2018-19
ANNUAL REPORT
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LIST OF ACRONYMS

Acronyms are commonly referenced throughout Dairy Farmers of Ontario’s (DFO) 2018-19 Annual Report. To assist readers and avoid repetition in the text, the following is a list of these acronyms for easy reference.

**AFP**: Abnormal Freezing Point
**AGM**: Annual General Meeting
**ARA**: Animal Rights Activist(s)
**BF**: Butterfat
**BMP**: Best Management Practice
**CDC**: Canadian Dairy Commission
**CFIA**: Canadian Food Inspection Agency
**CMSMC**: Canadian Milk Supply Management Committee
**CETA**: Canada and European Union Comprehensive Economic Trade Agreement
**COP**: Cost of Production
**CPTPP**: Comprehensive and Progressive Agreement for Trans-Pacific Partnership
**CQM**: Canadian Quality Milk
**CUSMA**: Canada-United States-Mexico Agreement
**DDPIP**: Domestic Dairy Product Innovation Program
**DEP**: Dairy Export Program
**DFC**: Dairy Farmers of Canada
**DFO**: Dairy Farmers of Ontario
**DIP**: Dairy Innovation Program
**DPC**: Dairy Producer Committee
**FES**: Farm Evaluation System
**FFA**: Free Fatty Acid
**hL**: Hectolitre
**HMAP**: Ps Harmonized Milk Allocation Policy
**IMWG**: Issues Management Working Group

**IT**: Information Technology
**kg**: Kilogram
**MMS**: Milk Marketing System
**MP**: Member of Parliament
**MPP**: Member of Provincial Parliament
**MUV**: Milk Utilization Verification
**NAFTA**: North American Free Trade Agreement
**NEQAP**: New Entrant Quota Assistance Program
**NPP**: New Producer Program
**NZ**: New Zealand
**ODC**: Ontario Dairy Council
**OMAFRA**: Ontario Ministry of Agriculture, Food and Rural Affairs
**OSPCA**: Ontario Society for the Prevention of Cruelty to Animals
**P5**: Ontario, Quebec, New Brunswick, Nova Scotia and Prince Edward Island
**PSQ**: Plant Supply Quota
**SCC**: Somatic Cell Count
**SNF**: Solids-Not-Fat
**SOP**: Standard Operating Procedures
**SPC**: Spring Policy Conference
**SPI**: Stimulate Processing Investment
**TPP**: Trans-Pacific Partnership
**TRQ**: Tariff Rate Quota
**U.S.**: United States

For additional copies of the 54th Annual Report, please contact:
Dairy Farmers of Ontario, 6780 Campobello Road, Mississauga, Ontario L5N 2L8 t: 905-821-8970

Also available online at www.milk.org
Supplement to Milk Producer magazine, January 2020
ORGANIZATIONAL OVERVIEW

CORE VALUES

LEADERSHIP
We lead by committing to continuous personal and organizational development.

TRUST
We create, build and maintain trust by being honest, open and transparent.

RESPECT
We listen, accept differences and work together.

INTEGRITY
We are consistent in our actions and values.

TEAMWORK
We help each other succeed through collaboration.

FAIRNESS
We ensure equitable application of rules and benefits.

ACCOUNTABILITY
We hold ourselves and each other responsible for delivering results.

OUR MISSION
To provide leadership and excellence in the production and marketing of Canadian milk.

OUR VISION
A dynamic, profitable, growing Canadian dairy industry.
INDUSTRY SNAPSHOT

3,410 dairy farms in Ontario

10,000 Ontario farmers and families are supported by their dairy farms

Eight new producers entered the industry through New Entrant Quota Assistance Program, of which two were organic producers

911,000 litres of milk donated by local dairy farmers to Ontario food banks

SOCIAL 2018–19

ECONOMIC 2018–19

2,991,367,835 litres of milk produced in 2018–19

$2,347,269,377: farmgate value of milk sales

72 dairy processing plants
**220 trucks** transporting milk in Ontario

**80 organic** certified dairy producers shipping **32,418,804 litres** of milk

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**ENVIRONMENTAL 2018-19**

**91.4 per cent** of farms are **Grade A** an **increase** from 89.1 per cent the previous year

**99.9 per cent** of Ontario producers demonstrated **compliance** with the **animal care module of proAction**

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**THE PRICE FARMERS ARE PAID**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average gross per hectolitre*</td>
<td>$78,800</td>
</tr>
<tr>
<td>Deductions</td>
<td></td>
</tr>
<tr>
<td>Transportation**</td>
<td>$2,735</td>
</tr>
<tr>
<td>Market Expansion Fee</td>
<td>$1,500</td>
</tr>
<tr>
<td>Administrative Licence Fees</td>
<td>$0.625</td>
</tr>
<tr>
<td>CanWest DHI</td>
<td>$0.060</td>
</tr>
<tr>
<td>Research</td>
<td>$0.050</td>
</tr>
<tr>
<td>Total deductions</td>
<td>$4,970</td>
</tr>
<tr>
<td>Average net price per hectolitre</td>
<td>$73,830</td>
</tr>
</tbody>
</table>

* Within quota calculated using average Ontario component tests. Does not include Butterfat Premium paid to within SNF-Ratio Producers.

**HOW MILK IS USED**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FLUID</strong></td>
<td>39,331,093 kilograms</td>
<td>(30.2%)</td>
</tr>
<tr>
<td><strong>DIP</strong></td>
<td>7,437 kilograms</td>
<td>(0.3%)</td>
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<tr>
<td><strong>MSQ</strong></td>
<td>90,469,104 kilograms</td>
<td>(69.5%)</td>
</tr>
<tr>
<td><strong>DEP</strong></td>
<td>294,659 kilograms</td>
<td>(0.3%)</td>
</tr>
</tbody>
</table>

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* Deduction rates shown are weighted averages where rates changed during the year.
Dairy Farmers of Ontario (DFO) takes great pride in its accomplishments over the past fiscal year. While the Canadian dairy industry met significant challenges and our organization weathered numerous changes, DFO’s leadership remained steadfast. By working together, we have attempted to turn challenges into opportunities and create a strong industry for the future.

Our year started with the signing of the Canada-United States-Mexico-Agreement (CUSMA) in November 2018. The concessions made in CUSMA were significant to the Canadian dairy industry. We lost another 3.9 per cent market access, amounting to approximately 18 per cent total market access with all trade deals considered. Further, CUSMA included elimination of Class 7, a cap on exports and a disclosure clause to the U.S. In recognition of these significant impacts to our dairy industry, the federal government established the Mitigation Working Group and Visioning Group comprising a cross section of representatives, along with government staff. The industry committed substantial time, expertise and energy into identifying ways to maintain a viable, dynamic and growing Canadian dairy industry. The work accomplished together reflects the strength of our system and those who manage it. Although we were appreciative of the federal government recognizing our significant losses through compensation for CETA and CPTPP, our industry continues to be clear in our message: we cannot sustain any further trade concessions.

Agility in production management is critical, especially in the face of a changing domestic market. The P5 quota review and provincial quota policy changes are about promoting increased effectiveness in production management. DFO worked successfully with processors to manage milk supply in the face of rapidly changing requirements. This management signifies the strength of our collective ability to put solutions in place and self-govern our system.

In January 2019, the federal government announced changes to Canada’s Food Guide. The elimination of dairy as a category and its reduced recognition in the role it plays in a healthy diet was disappointing, especially given the significant amount of research that authenticates dairy’s health benefits. DFO, Dairy Farmers of Canada and provincial milk marketing boards are working with government as it continues to develop other aspects of its national food strategy.

Teamwork is one of DFO’s strengths. Our organization was faced with a number of senior management personnel changes this past fiscal year, including the CEO. Since February 2019, in my capacity as Chair, I worked closely with the executive team to manage the organization. The strength of the executive team was evident in the leadership each member demonstrated. Our succession planning enabled us to continue business seamlessly with the skills and knowledge required. Cheryl Smith was hired as DFO’s new CEO in August 2019. The Board is confident in Cheryl’s skills and abilities and looks forward to the leadership she will bring to DFO.

DFO has developed marketing strategies and plans and has hired a team over the past year. Our vision to grow the market for Canadian dairy is built on a pragmatic approach. The use of data analytics is paramount, both in understanding market needs and for effective consumer engagement. Partnerships through business development and influencer strategies are key points of difference from our past industry efforts. We are optimistic in our vision and long-term strategies.

DFO plays a vital leadership role in our industry. We recognize external factors can impact our future and change our environment. We are proactively embarking on ways to evolve to meet the challenges ahead. We are building consumer strategies, working with partners to identify national pooling opportunities and setting goals for continuous improvement of our farms and quality of milk.

On behalf of the Board, I thank producers for your trust in us to represent your interests, and our industry partners and employees for the incredible support and teamwork over the past year. We have collectively achieved many milestones and have built a foundation for the next stage of our industry. We have a great deal of which to be proud.

MESSAGE FROM OUR CHAIR, MURRAY SHERK

“We are building consumer strategies, working with partners to identify national pooling opportunities and setting goals for continuous improvement of our farms and quality of milk.”
It is a privilege to join Dairy Farmers of Ontario’s (DFO) team. I take great pride in working in an industry that provides a healthy and safe product for Canadians. As Chief Executive Officer (CEO), I commit to actively listen to understand the industry’s needs, identify opportunities and stay abreast of dairy farmers’ interests.

The challenges of the past year are noteworthy. Trade resulting in significant impacts to our domestic environment, consumer interests and on-farm costs of production all necessitate our attention. These are critical considerations to our future direction. We recognize the need to take a proactive approach to our industry’s success.

DFO’s strategic goals are developed to enable successful achievement of a strong, vibrant dairy industry. The 2020 Strategic Plan identifies three strategic priorities: System Readiness – be competitive in the new domestic market; Consumer Readiness – make Canadian dairy an inspired food choice; and Organizational Readiness – enable organizational effectiveness in the face of changing demands.

To be competitive in the new domestic market, under System Readiness, P5 provinces are reviewing their quota policies to enable more agility in our management of production. Fluctuations in domestic market requirements will become increasingly difficult to predict, especially considering potential distribution of imports and processing investments. The need to work with our provincial counterparts to determine an optimal national quota allocation model and effective methods to meet processor requirements is stronger than ever. Provincial quota policies are also under review with an aim to increase their effectiveness and relevance to producers.

Making Canadian dairy an inspired food choice, under Customer Readiness, is a pivotal point in our strategy. The demand for dairy is generally growing; however, fluid milk has been experiencing a global decline for years. DFO is developing a strategy to educate consumers about milk’s relevance in a healthy diet. The health benefits, versatility and taste are being brought back to the forefront of consumer messaging. Marketing strategies that involve campaigns, influencer strategies and consumer engagement are drivers of this growth goal.

Agriculture has been facing increased consumer scrutiny. Consumers today want to know where their food comes from and how it is produced. Animal welfare and environmental concerns continue to dominate consumers’ interest in agricultural sustainability. Activities of animal rights activists over the past year have illustrated the need for our industry to educate the public. Our rigorous farm practices, diligent care for animals and environmental stewardship need to be communicated transparently to demonstrate our commitment to global sustainability. DFO has worked with the provincial government on effective legislation to protect the integrity of food safety and compliance of regulatory discipline. It has also set goals to improve quality of milk and farms in aim of continuous improvement. The story of our strong farm practices needs to be told.

Enabling organizational effectiveness in the face of changing demands, under Organizational Readiness, is critical as we foster an environment that enables success. Key aspects of organizational success include efficient IT systems, strong succession plans and strategies to leverage data analytics.

