retained earnings	44,054	35,968
	$ 189,234	$ 185,860

Commitments (Note 12)

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

These financial statements were approved and authorized for issue on June 6, 2018.

Serge Riendeau	Alistair Johnston	Chantal Laframboise
Chief Executive Officer	Chairman	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 nine months ended	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017
Sales and cost of sales				
Domestic sales revenue	$ 63,599	$ 42,577	$ 232,243	$ 224,246
Cost of goods sold - domestic	59,795	38,645	220,851	205,384
Transport and carrying charges	1,340	1,984	4,224	5,270
Finance costs	180	108	503	246
Gross profit on domestic sales	2,284	1,840	6,665	13,346
Export sales revenue	-	10,720	-	29,544
Cost of goods sold - exports	-	11,249	-	26,799
Transport and carrying charges	-	615	-	2,051
Finance costs	-	1	-	12
Gross profit on export sales	-	(1,145)	-	682
Total gross profit	2,284	695	6,665	14,028
Other income				
Funding from milk pools	2,130	1,645	6,254	4,787
Funding from the Government of Canada (Note 9)	805	935	2,673	2,856
Audit services	-	-	(11)	-
	2,935	2,580	8,916	7,643
Total gross profit and other income	**5,219**	**3,275**	**15,581**	**21,671**
Operating expenses				
Industry initiatives	289	38	498	229
Cost of Production study	228	247	631	628
Other charges (recoveries)	(40)	39	76	40
	477	324	1,205	897
Administrative expenses				
Salaries and employee benefits (Note 10)	1,585	1,415	4,679	4,450
Other administrative expenses	566	561	1,611	1,387
	2,151	1,976	6,290	5,837
Total operating and administrative expenses	**2,628**	**2,300**	**7,495**	**6,734**
Profit before distribution to provincial milk boards and agencies	**2,591**	**975**	**8,086**	**14,937**
Distribution to provincial milk boards and agencies	-	-	-	-
Total comprehensive income	**$ 2,591**	**$ 975**	**$ 8,086**	**$ 14,937**

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 nine months ended	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017
Retained earnings, beginning of the period	$ 41,463	$ 44,550	$ 35,968	$ 30,588
Total comprehensive income for the period	2,591	975	8,086	14,937
Retained earnings, end of the period	$ 44,054	$ 45,525	$ 44,054	$ 45,525

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 nine months ended	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017
Cash flows from operating activities				
Cash receipts from sales of goods	$ 65,067	$ 59,440	$ 234,079	$ 255,291
Cash paid to suppliers and others	(138,463)	(149,289)	(227,902)	(278,281)
Cash receipts from provincial milk boards and agencies (pooling)	999	(1,446)	4,611	5,068
Cash paid to provincial milk boards and agencies	-	-	(8,400)	(5,944)
Cash receipts from the Government of Canada	805	935	2,673	2,856
Interest paid on loans	(55)	(42)	(472)	(285)
Net cash flows used in operating activities	**(71,647)**	**(90,402)**	**4,589**	**(21,295)**
Cash flows used in financing activities				
New loans from the Government of Canada	124,327	121,371	192,418	194,800
Loan repayments to the Government of Canada	(53,658)	(37,936)	(199,013)	(172,825)
Net cash flows from financing activities	**70,669**	**83,435**	**(6,595)**	**21,975**
Net increase (decrease) in cash	(978)	(6,967)	(2,006)	680
Net bank overdraft at beginning of period	(6,812)	3,664	(5,784)	(3,983)
Net cash (bank overdraft) at end of period	**$ (7,790)**	**$ (3,303)**	**$ (7,790)**	**$ (3,303)**
Components:				
Cash	$ 7	$ 341	$ 7	$ 341
Bank overdraft	(7,797)	(3,644)	(7,797)	(3,644)
Net cash (bank overdraft)	**$ (7,790)**	**$ (3,303)**	**$ (7,790)**	**$ (3,303)**

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

Notes to Unaudited Financial Statements – April 30, 2018

1. Authority and objectives

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

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

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

Directive on Travel, Hospitality, Conference and Event Expenditures

In July 2015, the CDC was issued a directive (P.C. 2015-1104) pursuant to section 89 of the Financial Administration Act to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments in a manner that is consistent with its legal obligations. As at April 30, 2018, the CDC continues to meet the requirements of this directive.

2. Basis of preparation

Statement of compliance

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

The financial statements were approved and authorized for issue by the CDC board on June 6, 2018.

Basis of presentation

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

Reporting period

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

The reporting period for these interim financial statements and notes thereto is August 1, 2017, to April 30, 2018. This represents the third quarter (Q3 2017-2018) of operations for the CDC's dairy year ending July 31, 2018.

Use of judgment, estimates and assumptions

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

Plan B Inventory

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

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

Allowance for inventory write-down

Management determines the allowance for inventory write-downs 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 of the period in which they become known.

Functional and presentation currency

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

3. Significant accounting policies

Cash

Cash includes funds on deposit at financial institutions.

Financial instruments

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

Classifications:

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

Loans and receivables

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

Financial liabilities measured at amortized cost

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

Financial assets or liabilities measured at FVTPL

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

Transaction costs

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

Derivative financial instruments

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

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

Inventory

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

Equipment

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

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

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

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

Intangible asset

Software

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

Amortization of the intangible asset is charged to "Other charges (recoveries)" on the Statement of Operations and Comprehensive Income on a straight-line basis over its estimated useful life of ten years.

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

Distributions to provincial milk boards and agencies

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

Revenues

Sales revenues

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

Funding from milk pools

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

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

Funding from the Government of Canada

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

Audit services

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

Cost of sales

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

Foreign currency translation

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

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

Most sales and purchases in foreign currencies have corresponding foreign exchange forward contracts (see “Derivative financial instruments” above and Note 11: *Financial Instruments – Currency risk*).

Employee benefits

Pension benefits

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

Post-employment benefits

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

Application of new and revised accounting standards

The following amendment has been issued by the International Accounting Standards Board (IASB) effective for accounting periods that began on August 1, 2017, and affected amounts reported or disclosed in the financial statements:

> Disclosure Initiative – Amendments to IAS 7 – *Statement of Cash Flows* clarifies the disclosures required for changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017. The most significant modification made as a result of the adoption of these amendments, include the specification of the sources of changes in liabilities arising from financing activities in Note 6 - *Loans from the Government of Canada*.

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

A number of new accounting standards and amendments effective on or after August 1, 2017, have been issued by the IASB. As of the date of the financial statements, the following applicable standards and amendments have been assessed as having a possible impact on the CDC:

> IFRS 15 – *Revenue from Contracts with Customers* was issued to provide guidance on the recognition of contract revenues. This new standard will be effective for annual periods beginning on or after January 1, 2018. The CDC has completed its assessment of IFRS 15 and expects the impact of the adoption and implementation to be limited to additional disclosures related to significant judgments and disaggregation of revenue.

> IFRS 9 – *Financial Instruments* The final version of this new standard was issued in July 2014. This standard largely retains the classification and measurement requirements and new hedge accounting model included in earlier versions, while introducing a single forward-looking expected credit loss impairment model. The new standard is effective for annual periods beginning on or after January 1, 2018. The CDC has completed its assessment of IFRS 9. The adoption and implementation is not expected to have a material impact on the CDC's financial statements.

> IFRS 16 – *Leases* provides a single lessee accounting model, requiring assets and liabilities to be recognized for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. The new standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted in the period when IFRS 15 is adopted. The CDC has completed its assessment of IFRS 16. The new IFRS will require the recognition of a lease asset and a lease liability on its balance sheet for the CDC's office space lease currently classified as an operating lease (see Note 12 – *Commitments)*. Additional disclosures will also be required in the notes to the financial statements.