DFO faces many exciting opportunities to drive the industry forward. Building strong relationships with partners and seizing collaborative opportunities will be key ingredients to our collective success. It is an industry effort that keeps the dairy engine running and I look forward to working with all those responsible for its success.
BOARD MEMBERS BY REGION

1. Bart Rijke (Vice-Chair)
   Ottawa-Carleton, Glengarry, Prescott and Russell

2. Nick Thurler (2nd Vice-Chair)
   Dundas, Ottawa-Carleton and Stormont

3. John Wynands
   Frotenac, Grenville, Lanark, Leeds and Renfrew

4. Sid Atkinson
   Hastings, Lennox & Addington, Northumberland and Prince Edward

5. Don Gordon
   City of Kawartha Lakes, Durham Region, Peterborough and York

6. Bonnie den Haan
   Dufferin, Peel, Simcoe and Wellington

7. Albert Fledderus
   Brant, Haldimand, Halton, Niagara, Norfolk and Wentworth

8. Murray Sherk (Chair)
   Oxford and Waterloo

9. Paul Vis
   Elgin, Essex, Kent, Lambton and Middlesex

10. Henry Wydeven
    Huron and Perth

11. Mark Hamel
    Bruce and Grey

12. Steve Runnalls
    Northern Ontario and Haliburton
EXECUTIVE TEAM

- from left to right -

Sean Bredt – Chief Marketing and Business Development Officer / Arlene Minott – General Counsel and Corporate Secretary
Cheryl Smith – Chief Executive Officer / Patrice Dubé – Chief Economics and Policy Development Officer
Shikha Jain – Chief Strategy and Administrative Officer / Rey Moisan – Chief Financial Officer
DFO develops a strategic and operational plan annually that reflects the organization’s strategic priorities, goals and objectives. Highlights of DFO’s fiscal achievements for 2018-19 include the following, with more detail in subsequent sections of the annual report:

**Government Relations & Trade**
- On Aug. 16, 2019, the federal government announced $1.75 billion in financial compensation to be distributed to Canadian dairy producers over an eight-year period for the market loss associated with the CETA and CPTPP trade agreements;
- On Jan. 22, 2019, the federal government released an updated version of *Canada’s Food Guide*. Dairy was removed as a category and included as part of the broader protein group, which includes plant-based alternatives to dairy.

**Milk Quality & Production Practices**
- The implementation of the proAction animal care module was a major highlight. Compliance rates were 99 per cent higher for requirements related to the provision of prompt medical care for sick or injured animals, down cattle management and cattle cleanliness and handling.
- All Ontario producers were compliant with the tail docking ban;
- The provincial SCC weighted average was under 200,000 cells/mL during nine out of the 12 months. This is a significant improvement in milk quality and DFO congratulates Ontario producers for this achievement.
- 99.97 per cent of milk loads meet the quality standards set by regulation;
- The number of producers issued a Raw Milk Quality Certificate in 2019 for milk shipped in the 2018 calendar year grew by 5.8 per cent, with 45.6 per cent awarded the certificate;
- In August 2019, DFO increased the frequency of lab result reporting from once per day (at midnight) to four times per weekday. Results are now available one day sooner;
- 91.4 per cent of farms are Grade A—an increase from 89.1 per cent the previous year;
- The rollout of proAction’s animal care module was successfully completed. Rollout of the biosecurity module began. In preparation, DFO trained 128 veterinarians as proAction advisers, who in turn trained a total of 1,926 producers;
- The *Code of Practice for the Care and Handling of Dairy Cattle* is under review, with publication of a revised Code expected fall 2021.

**Research**
- DFO has invested research funding in establishing evidence-based pain management protocols for neonatal dairy calves;
- DFO has invested research funding for advancing antimicrobial stewardship through selective dry cow therapy farm practices.

**New Marketing Initiatives**
- Marketing and Business Development strategic and operational plans were developed, and the team was built;
- DFO performed in-depth consumer research analysis to better understand the consumer and common perceptions about dairy;
- DFO launched the successful master brand equity campaign TV spot, *The Letter*, and the milk consumption campaign *What can’t milk do?*;
- DFO began the transition to *MilkUp* from the legacy *Recharge with Milk* program based on positive consumer research.

**Awards**
- DFO won two awards at the Best of Canadian Agri-Marketing Association 2019 event in the category Company or Producer-Funded Advertising Campaign Directed at the General Public for DFO’s spring 2019 campaign, and for DFO’s TV ad *The Letter*;
- *Milk Producer* magazine received Apex Awards for Publication Excellence for Magazines, Journals and Tabloids for the one- to two-person produced category as well as for Assistant Editor Jennifer Nevans’ June 2018 cover story, entitled *Women in Agriculture*, under the feature writing category. *Milk Producer* was recognized at the 2019 Canadian Farm Writers’ Federation (CFWF) awards ceremony for a press editorial. The July 2018 Managing Editor’s column, written by Sharon Laidlaw and entitled *Educating the Public*, received the Gold Award in the O.R. Evans press editorial category;
- The Ontario Dairy Education Program was recognized by the Toronto District School Board with a Certificate of Appreciation.
ECONOMICS & POLICY DEVELOPMENT

DFO’s Economics and Policy Development team provides technical support and economic and statistical analysis to the policy development and implementation process at the national, pool, DFO Board and staff levels. The Economic and Policy Development team is also responsible for overseeing the Ontario Dairy Farm Accounting Project, which collects data from Ontario dairy farms for the national cost of production (CDP).

Markets, Production & Pricing

Market Requirements

National total requirements have increased by 4.5 per cent for the 12-month period ending October 2019. This compares with a total increase of 0.13 per cent in national supply for the same 12-month period.

P5 fluid quota increased by 2.4 per cent, industrial milk requirements increased by 4.6 per cent and DDPIP and DIP requirements increased slightly over the dairy year after decreasing over the first part of the year due to contract expiry and slowing interest in DIP contracts.

Total P5 quota increased by 3.9 per cent over the past fiscal year based on the monthly total quota calculation for the 12-month period ending October 2019.

Total quota in the WMP increased by 5.9 per cent for the 12-month period ending October 2019. This was a result of a 4.1 per cent increase in fluid BF requirements and a 7.1 per cent increase in industrial milk requirements.

Production

Milk production was reduced through various quota policies, including a quota cut and credit limitations. The credit limitation ended in Ontario on July 31, 2019. The policies to limit production were effective since the P5 filled 98.6 per cent of its quota during the 2018-19 fiscal year. The monthly total quota and total requirements calculation was implemented on Oct. 1. In the first full year under the new quota policy, the national pool fell below the minus two per cent tolerance in October 2019. The quota tolerances require the national pool be within a 1.25 per cent and minus two per cent range. If the national pool goes above 1.25 per cent or below minus two per cent, the pool or pools responsible for the penalty are then determined, and the penalty is applied based on the pools’ contribution to the national pool being outside tolerances. These tolerances don’t apply in the month of December due to demand variations in that month. In October, each of the pools was considered responsible for a portion of the underproduction, so credits lost were shared by each pool. If a pool contributed to the national pool being over-quota, it has six months to pay back the quantity of overproduction by under producing before a financial penalty applies. The national pool cumulative difference—or the pool credit position—was -2.32 per cent at the end of October 2019.

In Ontario, production was 0.9 per cent lower than the last fiscal year on a volume basis and 0.7 per cent lower on a BF basis. The fill rate on producer quota issuance decreased in Ontario due to the one-day credit limitation policy that was in place for most of the year as well as the quota decrease in July. In Ontario, the credit position was -10.5 days in November 2018 and finished the 2018-19 fiscal year at almost the same level at -10.6 days.

Current market trends point to continued growth prospects in the coming months. While the fluid market on a volume basis has experienced declines of about 2.0 per cent, cream sales in the last year have been very strong, which contributed to strong Canadian butterfat requirements. Cream sales have been more than five per cent for most of the last year, and most recently were at 5.7 per cent. Butter sales have been consistently around two per cent for most of the year, and most recently were up to 3.1 per cent. Cheese classes have also had growth in the last year, with the entire category up 1.9 per cent. Dairy product sales growth is expected to continue throughout the next 12 months for higher-fat products, with total P5 quota forecasted to increase 2.7 per cent for the end of the 2019-20 dairy year.

Butter Stocks

At the end of October 2019, total industry butter stocks held by processors and the CDC were 31,400 tonnes. The P10 target for normal stocks is between 32,000 and 38,000 tonnes in June. Stocks have been decreasing through the fall but are still currently considered high for this time of year. Under the monthly quota reconciliation, pools that contribute to stocks being more than 40,000 tonnes or below 30,000 tonnes will have their quota adjusted. This reconciliation will start for the first time in July 2020. This year’s stocks were above the upper threshold in July, which would have resulted in a quota decrease for the pool or pools contributing to this level.

Cheese Stocks

Canadian cheese stocks comprise private stocks held by Canadian dairy processors. Total cheese stocks include cheddar and other cheeses. Cheddar cheese stocks were at 61,713 tonnes for the 12-month period ending in October 2019, an increase of 2,241 tonnes from the previous 12-month period ending in October 2018. Other cheese stocks were 46,226 tonnes for the 12-month period ending in October 2019, which was 2,060 tonnes more than the 12-month period ending in October 2018. As a result, total cheese stocks reached 107,939 tonnes at the end of October 2019, an increase of 4,301 tonnes compared with the 12-month period ending in October 2018. From August to October 2019, total cheese stocks have been at their highest level within the last five-year period.

Producer Quota

In July 2018, the P5 quota committee approved a 1.5 per cent quota decrease in all provinces. While other P5 provinces implemented an additional quota decrease of two per cent, Ontario introduced a credit limitation policy of one day, which was equivalent to the two per cent quota decrease. The credit limitation policy was very effective at reducing production in the short term, to address industry processing capacity issues. Effective March 2019, the credit day limitation policy in Ontario was adjusted from one day to two days per month, and a one per cent quota increase was issued in the other P5 provinces. The adjustment was done due to new investments expected to start in early summer. Unfortunately, new investments were delayed, and further restrictions were applied to production to address short-term challenges to processing capacity. In Ontario, the credit limitation policy was reduced to one day for the period of May 1, 2019 to July 31, 2019. Effective Aug. 1, 2019, Ontario’s quota limitation policy was removed entirely. Further, quota for the other P5 provinces will increase by one per cent in November 2019 to harmonize with Ontario’s quota level. This change afforded Ontario producers an additional one per cent quota over the other P5 producers from...
August to November as a form of compensation for being under the credit limitation policy during the summer. The P5 quota committee continues to monitor the production and market situation.

Incentive days were issued in the P5 for the fall of 2019. This was done to help boost production through the fall when demand from the market is typically the highest. There were three incentive days issued for September and October 2019, as well as one day for November 2019. An additional two days were issued for November 2019 and one day was issued for December and January 2020.

### PRODUCER RETURNS AND DEDUCTIONS ($ per HL)

<table>
<thead>
<tr>
<th>Deductions</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>$2.689</td>
<td>2.735</td>
</tr>
<tr>
<td>Market Expansion Fee</td>
<td>$1.500</td>
<td>1.500</td>
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<tr>
<td>Administrative Licence Fees</td>
<td>$0.625</td>
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<td>CanWest DHI</td>
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<td>0.060</td>
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<tr>
<td>Research</td>
<td>$0.050</td>
<td>0.050</td>
</tr>
<tr>
<td>Total Deductions</td>
<td>$4.924</td>
<td>4.970</td>
</tr>
</tbody>
</table>

Average Net Price Per Hectolitre

$69.466  $73.830

### ONTARIO CLASS PRICES, EFFECTIVE FEBRUARY 1, 2019

The Feb. 1, 2020 price adjustment, which takes into account the advance provided with the September 2018 adjustment, will result in an increase of 1.93 per cent in the Classes 1 to 4 price. This translates to an increase of approximately $1.46/hL or 1.8 per cent in the P5 producer blend price.