(In thousands of Canadian dollars, unless otherwise indicated)

4. Inventory

The CDC's inventory is comprised of butter and skim milk powder purchased under the domestic seasonality and surplus removal programs. Since February 1, 2017, following the implementation of some elements of the National Ingredient Strategy, the CDC is no longer purchasing skim milk powder under those programs. The current inventory of these products will liquidate over the next months. The CDC also imports butter under the World Trade Organization (WTO) Agreement on Agriculture.

Inventory:

	April 30, 2018		July 31, 2017	
	in $	in tonnes	in $	in tonnes
Plan B Butter	$ 142,326	17,688	$ 129,777	16,210
Other butter	16,161	2,021	4,161	541
Other skim milk powder	21,885	18,088	44,222	38,190
	180,372		178,160	
Less: allowance for inventory write-down	(1,328)		(1,255)	
Total net realizable value	$ 179,044		$ 176,905	

Inventory expensed in the third quarter was $59.80 million (Q3 2016-2017: $49.89 million) and is presented on the Statement of Operations and Comprehensive Income in "Cost of goods sold".

Inventories of $Nil (July 31, 2017: $11.07 million) are expected to be realized within twelve months after the reporting period.

5. Bank overdraft

The CDC has established a line of credit with a member of the Canadian Payments Association. The CDC has been granted the authority to establish this line of credit by the Minister of Finance up to a maximum of $50 million for advancing funds to the provincial milk marketing boards and agencies. On April 30, 2018, the available line of credit was $10 million (July 31, 2017: $7 million).

The bank overdraft incurred under the CDC's line of credit is due on demand and bears interest at prime, which as at April 30, 2018, was 3.45% per annum (April 30, 2017: 2.70%).

(In thousands of Canadian dollars, unless otherwise indicated)

6. Loans from the Government of Canada (Consolidated Revenue Fund)

Loans from the Government of Canada's Consolidated Revenue Fund, to a maximum of $175 million (July 31, 2017: $210 million), are available to finance operations. Individual loans are repayable within one year from the date the loan is advanced. Principal and accrued interest is repaid regularly during the year when funds are available. In the Statement of Cash Flows, all changes in Loans from the Government of Canada that occurred during the period are entirely due to changes from financing cash flow.

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

	Three months		Nine months	
Interest rates	Q3 2017-2018	Q3 2016-2017	Q3 2017-2018	Q3 2016-2017
Low	1.00%	0.58%	0.64%	0.58%
High	1.32%	0.63%	1.32%	0.70%
Interest expense	$ 180	$ 109	$ 503	$ 258

7. Capital management

The CDC's capital consists of its loans from the Government of Canada (see Note 6) and retained earnings. As of April 30, 2018, these accounts totaled $112.12 million (July 31, 2017: $118.71 million) and $44.05 million (July 31, 2017: $35.97 million) respectively. The CDC is not subject to any externally imposed capital requirements.

The CDC's primary objective in managing capital is to ensure that it has sufficient liquidity in order to settle its financial obligations as they become due and to fund programs for the benefit of the dairy industry. The CDC adjusts its capital management approach on an ongoing basis as the amounts fluctuate during the course of the year. The CDC does not utilize any quantitative measures to monitor its capital. There were no changes in the CDC's approach to capital management or the definition thereof as compared to the previous year.

8. Foreign exchange gains and losses

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

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

(In thousands of Canadian dollars, unless otherwise indicated)

Net gain (loss) on:	Three months Q3 2017-2018	Three months Q3 2016-2017	Nine months Q3 2017-2018	Nine months Q3 2016-2017
Export sales	$ -	$ (110)	$ -	$ (258)
Domestic cost of sales	$ 165	$ 334	$ 482	$ 1,909

9. 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 marketplace.