For the 12-month period ending October 2019, the within-quota component prices paid to Ontario producers averaged $10.8775 per kg for BF, $7.9353 per kg for protein and $1.4749 per kg for other solids ($78.80 per hL at the Ontario average composition). There was a 6.6 per cent increase in the producer blend price compared with the previous fiscal year, at a consistent composition.

The price of SMP has been increasing steadily through the end of 2018 and 2019. Growth in U.S. production has been limited, and dairy product stocks have been decreasing. This is occurring at the same time as the trade war with China has impacted sales of U.S. dairy products. New Zealand and Australia have also shown weaker production in the last year. New Zealand has been replacing U.S. exports into China, which has resulted in an overall increase in demand from Oceania. The growth of production in Europe has also slowed due to a drought that has been impacting some regions. There continues to be strong demand from Asia, although weaker trade in the past year than anticipated. This, combined with the limited production growth, has resulted in increased prices in the last year.

There is no immediate threat of a potential tariff wall breach at current price levels.

### Pricing

A special consultation with the CDC resulted in a price adjustment on Sept. 1, 2018, which is considered an advance on the February 2020 price adjustment. As a result of the September 2018 increase, there was only a small price adjustment made in Feb. 1, 2019. This adjustment was a small decrease in the butterfat price in Classes 1 to 4. The adjustment was due to a one-year increase in the butterfat price to offset a decision made by the CMSMC related to Class 4b.

### COMPONENT PRICES

<table>
<thead>
<tr>
<th>COMPONENT PRICES</th>
<th>PRICE AT AVERAGE</th>
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<tbody>
<tr>
<td>Butterfat $/kg</td>
<td>Protein $/kg</td>
</tr>
<tr>
<td>Other Solids $/kg</td>
<td>Ontario Composition $/hl</td>
</tr>
</tbody>
</table>

### Class Prices

**Class 1(a)** Fluid Milk and Beverages

- 1(a) 1 Fluid Milk and Beverages: 8.0442
- 1(a) 2 Fortified Fluid Milk Products and Beverages: 8.0442

**Class 1(b)** Fluid Creams

- 1(b) Fluid Creams: 8.0442

**Class 1(c)(milk)** New Fluid Cream Products

- 25% YR 1 OR 15% YR 2 OR 10% YR 3 DISCOUNT OFF P5 CLASS 1 TARGET PRICES

**Class 2(a)** Yogurts

- 2(a) Yogurts: 9.1107

**Class 2(b)** Ice Cream and Sour Cream

- 2(b) Ice Cream and Sour Cream: 9.1107

**Class 3(a)** Fine Cheese and Curds

- 3(a) Fine Cheese and Curds: 9.1107

**Class 3(b)** Cheddar and Cream Cheese

- 3(b) Cheddar and Cream Cheese: 9.1107

**Class 3(c1)** Variety Cheeses

- 3(c1) Variety Cheeses: 9.1107

**Class 3(c2)** Variety Cheeses

- 3(c2) Variety Cheeses: 9.1107

**Class 2(d)** Mozzarella for Fresh Pizza

- 2(d) Mozzarella for Fresh Pizza: 9.0296

**Class 4(a)** Butter and Powder

- 4(a) Butter and Powder: 9.1107

**Class 4(b)** Condensed/Evap Milk Retail

- 4(b) Condensed/Evap Milk Retail: 9.1107

**Class 4(c)** New Industrial Products

- 25% YR 1 OR 15% YR 2 OR 10% YR 3 DISCOUNT OFF P5 CLASS 2(a) TO 4(a) TARGET PRICES

**Class 4(d)** Inventories, Plant Losses

- 4(d) Inventories, Plant Losses: 9.1107

**Class 4(m)** Marginal Markets

- 4(m) Marginal Markets: 9.1107

**Class 5** Domestic Surplus

- 5.9339

**Class 6** 3.208

**Class 7** 4.0981

Class prices are similar throughout the P5 Pool.
been over-ratio at least once. Under the P5 SNF policy, $2.965 million
In the past fiscal year of the new policy, 1,411 Ontario producers have
ratio of 2.2342, which is 2.2 per cent below the provincial target of
Ontario finished the 2019 fiscal year with an SNF to BF production
national SNF production.
approximately $1.90/hL. Special classes and Class 7 account for
in the SMP price would result in an increase in the blend price of
year, the world SMP price increased from $1,820/US tonne in
US$100 per tonne change in the SMP world price. In the past fiscal
world prices on the producer blend is about $0.32 per hL for every
World dairy prices have a direct impact on special class milk prices
and the blend price producers receive for their milk. The impact of
world prices on the producer blend is about $0.32 per hL for every
US$100 per tonne change in the SMP world price. In the past fiscal
year, the world SMP price increased from $1,820/US tonne in November 2018 to $2,400/US tonne in October 2019. This increase
in the SMP price would result in an increase in the blend price of
approximately $1.90/hL. Special classes and Class 7 account for
about 11 per cent of national BF production and 32.9 per cent of
national SNF production.
Solid -Not-Fat (SNF) to Butterfat (BF) Ratio
Ontario finished the 2019 fiscal year with an SNF to BF production
ratio of 2.2342, which is 2.2 per cent below the provincial target of
2.2840.
In the past fiscal year of the new policy, 1,411 Ontario producers have
been over-ratio at least once. Under the P5 SNF policy, $2.965 million
was collected and paid out on BF to the 3,538 Ontario producers who
were under-ratio in one or more months.
Allocation Policy for Classes 2(a) and 3(a) Growth (HMAP review)
The P5 Harmonized Milk Allocation Policy (HMAP) for allocating milk
supplies to support Class 2(a)- yogurt, and Class 3(a) – cheeses
continued to ensure additional milk was available to support growth in
the prioritized Classes 2(a) and 3(a).
The following table compares the volume of milk available in the P5
growth reserve with the volume of milk required to supply P5 growth
in Classes 2(a) and 3(a) from 2014-2015 to the 2018-19 dairy years.

P5 GROWTH & GROWTH RESERVE

<table>
<thead>
<tr>
<th>Dairy Year</th>
<th>P5 Growth Reserve (M litres)</th>
<th>P5 Growth in Class 2(a) and 3(a) (M litres)</th>
<th>Residual Milk (M litres)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>80.6</td>
<td>72.4</td>
<td>8.2</td>
</tr>
<tr>
<td>2015-16</td>
<td>123.4</td>
<td>103.2</td>
<td>20.2</td>
</tr>
<tr>
<td>2016-17</td>
<td>133.5</td>
<td>156.7</td>
<td>(23.2)</td>
</tr>
<tr>
<td>2017-18</td>
<td>164.6</td>
<td>146.3</td>
<td>18.3</td>
</tr>
<tr>
<td>2018-19</td>
<td>161.8</td>
<td>169.3</td>
<td>(9.4)</td>
</tr>
</tbody>
</table>

The milk available in the P5 growth reserve normally originates from
two sources: the net Classes 2(a)/3(a) market-sharing quota (MSQ)
growth and the growth allowance. In October 2018, a new monthly
total quota system was implemented resulting in the elimination of
the growth allowance. A P5 supervisory body decision was made to
replace the 2.0 per cent growth allowance with a pre-set amount of
82.2 million litres for the 2018-19 dairy year only. Hence, in 2018-19,
the milk in the growth reserve originated from a small volume coming
from the growth allowance (August to October 2018), quota increases
associated with growth in Classes 2(a) and 3(a), and the preset
volume of 82.2 million litres.

The table indicates milk available in the P5 growth reserve was
sufficient to meet raw milk requirements for growth in Classes 2(a)
and 3(a) in each dairy year, except 2016-17 and 2018-19, with residual
milk varying between eight and 20 million litres from 2014 to 2019.
This residual milk was used to fill whole milk requirements for Class
2(a) that would have been satisfied with Class 2(a) SNF (skim milk).

In the dairy year 2018-19, there was not enough milk in the growth
reserve to satisfy growth in Classes 2(a) and 3(a) and the reference
base. This can be explained by the following factors:

- growth in the P5 for 2(a) and 3(a) classes was
  disproportionate compared with the WMP;
- change in BF content in 2(a) and 3(a);
- increasing amount of milk required to serve volume
  under companies’ references.

### SPECIAL CLASS COMPONENT PRICES, EFFECTIVE OCTOBER 1, 2019

<table>
<thead>
<tr>
<th>Special Class</th>
<th>Product Description</th>
<th>Butterfat S/kg</th>
<th>Protein S/kg</th>
<th>Other Solids S/kg</th>
<th>Ontario Composition S/hL</th>
</tr>
</thead>
<tbody>
<tr>
<td>5(a)</td>
<td>Cheese</td>
<td>7.7773</td>
<td>7.1575</td>
<td>0.5064</td>
<td>57.80</td>
</tr>
<tr>
<td>5(b)</td>
<td>Non-Cheese</td>
<td>7.7773</td>
<td>2.5085</td>
<td>2.5085</td>
<td>54.7900</td>
</tr>
<tr>
<td>5(c)</td>
<td>Confectionery</td>
<td>5.8552</td>
<td>2.2955</td>
<td>2.2955</td>
<td>44.9700</td>
</tr>
<tr>
<td>5(d)</td>
<td>Committed Exports</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### WORLD MARKET PRICES FOR DAIRY PRODUCTS & PRODUCER BLEND PRICE

<table>
<thead>
<tr>
<th>Product Description</th>
<th>Component Prices</th>
<th>Price at Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Butterfat/kg</td>
<td>4.800</td>
<td>3.2018</td>
</tr>
<tr>
<td>SMP/kg</td>
<td>1,700</td>
<td>5,100</td>
</tr>
<tr>
<td>Cheese/kg</td>
<td>3,400</td>
<td>2,300</td>
</tr>
<tr>
<td>Milk/kg</td>
<td>295</td>
<td>3,700</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Producer Price</th>
<th>33.27 Cdn/hL</th>
<th>5.9339</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Standard Milk)</td>
<td>39.52 Cdn/hL</td>
<td>41.68 Cdn/hL</td>
</tr>
<tr>
<td>4.168 Cdn/hL</td>
<td>44.00 Cdn/hL</td>
<td>41.68 Cdn/hL</td>
</tr>
</tbody>
</table>
growth (MAG - see next column), and propose recommendations such as the Matching Investment Fund (MIF) and the Milk Available for Growth. The working group is now mandated to evaluate national programs, program goals, were also highlighted by the working group. Principles, such as long-term stability, coherence between programs, integrity in the design of programs and effectiveness in achieving program goals, were also highlighted by the working group.

Working Group to Stimulate Processing Investment (SPI)

In January 2019, the CMSMC created a working group to stimulate processing investment (SPI) in response to the industry’s need to modernize existing infrastructure for the treatment of skim milk, and for additional infrastructure requirements to respond to current and future industry requirements. The mandate of the working group was to investigate all opportunities that promote new investments in processing capacity that allow for the marketing of all Canadian milk components, including additional ingredient capacity; and to determine if specific programs are required to respond to this need. After taking into account responses obtained from an industry survey to better understand the status of processor investments in Canada and discussed challenges to stimulate investment, the working group defined four avenues to promote processing investment in Canada:

1. providing milk supply and efficient allocation to grow the overall market;
2. providing competitive prices to get a good return on investment;
3. favouring market development to promote innovation, new technology and new market segments;
4. optimizing SNF utilization.

Other tools, such as financial incentives, grants, etc., were also identified but would require government participation.

P10 Pooling

A P10 working group on pooling in the new domestic environment was created following the signature of the recent three trade agreements (CETA, CPTPP and CUSMA). The working group is mandated to recommend a pooling model at the national level that mitigates risk in the most appropriate way for all pools (WMP, P5) in the new domestic environment.
and NL) to the CMSMC, within a two-year timeframe. To develop this model and consider options, the working group is focused on a “pool of pools” discussion or any other option agreed to by all provinces/pools.

A P10 pool would help each pool share risk, as well as opportunities, particularly for events beyond producers’ control, including consumer behaviours, processor decisions or other causes.

The working group has a short- and medium-term work plan that includes options and proposals for pooling revenues, sharing costs and enhancing national policies to meet investment/expansion requirements that serve the Canadian market to create net growth.

Another initiative taken at the P10 level has been the creation of a P10 technical quota committee. Its mandate is to exchange information regarding the quota system at the national, pool and provincial levels and work toward a common understanding of terminologies and methodologies used for production signals within each pool.

### PRODUCER PROGRAMS, QUALITY ASSURANCE & REGULATORY COMPLIANCE

DFO’s Quality Assurance and Regulatory Compliance team is responsible for farm programs, including quality assurance regulations and policies, as well as dairy research.

#### Producer Programs

For the fiscal year ending Oct. 31, 2019, there were 3,410 dairy farms in Ontario, representing a decrease of 2.7 per cent from the previous year’s 3,504 dairy farms. These licensed dairy farms continued to support more than 10,000 Ontario farmers and their families and generated revenue of $2,347,269,377.

<table>
<thead>
<tr>
<th>Year</th>
<th># of Producers</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>3,586</td>
<td>2,268,605,435</td>
</tr>
<tr>
<td>2018</td>
<td>3,504</td>
<td>2,238,458,852</td>
</tr>
<tr>
<td>2019</td>
<td>3,410</td>
<td>2,347,269,377</td>
</tr>
</tbody>
</table>

#### New Entrant Quota Assistance Program (NEQAP)

The NEQAP was introduced in August 2009 to assist new farmers entering the dairy industry starting in 2010. From March 2010 to Oct. 31, 2019, 88 producers entered the industry through NEQAP. In fiscal 2019, eight entered the industry though NEQAP, of which two were organic producers.

#### New Producer Program (NPP)

Introduced in August 2009, NPP is a program that assists producers entering the dairy industry, other than those who enter through the purchase of an ongoing farm operation or NEQAP. NPP may include previously licensed producers to produce and market milk. Since its inception, 117 producers have used NPP to enter the industry and 105 are currently shipping milk.

From Nov. 1, 2018 to Oct. 31, 2019, 18 applicants paid the $1,000 application fee and were added to the NPP queue compared with the previous fiscal of 28 new applicants.

Not all applicants in the queue purchase quota under this program.

#### Raw Milk Quality

### Grade A Inspections

As shown in the table below, during the 12-month period ending October 2019, 3,369 initial Grade A inspections were conducted.

<table>
<thead>
<tr>
<th></th>
<th>12-month period ending October 2019</th>
<th>12-month period ending October 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>#</td>
<td>%</td>
<td>#</td>
</tr>
<tr>
<td>Grade A</td>
<td>3,079</td>
<td>91.4</td>
</tr>
<tr>
<td>Conditional Grade A</td>
<td>156</td>
<td>4.6</td>
</tr>
<tr>
<td>Non-Grade A</td>
<td>133</td>
<td>3.9</td>
</tr>
<tr>
<td>Unsanitary non-Grade A</td>
<td>1</td>
<td>0.0</td>
</tr>
<tr>
<td>Total</td>
<td>3,369</td>
<td>0.0</td>
</tr>
</tbody>
</table>

This is an area where steady improvement continues to take place in Ontario as evidenced by the increase in the percentage of initial inspections resulting in Grade A classification (from 89.1 per cent to 91.4 per cent) in the 12-month period ending October 2019.
In addition, the percentage of non-Grade A classifications decreased from 6.1 per cent to 3.9 per cent. The percentage of conditional Grade A classifications was relatively constant.

Grade A inspections are scheduled based on risk, in addition to inspections performed prior to scheduled proAction validations. A producer’s risk level is determined by inspection classification history, penalty-level milk quality test results and complaints received by DFO regarding animal care issues or farm conditions. While additional inspections are based on risk, a farm can be inspected at any time without advance notice.

Raw Milk Quality Penalties
As shown in the table below, during the 12-month period ending October 2019, the number of SCC and Grade A penalties decreased, the number of AFP penalties increased and the number of bacteria penalties remained approximately the same.

<table>
<thead>
<tr>
<th>Raw Milk Quality Area</th>
<th>12-month period ending October 2019</th>
<th>12-month period ending October 2018</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCC</td>
<td>433</td>
<td>529</td>
<td>-18.1%</td>
</tr>
<tr>
<td>Bacteria</td>
<td>66</td>
<td>68</td>
<td>-2.9%</td>
</tr>
<tr>
<td>AFP</td>
<td>211</td>
<td>178</td>
<td>18.5%</td>
</tr>
<tr>
<td>Non-Grade A</td>
<td>155</td>
<td>225</td>
<td>-31.1%</td>
</tr>
</tbody>
</table>

The number of inhibitor penalties increased from 25 to 30, with 29 of the 30 inhibitor penalties at first level.

In the 12-month period ending October 2019, the lowest provincial average SCC was in March 2019 at 182,000 cells/mL. The highest was in August 2019 at 223,000 cells/mL.

During this period, the provincial SCC weighted average was under 200,000 cells/mL during nine out of the 12 months. This is a significant improvement in milk quality and DFO congratulates Ontario producers for this achievement.

Raw Milk Quality Recognition Program
The current criteria for a General Raw Milk Quality Certificate under the Raw Milk Quality Recognition Program include an SCC weighted average of 225,000 cells/mL or less and average bacteria count of 25,000 IBC/mL or less.

The table in the next column shows the number of producers who received a Raw Milk Quality Certificate in the 2019 and 2018 calendar years (for milk shipped in the 2018 and 2017 calendar years, respectively). In total, 45.6 per cent of all producers in Ontario were issued a Raw Milk Quality Certificate in 2019 calendar year for milk shipped in 2018. It is 5.8 per cent higher compared with the number of certificates issued in 2018 for milk shipped in 2017.

At its July 2019 board meeting, DFO approved changes to the General Certificate criteria under the Raw Milk Quality Recognition Program regarding SCC and bacteria levels. A need to ensure program criteria align with provincial goals prompted this decision.

The new criteria, which is 200,000 cells/mL for SCC and 20,000 for bacteria, will be applied to General Certificates issued in year 2021 for milk shipped in 2020. No changes were made to the Gold Certificate criteria.

In order to receive a certificate, producers will still be required to have no quality penalties, meet Grade A standards, not have any bulk tank or load rejections on their record and have shipments in January and December.

Canada’s dairy farmers are recognized as world leaders in producing quality milk. The key to their ongoing and future success; however, is to maintain both processor and consumer confidence in the quality and sustainability of the Canadian milk that goes into the dairy products they enjoy.

DFC’s proAction is a co-ordinated national program that will allow Canada’s dairy industry to continue its business leadership in producing quality milk by integrating on-farm customer assurance programs. It integrates several elements into a single program. These elements are currently at different stages of development or implementation across the country:

- **Milk Quality** - including sampling and quality testing programs, already implemented across Canada under provincial jurisdiction;
- **Food Safety** – formerly the Canadian Quality Milk (CQM) Program, which is already implemented on most farms;
• Animal Care – based on the Code of Practice for the Care and Handling of Dairy Cattle and the CFIA. Implementation (validations) began in September 2017 and is already implemented on most farms;
• Livestock Traceability – based on federal animal traceability regulations and best industry practices;
• Biosecurity - based on the Biosecurity for Canadian Farms: National Standard. Implementation began in September 2019;
• Environmental Sustainability - based on the Environmental Farm Plan. Implementation begins in September 2021.

proAction reinforces the dairy industry’s leadership and encourages continuous improvement. Standards adhered to by all dairy farmers will strengthen the industry’s already solid reputation by providing proof to processors, retailers and consumers dairy farmers produce safe milk, responsibly.

Rollout of the animal care module of proAction was completed in September 2019, with the majority or 99.9 per cent of Ontario producers compliant with the program.

Producers who have not achieved proAction registration as required are being assessed proAction penalties. During the 12-month period ending October 2019, a total of 27 (0.7 per cent) producers were assessed proAction penalties. DFO is in the process of expanding its proAction penalty program in order to achieve 100 per cent compliance.

A major highlight regarding implementation of the animal care module is all Ontario producers were compliant with the tail-docking ban. In addition, compliance rates were 99 per cent or higher for requirements related to provision of prompt medical care to sick and injured animals, down cattle management, cattle cleanliness and cattle handling.

Biosecurity requirements became mandatory in September 2019, as well as changes to the following animal care requirements:
• Down cattle: the requirement has changed from a corrective action plan to an SOP with required elements;
• Pain control: when dehorning/disbudding, a combination of anesthetic (i.e. freezing) and analgesic (i.e. pain killer) must be used and the practice must be reflected on the SOP for animal health practices;
• Cattle cleanliness: the requirement remained the same; however, it is now scored under the animal care module (rather than the food safety module);
• Dry cattle housing: a new question was added addressing housing for dry cattle, including adequate bedding;
• Severely lame cattle: severely lame cattle are now specifically included in the requirement to provide prompt medical care;
• Euthanasia: the requirement to have an SOP for euthanasia was changed from a demerits question to a major/minor question. There were no changes to the required elements.

In preparation for implementation of the above-listed requirements, DFO trained 128 veterinarians as proAction advisers, who in turn trained a total of 1,926 producers.

Environment Module
Development of the environment module continued through fiscal 2019. An on-farm pilot project is scheduled to launch in early 2020.

A phased implementation was initially being considered, with phase one being limited to the environmental farm plan (EFP) and phase two covering additional requirements. After producer feedback, a proposal is in final approval stage to implement all environmental requirements at once and making them mandatory in September 2021.

Animal Welfare
In March 2019, the OSPCA announced it would not renew its agreement with the Ministry of the Solicitor General for the provision of animal welfare enforcement services, which was set to expire March 31, 2019. Services related to livestock ceased in April 2019, while services related to domestic animals ceased in June 2019. Police agencies were given responsibility to address animal welfare complaints in the interim.

DFO has been actively working in co-ordination with Farm and Food Care Ontario, the Ontario Federation of Agriculture and livestock and equine organizations to ensure industry feedback is considered in the development of a new animal protection system. A proposal was submitted to the Ministry of the Solicitor General, which included, among other points, the need to ensure the agency responsible for animal welfare enforcement operates in a transparent manner, is held accountable for delivering adequate services, has adequate resources and its agents are properly trained to understand welfare issues related to livestock. The need to ensure livestock organizations are informed of complaints and their resolution was also highlighted in the proposal.

The Ministry of the Solicitor General has engaged with DFO and other livestock commodities on several occasions to obtain input into the new animal protection legislation.

In October 2019, the provincial government introduced legislation to enable a new system for animal welfare enforcement in Ontario. Bill 136, Provincial Animal Welfare Services (PAWS) Act received second reading in November 2019 and was expected to be finalized in December 2019, with implementation expected to take place in 2020. DFO continues to be actively involved.
Animal Transportation Regulations
The CFIA has amended the Health of Animals Regulations as it refers to animal transportation. Under the new regulations, animals with certain conditions are classified as either compromised or unfit, depending on the condition and degree. DFC provided industry feedback to the CFIA and the new federal animal transportation regulations will come into effect in February 2020.