Government of Canada funding of total administrative expenses is as follows:

	Three months Q3 2017-2018	Three months Q3 2016-2017	Nine months Q3 2017-2018	Nine months Q3 2016-2017
Total administrative expenses	$ 2,151	$ 1,976	$ 6,290	$ 5,837
Funded by Government	$ 805	$ 935	$ 2,673	$ 2,856

10. Salaries and employee benefits

Salaries and employee benefits includes:

	Three months Q3 2017-2018	Three months Q3 2016-2017	Nine months Q3 2017-2018	Nine months Q3 2016-2017
Salaries expense	$ 1,319	$ 1,148	$ 3,927	$ 3,701
Pension contributions	154	161	430	464
Medical insurance expense	58	57	189	167
Others	54	49	133	118
Total	$ 1,585	$ 1,415	$ 4,679	$ 4,450

Pension plan

Substantially all of the employees of the CDC are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the CDC. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate effective for the quarter ended April 30, 2018, was on average 1.01 times the employee's rate (1.08 times for the prior year).

(In thousands of Canadian dollars, unless otherwise indicated)

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

11. Financial instruments

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

Market risk

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

Currency risk

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

The fair value of the CDC's derivative financial instruments is determined using the Bank of Canada's published foreign exchange rates as of the Statement of Financial Position date. This rate was 1.2836 at April 30, 2018 (1.2485 at July 31, 2017). The CDC's foreign exchange forward contracts as of the Statement of Financial Position date were as follows:

		April 30, 2018		July 31, 2017	
Currency sold	Currency purchased	In USD	In CAD	In USD	In CAD
USD	CAD	$ -	$ -	$ -	$ -
CAD	USD	$2,244	$2,448	$ -	$ -

These contracts will mature over the period ending July 2018. The maturity dates of the forward exchange contracts correspond to the estimated dates when the CDC expects to receive the foreign currency proceeds arising from export sales contracts or when payment for purchases in foreign currencies are due.

“Other charges (recoveries)” under operating expenses on the Statement of Operations and Comprehensive Income include net gains of $0.05 (Q3 2016-2017 net losses of $0.03 million) arising from the determination of unrealized fair value remeasurements of the CDC's derivative financial instruments.

(In thousands of Canadian dollars, unless otherwise indicated)

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

In CAD	April 30, 2018	July 31, 2017
Trade receivable	$ -	$ -
Trade payable	(2,258)	(1,499)
Net derivative asset (liability)	54	-
Net exposure	$ (2,204)	$ (1,499)

Based on the net exposure as of April 30, 2018, and assuming that all other variables remained constant, had the Canadian dollar appreciated 10% against the US dollar, net income for the quarter ended April 30, 2018, would have decreased by $0.58 million (Q3 2016-2017: decreased by $0.92 million). Conversely, a 10% weakening in the Canadian dollar against the US dollar would have had the equal but opposite effect for the same period.

Interest rate risk

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

Other price risk

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

Liquidity risk

Liquidity risk is the risk that the CDC will not be able to meet its financial obligations as they fall due. As of the Statement of Financial Position date, virtually all of the CDC's assets and liabilities were current and the CDC had a current ratio equal to 1.30 (July 31, 2017: 1.24). In managing liquidity risk, the CDC has access to additional borrowings for commercial operations from the Government of Canada in the amount of $62.88 million as of April 30, 2018 (July 31, 2017: $91.29 million) as well as $2.20 million (July 31, 2017: $1.01 million) on its line of credit for the pooling of market returns.

Credit risk

Credit risk is the risk of loss due to a customer failing to meet its financial obligations to the CDC. Maximum credit exposure is the carrying amount of the pooling and trade receivable balances, net of any allowance for losses. The CDC manages this risk using several strategies which include selling product on a "payment first" basis, securing of bank guarantees and obtaining letters of credit. As of April 30, 2018, and July 31, 2017, the CDC did not have an allowance for doubtful accounts and all trade receivables were current.

The CDC is exposed to credit risk when entering into foreign exchange contracts wherein the counterparty fails to perform an obligation as agreed upon, causing a financial loss. Maximum credit exposure is the notional amount of the derivative asset. The CDC manages this exposure to credit risk by entering into foreign exchange contracts only with major Canadian financial institutions. To date, no such counterparty has failed to meet its financial obligation to the CDC.