Sample Suitability

<table>
<thead>
<tr>
<th>Period</th>
<th>Suitable Samples</th>
<th>High and Low Suitability by Depot Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 2018 to January 2019</td>
<td>98.7%</td>
<td>Athens (100%) - Mitchell (90.8%)</td>
</tr>
<tr>
<td>February to April 2019</td>
<td>96.5%</td>
<td>Kingston (100%) - Tavistock (93.2%)</td>
</tr>
<tr>
<td>May to July 2019</td>
<td>98.7%</td>
<td>Goderich (100%) - Maidstone (87.8%)</td>
</tr>
<tr>
<td>August to October 2019</td>
<td>98.7%</td>
<td>Emburn (99.8%) - Renfrew (92.7%)</td>
</tr>
</tbody>
</table>

Sample suitability is mostly related to maintaining the cold chain for milk samples. Samples must be maintained between zero and four degrees Celsius from the farm to when they are tested at the laboratory. This process involves bulk tank milk graders having ice in cooler inserts, managing sample depot refrigeration and maintaining the temperature in the refrigerated transport, courier transport and laboratory refrigerator.

The percentage of suitable samples in the 12-month period ending October 2019 is shown in the table above.

The months with the lowest percentage of suitable samples were February and March 2019 with 96 and 94 per cent, respectively.

Sample transportation vans were upgraded to new trucks in April 2019. This helped avoid issues later in the year.

Contributing Factors & Management Measures
Power outages were a significant reason for temperature-damaged samples. To help prevent further issues, battery backups were installed for fridges at four locations (Sunderland, Burgessville, Mount Forest and Mitchell).

Improvements to Reporting Lab Test Results
To reduce delays in providing test results to producers, DFO increased the frequency of reporting lab test results from once per day (at midnight) to four times per weekday, starting Aug. 1, 2019. This has resulted in many test results being available one day sooner.

Test results are posted on the password-protected area of DFO’s website and available via Milkline throughout the day rather than only after midnight. The change allows DFO’s automated phone system to alert producers of quality test results outside the normal range, in many instances, one day sooner. These automated calls have been programmed to be made between 8 a.m. to 8 p.m.

While lab test results are being reported more often, component kg calculations continue to be processed once per day (at midnight). The frequency of picking up samples from the depots for transportation to the lab for testing remains unchanged at two to three times per week.

DFO assessed new technologies for depot time temperature recorders (TTR) that could facilitate additional warnings, such as a reminder to close refrigerator doors, and permit real or periodic data transfer to DFO for maintenance management purposes, in view to implement new TTR technology in fiscal 2020.

Rejected Loads Due to Quality
As shown in the table below, 29 loads were rejected due to quality during the 12-month period ending October 2019, compared with 42 loads in the previous 12-month period.

<table>
<thead>
<tr>
<th>12-month period ending October 2019</th>
<th>12-month period ending October 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ontario loads delivered</td>
<td>101,553</td>
</tr>
<tr>
<td>Rejected loads due to quality</td>
<td>29 (0.03%)</td>
</tr>
</tbody>
</table>

The most common reason for rejection continues to be the presence of black specks (12 loads).

Iodine Testing
Load samples are first tested to determine iodine levels in milk delivered to processors. Bulk tank samples associated with loads exceeding a threshold of 300 micrograms per litre are then tested. The threshold for trace back was set at 300 mcg/L for load samples as a way of identifying farms with iodine levels greater than 500 mcg/L in milk.

The 2019 iodine testing program started in March. By the end of October, 467 load samples were tested. The majority of these loads, or 83.9 per cent, were in the normal range, while 13.7 per cent were in the elevated range (350 to 500 mcg/L), and 2.4 per cent in the high range (greater than 500 mcg/L). A total of 138 loads (29.6 per cent) were flagged for trace back testing, which resulted in 760 bulk tank samples tested. Of these, 134 had iodine levels in the high range.

The following three factors are associated with high iodine levels in milk:
- higher iodine content in feed;
- increased teat and udder coverage with iodine teat dip;
- higher iodide levels in water.
LOGISTICS

DFO’s Logistics team is responsible for milk transportation, milk allocation, sample transportation, as well as metering and calibration.

Milk Transportation

Transportation charge to producers – fiscal year-over-year (Y.O.Y.)

From November 2018 to October 2019, the transportation charge to producers increased by $0.04/hL compared with the previous year. This is a net result of transportation costs increasing YOY by $0.06/hL and transportation revenues increasing by $0.02/hL over the same timeframe as shown in the table below.

<table>
<thead>
<tr>
<th>Fiscal Year-to-Date</th>
<th>Transportation Cost ($/hL)</th>
<th>Transportation Revenue ($/hL)</th>
<th>Charge to Producer</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 2017 to October 2018</td>
<td>2.83</td>
<td>0.14</td>
<td>2.69</td>
</tr>
<tr>
<td>November 2018 to October 2019</td>
<td>2.89</td>
<td>0.16</td>
<td>2.73</td>
</tr>
<tr>
<td>Year-over-year (Y.O.Y) Variance</td>
<td>0.06</td>
<td>0.02</td>
<td>0.04</td>
</tr>
</tbody>
</table>

The $0.06/hL increase in transportation costs is a net result of individual components shown below, rounded to the nearest penny.

**TRANSPORTATION EXPENSE (Y.O.Y VARIANCE)**

<table>
<thead>
<tr>
<th>Transportation Expense</th>
<th>Y.O.Y* Variance $/hL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation¹</td>
<td>0.01</td>
</tr>
<tr>
<td>Niche Milk²</td>
<td>0.01</td>
</tr>
<tr>
<td>Every day pick-up³</td>
<td>(0.01)</td>
</tr>
<tr>
<td>Operations⁴</td>
<td>0.05</td>
</tr>
<tr>
<td>Net Increase⁵</td>
<td>0.06</td>
</tr>
</tbody>
</table>

*Year-over-year:
1. Inflation: Labour increase in rate formula;
2. Niche Milk: Increase in number of niche routes;
3. Every day pick-up: Reduction in producers using service;
4. Operations: Increases in milk movement from southwestern Ontario to far eastern Ontario;
5. Net Increase: Net change in transportation costs.

The $0.02/hL increase in transportation revenues is a net result of the individual components shown below, rounded to the nearest penny.

**TRANSPORTATION REVENUE (Y.O.Y VARIANCE)**

<table>
<thead>
<tr>
<th>Transportation Revenue</th>
<th>Y.O.Y* Variance $/hL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Every day pick-up⁶</td>
<td>(0.01)</td>
</tr>
<tr>
<td>Niche and organic milk⁷</td>
<td>0.01</td>
</tr>
<tr>
<td>P5 pooling⁸</td>
<td>0.02</td>
</tr>
<tr>
<td>Net*</td>
<td>0.02</td>
</tr>
</tbody>
</table>

*Year-over-year:
1. Reduction in producers using service;
2. Increase in niche and organic transportation revenue;
3. Increase in P5 pooling transfers to Ontario;
4. Overall net increase in transportation revenues.

Milk Transportation Policies

No Sunday Shippers are defined as producers who, as part of their faith or religion, have beliefs and observances that prohibit the pickup of milk on Sundays. DFO will continue to accommodate No Sunday Shippers and not pick up milk at their farms on Sundays.

Effective Jan. 1, 2020, No Sunday Shippers will be charged $50 for each consecutive day of milk pickup that must be made to accommodate their shipping patterns.

As a result, these shippers will be charged a monthly fee of $216.67. In addition, Every Other Day Shippers who have been placed on a four-day per week pickup schedule to accommodate the No Sunday Shippers will be compensated $25 for each consecutive day of milk pickup they incur. These shippers will receive a monthly amount of $108.33 as compensation for their role in accommodating No Sunday Shippers.

Milk Allocation

In the fiscal year ending Oct. 31, 2019, Ontario dairy producers shipped 2,991,367,835 litres of milk.

**TOTAL ANNUAL SHIPMENTS MARKETED BY DAIRY FARMERS OF ONTARIO 2010-19 (BILLIONS OF LITRES)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Shipments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2,494,915,458</td>
</tr>
<tr>
<td>2011</td>
<td>2,532,418,498</td>
</tr>
<tr>
<td>2012</td>
<td>2,601,927,222</td>
</tr>
<tr>
<td>2013</td>
<td>2,562,999,551</td>
</tr>
<tr>
<td>2014</td>
<td>2,538,844,872</td>
</tr>
<tr>
<td>2015</td>
<td>2,664,415,246</td>
</tr>
<tr>
<td>2016</td>
<td>2,771,786,182</td>
</tr>
<tr>
<td>2017</td>
<td>2,942,572,396</td>
</tr>
<tr>
<td>2018</td>
<td>3,017,388,885</td>
</tr>
<tr>
<td>2019</td>
<td>2,991,367,835</td>
</tr>
</tbody>
</table>

Organic Milk

DFO markets organic milk from 80 organic certified producers to 19 organic certified plants. Organic production ranges from a low of 2.8 million litres monthly during the winter months to a high of 3.3 million litres monthly during the prime pasture season of May and June.

**ORGANIC MILK PRODUCTION NOVEMBER 2018 – OCTOBER 2019**

<table>
<thead>
<tr>
<th>Volume (litres)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total organic production</td>
<td>36,737,561</td>
</tr>
<tr>
<td>Marketed for full organic utilization</td>
<td>32,418,804</td>
</tr>
<tr>
<td>Marketed as organic cream and conventional skim</td>
<td>1,633,511</td>
</tr>
<tr>
<td>Marketed as conventional milk</td>
<td>2,587,079</td>
</tr>
</tbody>
</table>
Organic Milk Production & Utilization in Ontario

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Organic Production (litres)</th>
<th>Volume Marketed Organic (litres)</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 2014 to October 2015</td>
<td>27,071,287</td>
<td>26,243,015</td>
</tr>
<tr>
<td>November 2015 to October 2016</td>
<td>30,786,964</td>
<td>26,062,985</td>
</tr>
<tr>
<td>November 2016 to October 2017</td>
<td>33,269,069</td>
<td>30,473,183</td>
</tr>
<tr>
<td>November 2017 to October 2018</td>
<td>34,503,525</td>
<td>34,214,246</td>
</tr>
<tr>
<td>November 2018 to October 2019</td>
<td>36,737,561</td>
<td>32,418,804</td>
</tr>
</tbody>
</table>

Niches Markets

Niche markets are expanding every year as plants develop new products to meet consumer needs. A summary of the major niche types and volumes is below:

Niche Market Volumes

<table>
<thead>
<tr>
<th>Market</th>
<th>Annual Marketed Volume (litres) November 2018 to October 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic</td>
<td>32,418,804</td>
</tr>
<tr>
<td>Grass fed</td>
<td>13,875,589</td>
</tr>
<tr>
<td>Grass fed organic</td>
<td>863,333</td>
</tr>
<tr>
<td>Jersey</td>
<td>2,692,654</td>
</tr>
<tr>
<td>Ultra Kosher</td>
<td>2,859,101</td>
</tr>
<tr>
<td>Guernsey</td>
<td>593,068</td>
</tr>
</tbody>
</table>

Inter-Provincial Milk Movement

Ontario receives milk daily from Quebec. This volume includes the Ontario share of the milk movement obligation (MMO) volume shared among P5 provinces, which are Ontario, Quebec, New Brunswick, Prince Edward Island and Nova Scotia. From time to time, Ontario may also receive surplus volume that is cascaded from the rest of P5 and Newfoundland. This volume is surplus to the processing of the other provinces and is moved to Ontario for processing or skimming.

In 2018-19, Ontario received a total of 58,000,422 litres from Quebec. This volume includes 56.5 million litres of MMO volume and 1.5 million litres of P5/NL surplus volume. A major portion of the surplus volume was delivered to Ontario during the Christmas 2018–New Year’s 2019 period. These loads deliver to plants in eastern Ontario.

Skimming of Surplus Milk

When the supply of milk exceeds plant milk orders, DFO uses the available capacity of plants to separate whole milk into cream and skim milk. The cream is used to fill market demand for butterfat while skim milk is removed by DFO and used at hog farms and biodigesters. Some plants can evaporate skim milk into condensed milk, which reduces transportation costs.

Plants

As of Oct. 31, 2019, DFO delivered milk to 72 plants located in Ontario. DFO also delivered milk to one plant in Manitoba and one plant in Northern Quebec. On days when Ontario is in surplus and processing capacity exists in Quebec, loads are also delivered to plants in the Montreal area. Plant supply quota (PSQ) was issued to 41 plants, while the remaining plants received their volume as on-demand milk.

Plant Licensing

DFO reviews licence applications to determine whether DFO is able or needs to supply milk required for a product and determines how milk will be sourced. DFO can support, oppose or request further information before commenting on a licence application. Applications to build or alter a dairy processing plant also need a letter of support from DFO and ODC to proceed unopposed.

The Feihe International Inc./Canada Royal Milk Kingston, Ont., plant was licensed by OMAFRA in October 2019. The plant will start receiving milk in December 2019. It will produce infant and adult formula primarily for the Chinese market.

The fairlife fortified milk processing plant in Peterborough, Ont., is expected to be completed in spring 2020.

There are also licensing applications in the Greater Toronto Area from small-scale processors manufacturing products from pre-pasteurized milk or milk ingredients, often obtained from existing licensed processors.

DFO provides input to OMAFRA, as requested, for considerations in legislative and policy changes. OMAFRA has been investigating plant licence renewals and applications. The Ontario government’s Open for Business initiative will most likely result in the removal of dairy plant licensing requirements for cut and wrap operations, such as grocery chains, soft serve ice cream vending in restaurants and other low-risk activities. OMAFRA is also reviewing dairy plant licensing requirements for small operations producing products made from pre-processed dairy ingredients sourced from licensed dairy processors.

Plant Metering & Sampling

There are 26 plants metering milk for payment purposes in Ontario, with a combined annual volume of 2.7 billion litres. A total of 24 metering plants are also paying for their composition based on the load sample taken at the plant. One other plant will start metering and sampling trials in 2020.

Plant meters are verified for accuracy a minimum of once per year for plants receiving up to 40 million litres of milk per year, and twice per year for plants receiving more than 40 million litres per year.

Plant load sampling composition results are tracked and compared with the corresponding weighted producer composition results.
for each load. Loads are rejected and replaced with producer compositions if the deviation exceeds five per cent or if the plant is not following proper sample procurement procedures.

There is a difference of 0.22 per cent between meter readings and total volume shipped from farms. This difference equates to six million litres annually with a value of $5.4 million. Composition differences from farm to plant for butter, protein and other solids equate to an additional $300,000 annually.

**Bulk Tank Calibration Program**

Calibrating bulk tanks reduces plant meter volume losses and provides fair and equitable redistribution of processor payments to producers.

The measuring systems on DFO’s two state-of-the-art calibration tractor trailer units are located in west-central and eastern Ontario. The unit in eastern Ontario also services the Maritimes on a cost recovery basis for six to eight weeks every spring. The cost savings from the reduction of shortages in the Maritimes are pooled in the P5.

**Research**

**Research Projects**

A brief description of new research projects follows. A complete description of all research projects is available on DFO’s website.

**Free Fatty Acid (FFA)**

High levels of free fatty acids (FFA) in milk cause rancid off-flavour and at more extreme levels are associated with reduced milk foaming. Both characteristics are undesirable for processors and consumers. Over the last few years, all Ontario bulk tank samples have been tested for FFA and palmitic acid at the University of Guelph Laboratory.

DFO, in collaboration with the University of Guelph, is reviewing associations with specific production factors. Once these associations are known, DFO will determine next steps to reduce FFA levels on farms that have consistently high results.

**Alfred Organic Research Centre**

Alfred College, or Ferme d’éducation et de recherche du campus d’Alfred (FERCA), is currently building a new barn, which will have 104 milking stalls and the ability to create eight groups of 12 cows for research projects.

DFO’s board approved a budget of $60,000 per year for a liaison position. The main goals are to establish efficient communication plans, such as promoting FERCA’s proposal to farmers, better liaise with DFO, establish relationships with research partners and answer farmers’ questions about organic dairy production. DFO also approved $75,000 per year for research projects with FERCA.

**Establishing Evidence-Based Pain Management Protocols for Neonatal Dairy Calves**

Pain control for disbudding is required through proAction’s animal care component. Currently, best management practices (BMPs) for pain control with respect to very young calves (within the first week of life) are not known. Virtually no published research exists in this area.

BMPs established from the above research will be shared directly with producers and bovine veterinarians to ensure high standards of care.

In addition, three continuing education workshops for large groups of veterinarians will be conducted throughout Ontario.

**Safety of Cheddar Cheese Curd Offered for Sale at Room Temperature**

Cheddar cheese curd would normally be categorized as a higher risk food that must be cooled for retail sale. In 1993, Ontario legislation was introduced to permit its retail sale at room temperature for up to 24 hours at convenience stores and gas stations. However, there are no data to support this exception, and further, there is a trend to sell cheese curd at farmers’ markets, convenience stores and gas stations at room temperature and with an uncertain temperature history.

A project is being conducted to assess exposure of inoculated cheese curd to determine survival and growth of selected pathogens during storage and distribution with various temperature histories. The results will allow more accurate risk assessment of cheese curd handled under differing conditions. Cheese manufacturers will benefit from the project by implementing measures to reduce cheese curds’ microbiological risk.
**Occurrence and Impact of Microbial Biofilms on Milk Quality and Safety — From the Farm to the Cheese Vats**

As pathogenic and spoilage microbes on various surfaces persist in the environment, the industry is looking for a better way to identify composition and structure of biofilm microbial communities at farms and cheese facilities. This will assist in developing more effective and better targeted strategies to control this phenomenon. Results will help form recommendations for farmers and cheese producers to control biofilm formation, manage milk quality and enhance equipment sanitization practices.

**Enhancing Euthanasia Methods and Training for the Ontario Livestock Industry**

DFO, Beef Farmers of Ontario, Ontario Pork and Dr. Sue Burlatschenko and her team are collaborating on a project to find new methods and teach new approaches to veterinarians for enhancing euthanasia methods. DFO’s contribution to this project is $5,000.

**Antimicrobial Stewardship and Selective Dry Cow Therapy for Ontario Dairy Herds**

Under the guidance of Lactanet Canada and an advisory team, the Antimicrobial Stewardship and Selective Dry Cow Therapy project will assist in proof of concept development, pilot demonstration and information dissemination as it relates to best management practices for selective dry cow treatment in the Ontario dairy industry.

The target groups are dairy producers and bovine veterinarians. The outcome is expected to be a framework and set of recommendations under which veterinarians, producers and the industry can move forward with a consistent, credible and practical selective dry cow treatment strategy and approach. Additionally, the project will assist Lactanet in developing some of the necessary tools and reports.

The end goal is to provide the tools and information necessary for producers and the industry to reduce antimicrobial use without compromising animal health. DFO will contribute up to $80,000 for this project.

**Inventory Practices and Identify Obstacles and Constraints Related to Pre-Slaughter Management and Euthanasia of Cattle on the Farms**

In collaboration with the University of Montreal and Les Producteurs de lait du Québec, DFO is conducting a survey on practices and challenges associated with euthanizing and managing downer cows on the farm. The aim is to assemble an overall picture of current practices in order to better support managing these difficult cases.

Responses to this survey and various producer and veterinarian focus groups will be used to develop and propose methods and tools for effective practices on farms. DFO is contributing $12,500 to this project.

**Grants-in-Aid, University of Guelph**

DFO allocates $120,000 per year in grants-in-aid to several university departments engaged in dairy research. Currently, the following departments are granted funds:

1. Department of Population Medicine ($60,000);
2. Department of Food, Agricultural and Resource Economics ($30,000);
3. Department of Food Science ($30,000).

**DFO Doctoral Scholarship**

The DFO doctoral scholarship is presented annually to an exemplary student entering a doctoral program at the University of Guelph. The scholarship is awarded for the three years of full-time doctorate study in a research area of interest to DFO, such as individual animal and herd health, dairy cattle management systems, nutrition, economic aspects of milk production or processing, as well as dairy product packaging and marketing.

The Board approved increasing the scholarship from $20,000 to $35,000 per year for three years, starting in fiscal 2019. The reason to increase the award is to ensure it remains competitive and attracts more exceptional students to the PhD program.

**Research Chairs**

**NSERC/DFO Industrial Research Chair in Microbiology:**

*Dr. Gisèle LaPointe, Department of Food Science, University of Guelph*

DFO contributes $200,000 per year for this research chair. The funds are matched by the National Sciences and Engineering Research Council of Canada (NSERC) – Industrial Research Chairs Grants. The research program of the NSERC/DFO Industrial Research Chair in Dairy Microbiology aims to ensure the quality and functionality of dairy products through better control of microbial ecosystems. The approach of the NSERC/DFO chair is to integrate knowledge across the value chain, from producer and processing to consumer health.

**Dairy Cattle Health Research Chair:**

*Dr. David Kelton, Department of Population Medicine, Ontario Veterinary College, University of Guelph*

The Chair’s research focuses on important aspects of dairy cattle health, welfare and biosecurity, including: infectious diseases.
(Johne’s Disease, BVD, Leukosis), mastitis and on-farm milk quality, antimicrobial use and resistance (AMU/AMR), biosecurity (targeted at diseases of importance), lameness with focus on welfare and genetic improvement, metabolic diseases (ketosis) and reproductive health and efficiency.

In November 2018, DFO accepted to renew the animal health research chair for the next five years at $200,000 per year.

COMMUNICATIONS

DFO’s Communications team is responsible for government relations, communications to producers, processors and industry stakeholders, as well as DFO publications, including Milk Producer, and media, crisis management and corporate events.

Government Relations

Federal Government Relations

Discussions with the federal government in 2018-19 included trade, full and fair compensation for CETA, CPTPP, CUSMA, tariff rate quotas (TRQs), border controls, food policy and Canadian content in products. The federal government has also conducted a few visioning sessions for the dairy industry to discuss its future.

From Feb. 21 to 26, 2019, there was a standing senate committee regarding trade agreements. DFC presented to the committee on supply-managed sectors and the impact of recent trade agreements. There was board member representation from DFC, as well as Manitoba, New Brunswick, Quebec and Ontario milk marketing boards.

A mitigation working group was established to identify the impacts of recent trade agreements to the Canadian dairy industry and develop recommendations to support dairy producers and processors as they continue to strive for a growing, profitable Canadian dairy industry.

Federal Lobby Day

DFO representatives met with 29 parliamentarians. Topics of discussion with MPs included trade, border controls and Canada’s Healthy Eating Strategy, including the new food guide, front-of-package labelling and marketing to children (Bill S-228).

Dairy Direct Payment

On Aug. 16, 2019, the federal government announced $1.75 billion in financial compensation to be distributed to Canadian dairy producers over an eight-year period for market losses associated with the CETA and CPTPP trade agreements. Of this amount, $345 million will be paid in 2019-20 in the form of direct payments in proportion to producers’ quota holdings. This announcement followed the completion of the work under the mitigation working group. The group was established by the federal government to assess the impacts of the trade agreements and develop recommendations to compensate dairy producers and processors. The CDC will administer the dairy direct payment program on behalf of Agriculture and Agri-Food Canada. DFO will support the CDC by providing needed producer information.