Fair values

The carrying value of cash, trade and other receivables, bank overdraft, and trade and other payables approximates their fair values due to the immediate or short-term maturity of these financial instruments. As of the Statement of Financial Position date, no amounts representing changes in fair value of these financial instruments have been recorded on the Statement of Operations and Comprehensive Income.

Fair value hierarchy

Financial instruments recorded at fair value on the Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy, which for the CDC is only relevant in the context of derivative financial instruments, has the following levels:

Level 1: valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value measurement of the CDC's derivative financial instruments is classified as level 2 (July 31, 2017: level 2) in the fair value hierarchy. Changes in valuation methods may result in transfers into or out of levels 1, 2, and 3. For the reporting periods ended April 30, 2018, and July 31, 2017, there were no transfers between levels.

(In thousands of Canadian dollars, unless otherwise indicated)

12. Commitments

a) Industry Initiatives

Matching Investment Fund

The CDC funds and administers the Matching Investment Fund which provides non-repayable contributions to Canadian-registered companies or food technology centres for product development, on a matching investment basis. As of April 30, 2018, CDC has outstanding contractual commitments of $15.16 million over three years.

b) Purchase Commitments

As of April 30, 2018, the CDC was committed to purchase certain quantities of butter. These commitments amounted to approximately $9.74 million (July 31, 2017: $2.76 million) and will be fulfilled in June 2018.

c) WTO Tariff Rate Quotas for Butter

Under the terms of the 1994 WTO Agreement, Canada has established tariff rate quotas (TRQ) for a number of dairy products. TRQs are the quantities of products that can enter Canada with little or no tariff. With the support of the industry, the CDC has acted as the receiver of imports of butter under federal permit since 1995 and has directed this product through butter manufacturers to the food sector. The 2018 TRQ for butter remains at 3,274 tonnes. World prices at the time of purchase determine the total financial commitment.

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

Three months		Nine months	
Q3 2017-2018	Q3 2016-2017	Q3 2017-2018	Q3 2016-2017
$ 8,190	$ 22,351	$ 17,813	$ 99,505

Note that last year’s cost included supplementary imports in addition to the import butter TRQ, because there was an insufficient supply of Canadian butter.

d) Operating Lease

The CDC is committed under a long-term lease with Agriculture and Agri-Food Canada for office accommodation ending on March 31, 2022. The lease contains escalation clauses regarding maintenance costs and taxes. This lease may be automatically renewed at the CDC’s option for another period of five years with rates possibly revised in order to reflect the rental market value pursuant to Treasury Board’s Policy on Real Property.

(In thousands of Canadian dollars, unless otherwise indicated)

The minimum lease payments are as follows:

	April 30, 2018	July 31, 2017
Less than one year	$ 370	$ 370
Greater than one year and less than five years	$ 1,090	$ 1,356

13. 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 business and at normal trade terms. These related party transactions are recorded at their exchange amounts.

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

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

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

The CDC’s largest related party transactions are the loans from the Government of Canada at terms available to Crown corporations (Note 6), as well as the funding from the Government of Canada for administrative expenses (Note 9) , which are both recorded at the transaction price.

(In thousands of Canadian dollars, unless otherwise indicated)

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

Government entity	Three months		Nine months	
	Q3 2017-2018	Q3 2016-2017	Q3 2017-2018	Q3 2016-2017
Public Works and Government Services Canada	$ 266	$ 200	$ 775	$ 730
Agriculture and Agri-Food Canada (mainly operating lease – Note 12)	177	30	371	35
Other related Government entities	56	29	112	190
Total	$ 499	$ 259	$ 1,258	$ 955

Key management personnel

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

No loans or other such transactions with key management personnel were outstanding as of April 30, 2018, or July 31, 2017, or occurred at any time during either year.

The post-employment benefit liability for key management personnel as of April 30, 2018, was $0.09 million (July 31, 2017: $0.09 million) and is recorded under "Other liabilities" on the Statement of Financial Position.

Compensation of key management personnel for the quarter ended:

Three months		Nine months	
Q3 2017-2018	Q3 2016-2017	Q3 2017-2018	Q3 2016-2017
$ 226	$ 260	$ 759	$ 781