Canada’s Healthy Eating Strategy

Canada’s Food Guide

On Jan. 22, 2019, the federal government released an updated version of Canada’s Food Guide. Following public consultation, the government stated it had removed the dairy category from Canada’s Food Guide and made it part of the broader protein group, which includes plant-based alternatives to dairy.

Under the updated food guide, dairy products are now part of the new protein category rather than the previous dairy category. Additionally, water is the recommended beverage of choice (over
milk) and consumption of low-fat dairy products is encouraged. DFO has shared its concerns with the government that the new food guide does not fully consider and reflect the most recent and mounting scientific evidence available.

**Front-of-Package Labelling**
As proposed, any food above 15 per cent of the daily value for sodium, sugar or saturated fat would be mandated to carry a warning symbol, regardless of its overall impact on health. Up to 90 per cent of milk product SKUs would have to carry a front-of-package warning label, despite their numerous scientifically-proven health benefits.

**More than 50 per cent of all products impacted by this legislation will be dairy products. The dairy industry has advocated exceptions, such as dairy, need to be considered for the proposed front-of-package labelling.**

**Marketing to Children (Bill S-228)**
Bill S-228, proposes restricting marketing of unhealthy foods to children, which requires Health Canada to legally define which foods are unhealthy. Currently, Health Canada proposes defining any food that does not meet the threshold for a “low-in” claim for sodium, sugar or saturated fat as unhealthy. Up to 90 per cent of all dairy products would be defined by Health Canada as unhealthy.

Key asks to Health Canada from dairy farmers on Canada’s Healthy Eating Strategy include:

1. **Canada’s new food guide** – consider comprehensive scientific evidence, health benefits and support of local foods when developing menus in institutions, such as schools, hospitals, retirement homes, etc.;
2. **Front-of-package labelling** – recognize achieving a healthy, balanced diet calls for more than just limiting three nutrients, and to grant full exemptions to nutritious dairy products from front-of-package labelling based on their beneficial impact on health, and any exemptions granted from front-of-package labelling be reflected throughout other components of the healthy eating strategy;
3. **Marketing to children (Bill S-228)** – Health Canada work with the senate to remove any reference to the word “unhealthy” from Bill S-228 and replace it with alternate wording, such as “foods subject to advertising restrictions.”

The government has postponed its planned launch of front-of-package labelling. On June 21, 2019, the Senate rose for the summer without passing Bill-S-228.

**Federal Election**
Producer kits for the federal election were distributed to DPCs leading up to the Oct. 21, 2019 federal election to engage producers in a grassroots approach to connecting with MP candidates. Strategies of how and when to engage were developed in collaboration with DFC and provincial boards. As well, the kits included information about educating on the benefits of supply management with key messages of trade and food policy as most topical. All federal platforms, excluding the People’s Party of Canada, stated support for supply management.

**Provincial Government Relations**
Agriculture Minister Ernie Hardeman hosted several roundtables for industry stakeholders over the last year to discuss agricultural opportunities and needs. Topics of discussion included labour and skilled workforce, animal welfare and enforcement, animal activism and protecting farmer’s security, as well as the implementation of the new Canada’s Food Guide in Ontario institutions. Minister Hardeman publicly shared his openness to new legislation to protect farmers from animal rights activists who trespass on their property.

On Oct. 29, 2019, the government introduced the Provincial Animal Welfare Services (PAWS) Act, Bill 136. DFO, along with other livestock agricultural groups, has provided input to the animal welfare model and generally supports the direction of the legislation. Further input for consideration to the legislation has been developed for submission in November 2019. Additionally, the provincial government is interested in opportunities to reduce red tape requirements. DFO is working to identify opportunities to capitalize on this government mandate.

**Provincial Lobby Day**
DFO Board Members and staff met with more than 19 MPPs on Feb. 26, 2019 at Queen’s Park in Toronto, Ont. to discuss trade and border controls, as well as the institutionalization of Canada’s Healthy Eating Strategy. An evening reception was held that included remarks from Ernie Hardeman, Minister of Agriculture, Food and Rural Affairs, and John Vanthof, Critic, Ministry of Agriculture, Food and Rural Affairs.

**Trade**
The Canadian government has concluded or is currently negotiating 30 free-trade agreements. Fifteen of these agreements are already effective, nine of them are currently being negotiated (Mercosur, Pacific Alliance), five are at a preliminary discussion stage (China, South-East Asian countries) and one is negotiated but not yet in force (CUSMA).

**Canada-European Union Comprehensive Economic and Trade Agreement (CETA)**
CETA, the free trade agreement between Canada, the European Union (EU) and its member states, has been provisionally applied since September 2017 and will formally take effect once ratified by the EU and the 28 member states. The agreement has been in place in Canada since September 2017 and provides access to the Canadian cheese market, which is equivalent to about 1.4 per cent of Canadian milk production. The outcome of Brexit may or may not impact market access concessions provided under CETA.

**Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)**
On Jan. 23, 2018, an agreement was reached on CPTPP. The 11 countries that signed the agreement are Australia, Brunei, Canada,
Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. CPTPP came into effect on Dec. 30, 2018 after ratification by at least 50 per cent of the signatories, which comprised six (Australia, Canada, Japan, Mexico, New Zealand and Singapore) of the 11 participating countries. Since then, Vietnam has also ratified the agreement with four countries remaining to officially accept the deal. Other countries, such as the United Kingdom, Thailand, Taiwan and South Korea, have also indicated their interest in joining the agreement. CPTPP provides an access equivalent to 3.1 per cent of Canada’s milk production.

**Canada-United States-Mexico Agreement (CUSMA)**

On Sept. 30, 2018, the U.S., Mexico and Canada announced the completion of negotiations toward a new CUSMA. The agreement focused on three areas with respect to dairy: pricing, exports and market access. It will enter into force three months after the three participating countries have ratified the deal, after which there will be a six-month transition period. On June 19, 2019, Mexico ratified the agreement. It is anticipated CUSMA will enter into force during the first or second quarter of 2020, after it is ratified by Canada and the U.S. CUSMA will provide an access equivalent to 3.9 per cent of Canadian milk production.

The access provided by the three trade deals (CUSMA, CPTPP and CETA) amounts to more than 8 per cent of Canadian milk production, with an estimated $450 million impact to producer revenues per year. This access is in addition to the 10 per cent market access already provided, for a total of 18 per cent of Canadian milk production. Compensation for CUSMA has not yet been announced.

**Mercosur**

Mercosur is a South American trade bloc comprising Argentina, Brazil, Paraguay and Uruguay. Negotiations started in March 2018, with the seventh round of negotiations in August 2019. DFO is closely monitoring the Mercosur-Canada trade negotiation. So far, the parties have agreed to a set of modalities. An exchange of tariff offers is expected in October 2019.

**Pacific Alliance**

The Pacific Alliance is a regional initiative created in 2011 and comprises a group of South American countries (Chili, Colombia, Mexico and Peru). A Joint Declaration on a Partnership between Canada and the Members of the Pacific Alliance was signed in June 2016. Negotiations were interrupted in January 2019 but a new round of negotiations took place in November 2019.

**Publications & Communication Vehicles**

DFO communicates with producers through the following publications and platforms:

- *Milk Producer* magazine, published monthly;
- *Dairy Farmer Update*, a weekly e-newsletter;
- the producer dashboard on milk.org;
- the news ticker (RSS news feed) for public announcements;
- *Dairy Farmer Update*, a mailed monthly newsletter delivered with milk cheque statements;
- Important announcements through Constant Contact’s email service;
- All-producer mailings;
- *Board Highlights* (board members, staff and DPCs);
- Weekly e-clippings news aggregator newsletter;
- the English and French Milkline system, for those who do not use the Internet;
- Presentations at producer meetings.

Monthly data reports show the weekly e-newsletter has a high usage rate, with about 60 per cent of respondents opening the link when sent.

**Milk Producer Magazine**

*Milk Producer* magazine continues to grow in advertising and editorial, while maintaining print and mailing costs. From November 2018 to October 2019, *Milk Producer* printed 664 pages—a slight increase over 660 last year; advertising revenue remained consistent with the prior year.
New for 2018-19 are sections covering DFO’s marketing and promotion activities, bimonthly farm safety and mental health columns, improved layouts of cover stories, a Farmer’s Rhymes section and regular processor profiles.

Magazine Awards
*Milk Producer* magazine received Apex Awards for Publication Excellence for Magazines, Journals and Tabloids for the one-to-two-person produced category, as well as for Assistant Editor Jennifer Nevans’ June 2018 cover story, entitled Women in Agriculture, under the feature writing category. This is the fifth time *Milk Producer* has won APEX awards.

*Milk Producer* was also recognized at the 2019 Canadian Farm Writers’ Federation (CFWF) awards ceremony for a press editorial. The July 2018 Managing Editor’s column, written by Sharon Laidlaw and entitled Educating the Public, received the Gold Award in the O.R. Evans press editorial category.

This is the sixth CFWF award for magazine staff in the last four years.

Communications Audit

DFO committed to completing a full review of DFO’s publication assets to assess and better understand the communications needs of producers and industry stakeholders. Phase one, the dairy producer committee (DPC) portion of the audit, was completed in August 2019. Phase 2 of the audit, scheduled for the first half of the 2020 fiscal year, will include a survey of board members and DFO staff, as well as producers at large. The final phase in the second quarter of 2020 will examine stakeholder communications with various partners. Full data analysis is expected to be completed in late spring.

Corporate Communications—Standards of Practice

A Standards of Practice framework for corporate communications was developed in fiscal 2019 and will be completed in 2020. This guidance document will help streamline processes, define standard operating procedures, and identify principles governing DFO’s corporate communications work. It will also allow DFO to formalize its internal and external communication processes, which will enable the communications team to define functions and roles.

Issues Management Working Group (IMWG)

The DFC-led IMWG group is comprised of communications staff from each of the provincial marketing boards, including DFO. The group develops strategies on key issues that affect the industry on a national level including government relations, crisis management, key messages and media relations. IMWG met on July 18, 2019 in Saskatoon, Sask. to discuss its mandate and goals. The purpose of the national group is to ensure alignment and consistency on communications approaches and messaging across the Canadian dairy industry at large. In fiscal 2018-19, focus areas included government trade compensation, animal rights activism and the federal budget. The group is currently undergoing an in-depth review of its terms of reference and governance structure, which is expected to be completed in 2020.

Crisis Management

Animal Rights Activists (ARA) Planning and Response

Several ARA events took place throughout 2019, most notably the March 9 and March 31 ARA on-farm protests, and the Animal Liberation Conference, which was held Aug. 16 to 19, 2019 in Toronto, Ont. DFO monitors these events and has developed tools for farmers to protect their farms, animals and families from ARA activities. DFO is working with government and other stakeholders that share concerns of disruption to safety, animal welfare and biosecurity on farm.

No Trespassing and Biosecurity Sign

Trespassing on farm presents serious risk to the supply of safe, quality milk. To help producers protect their families and farm property from intruders, DFO developed a combined ‘No Trespassing and Biosecurity’ sign that was delivered to producers across the province via milk transporters in August 2019. The sign alerts potential intruders they do not have permission to enter farm property while fulfilling producers’ proAction requirement to have visible biosecurity signage at their farm’s main access point.

Farmer’s Toolkit

DFO developed a comprehensive Farmer’s Toolkit that outlines step-by-step instructions on how producers can prepare and secure their farms to help mitigate ARA activity on or near their farm properties. The toolkit was distributed to every Ontario producer in the September issue of *Milk Producer* magazine and select sections of the toolkit were posted on DFO’s website within the producer dashboard. The toolkit was also shared with other agriculture commodity groups and national partners as a template for their reference.
Media Relations

The goal of DFO’s media relations activities is to communicate accurate information to the public, government and industry stakeholders with a view to informing, educating and influencing. DFO also works with DFC and provincial marketing boards to ensure key messages are consistent across the country.

Media requests to DFO are heavily influenced by topics that are trending in the broader media and agricultural media landscape. Requests in 2018-19 were largely focused on:

- NAFTA/CUSMA;
- Supply management;
- Canada’s Food Guide;
- The EAT Lancet report;
- Animal activism;
- Fairlife in Canada;
- Ontario Society for the Prevention of Cruelty to Animals;
- Trade compensation;
- New DFO marketing initiatives;
- DFO’s new chief executive officer.

Events

2019 Annual General Meeting

DFO’s 2019 annual general meeting (AGM) took place Jan. 8 to 10, 2019. With 30 event sponsors, the AGM was well-attended by 278 DPC members and 335 guests. The evening wine and cheese event showcased Canadian dairy products from 14 vendors.

Topics of the AGM included: Chair and GM Remarks, financial report, trade (Aaron Fowler, Chief Agricultural Negotiator and Director General), DFC greetings (Pierre Lampron, DFC President), marketing and business development and consumer research and strategy. The gala dinner’s entertainment was Jolene Brown, a professional speaker, author and farmer, speaking on “It’s a Jungle Out There! Blazing New Trails in Agriculture.”

Two outgoing board members were recognized: Henry Oosterhof and Ralph Dietrich. The DFO Doctoral Research Scholarship for 2019 was presented to Tony Carreira Bruinje.

Canada’s Outdoor Farm Show

Canada’s Outdoor Farm Show was held in Woodstock, Ont., from Sept. 10 to 12, 2019. Farmers attending the three-day event were welcomed at DFO’s booth in the newly-named TD Dairy Producer Pavilion. Attendees also had the opportunity to speak with DFO board members and field services representatives.

International Plowing Match

The 2019 International Plowing Match and Rural Expo took place in Verner, Ont., from Sept. 17 to 21, 2019. The West Nipissing-East Sudbury DPC hosted the joint DFO and Hewitt’s (Gay Lea Foods) ice cream booth. There was also a dairy education booth in the education centre.

Breakfast on the Farm

Farm & Food Care Ontario hosts two annual breakfast events across the province on various farms. This year, on June 22, 2019, the spring event was held at Jobin’s Dairy in Tecumseh, Ont. The Essex-Kent DPC and educator, in conjunction with the Essex-Kent 4-H Club, handed out ice cream and yogurt tubes as part of their donation. The fall event was held on Sept. 14, 2019 at Barrie Hill Farms in Barrie, Ont. More than 2,300 attendees enjoyed a complimentary breakfast and were able to learn and see a working farm and visit a dairy booth hosted by the Simcoe DPC and educator.
MARKETING AND BUSINESS DEVELOPMENT

DFO's Marketing and Business Development team is responsible for marketing and promotions on behalf of producers to consumers both directly and in partnership with dairy processors and other industry partners. The team is responsible for marketing programs, campaigns, partnerships and initiatives across four key areas: Marketing Communications and Strategy, Business Development, Consumer Programs and Community Programs and Partnerships.

Marketing Plans

The Marketing and Business Development team at DFO evolved significantly in 2018-19. With the marketing team largely built and alignment on a strategic plan aimed at increasing consumption of Canadian dairy – and ultimately increasing incremental growth for Canadian dairy – DFO is turning its focus to execution and setting benchmarks for future tracking.

The overall strategy in marketing and business development is to capitalize on an ROI-based approach to programs and execution. Consumer research has informed key opportunities where maximum impact to consumption can be made and all programs tie back to goals to ensure collective and co-ordinated efforts for maximum return.

Data collection enables effective consumer targeting and is critical to the success of marketing efforts. This will remain a focus going forward. A data collection platform is being built behind the consumer-facing website that will be used for future programs and to track consumer activities. This will allow DFO to identify growth opportunities with consumers and activate unique and targeted programs.

Each program is being built with target metrics and objectives and will be tied to the overall goals of marketing and DFO’s overarching strategy. Fiscal 2019 was focused on developing the marketing strategy, structure and plans. In 2020, DFO will largely focus on execution and setting benchmarks for future tracking.

Marketing Communications

An in-depth consumer research program was undertaken in 2018-19 to better understand consumer and common perceptions and beliefs about the dairy category and industry. These insights were focused on one of the largest dairy consumer groups in Ontario – millennials with and without children. Insights then shaped the development of the initial marketing framework.

There are many facts about dairy, milk, farming and the industry that can be shared with consumers. Dairy is a large, complex and foundational category for most Canadians, and they need credible sources to correct misinformation about the industry and how dairy contributes to a healthy lifestyle. DFO’s role is to determine what consumers care about in dairy, and what will help increase their dairy consumption.

DFO’s long-term goal is to make dairy an inspired food choice. This is supported by two key business objectives:

- **Build a positive image of Ontario producers**
  This will be done by building positive brand equity around the image of Ontario producers. DFO will show the consumer who dairy farmers are and demonstrate the values they stand for;
- **Drive consumption of milk**
  This is what dairy farmers do. DFO will clearly define the value proposition Ontario dairy brings to consumers through product offerings and identify benefits of those products.

The outcome of brand equity is trust, and the outcome of fixing declining milk consumption is driving sales. These two objectives will be implemented in many ways across multiple communication channels throughout 2020.

DFO committed to execute dedicated and fully integrated campaigns several times throughout the year across multiple channels, such as television, public relations, social media and digital assets. In addition, “always on” content within the social/digital space will be developed to sustain campaign messaging between periods.

Campaigns Launched in 2018-19

**Masterbrand equity: “Letter” commercial (April 2019)**

This campaign was intended to renew faith in dairy and transition it into an inspired food choice. The campaign’s position was to make dairy the way it was meant to be and focused on a farmer’s way of life, showcasing a farmer’s values of hard work, integrity, honesty, care, passion and tradition. Building trust with the consumer was a key campaign aim:

- More than five per cent growth of positive sentiment on social media (Q2 vs Q1);
• Significant increase in consumer association with key product attributes, such as “nutritious,” “versatile” and “safe”;
• TV spot scored exceptionally high, both in terms of its potential to change or reinforce consumers’ relationship with the brand and about how powerful the brand was in the mind of the consumer after seeing it;
• Visits to DairyDoneRight.ca drove more than half the milk.org web traffic during the campaign, resulting in a 25 per cent uptake in collection of email addresses.

Milk consumption: “What can’t milk do?” commercial (September 2019)

This campaign was intended to address how milk is currently seen as outdated and boring. Even though most consumers appreciate milk’s nutritional benefits, their attention has shifted to other alternatives seen as more trendy, modern and “better for you.” The campaign aimed to remind people of the vital role milk plays in their lives, and that milk is the original superfood. Society is entering a new era for milk and it starts by inviting consumers to reappraise the vital role milk has played and continues to play in their lives.

• TV spot scored exceptionally high in terms of its ability to increase short-term sales, and was ‘very likely’ to be shared by consumers who viewed it;
• Significant increase in consumer association with key product attributes, such as “nutritious,” “delicious” and “versatile”;
• Resulted in a 22 per cent increase in social media followers.

Truck Wraps

DFO’s new milk truck design debuted on Ontario highways in October 2019. The entire fleet of 220 trucks is expected to be wrapped by Spring 2020. The new design features an iconic glass of milk and clean, crisp milk splash, reflecting modernity and taste appeal and is a three- to five-year investment. Transport trucks on high-volume roadways can receive between 15,000 and 30,000 views every day, making them a strategic tool to reach a mass consumer audience.

Social Media

In early 2019, DFO examined its presence and activity on social media with one key objective: effective engagement of its target consumer audience. In April 2019, an initial social media strategy and supporting guidelines for execution were developed and put into practice to inform and optimize content creation, posting strategy and success metrics for DFO social media platforms. Since implementation, the following have been incorporated in the social media strategy:

• Use Facebook and Instagram as priority social platforms;
• Grow the audience beyond the “ag friendly” group to reach target consumer market;
• Increase investment by boosting content;
• Engage with consumer audiences as necessary to deepen connections;
• Influence the “influencers” consumers trust to amplify DFO content;
• Set clear engagement and sentiment metrics to define success in this key channel.
Since Spring of 2019, DFO has significantly increased its presence and performance on social media:

- 20 per cent growth in followers;
- Above industry engagement rates on 96 per cent of content posted to date (since April).

Public Relations

In conjunction with DFO’s social media strategy, an assessment of PR activities to date was conducted with a key objective: to effectively leverage PR and earned media to communicate key messages with DFO’s target audience. Included in the initial PR strategy are the following:

- Enhance internal crisis readiness in the face of increased animal rights activism and other potential situations;
- Update key messages on specific topics of interest to consumers;
- Significantly increase third-party influencer outreach;
- Establish greater industry co-ordination on shared topics, such as the environment and animal welfare;
- Increase investment in PR to support and amplify campaign efforts.

DFO has started development of a comprehensive public relations playbook and toolkit for addressing important trends, sensitive issues and consumer topics. A final strategy will be presented to the board by the end of 2019, with implementation planned for early 2020.

Relaunch of www.milk.org

As part of DFO’s digital reinvention, the organization is in the process of updating its website to make it more user-friendly for consumers and industry stakeholders, including producers. DFO completed development of the updated consumer-facing website for launch in November 2019. It includes a database that enables DFO to collect data on and understand its target audience. Leveraging consumer-provided data appropriately, with tailored messages and offers that are based on what they want to read and buy, is key to DFO’s objective of driving increased milk consumption.

The revamp of the stakeholder website has been planned. It will be implemented in 2020. Plans for the consumer website optimization will also occur in 2020.

Consumer Programs

New MilkUP Sports Marketing Program

Post analysis of the past year shows the Recharge With Milk (RWM) program delivered on several metrics and achieved its goal of positioning milk as a post recovery beverage. Highlights from that analysis include:

- Return on investment (ROI) from RWM of more than three times the program spend;
- 145 million impressions across the Toronto Raptors and Toronto Maple Leafs brands;
- Enhanced brand (milk) favourability of 32 per cent for Toronto Maple Leafs and 37 per cent for Toronto Raptors.

These strong results laid the foundation to move to an even higher level of ROI and effectiveness for DFO. In August 2019, a decision was made to replace the brief legacy RWM program with the new MilkUP youth sports program, which will focus on positioning milk as an integral part of providing a strong nutritional foundation. The program aims to modernize and improve DFO’s ROI for all program aspects, including pro-, amateur- and grassroots-level sponsorships.

Several concepts were tested with consumers, including the former RWM program. MilkUP was the clear winner with a two-to-one preference versus RWM. The new program resonates more strongly with kids aged 12 to 18 and allows for a single-brand program with a single-brand design and execution. This is an improvement on RWM’s brand and tagline, which was limited due to competitive contract conflicts with other sports beverages and, as a result, was fragmented into program brands – RWM for basketball and soccer and Stay Real with Milk for hockey.

The RWM-to-MilkUP transition began in August 2019. DFO will transition as soon as possible with grassroot activations. MilkUP’s performance to date includes:

- Brand Activations = 138
- XM Touchpoints (1:1 Engagement, Sample, Contest Entry, Giveaways, etc.) = 139,841
- 1:1 Engagements = 40,967 (included in above #)
- Samples Distributed = 64,432
- Digital Impressions = 145.8 M vs target of 150 M

These metrics mark a strong start to the MilkUP consumer program.
Culinary

2019 Milk Calendar

More than 700,000 copies of the 2019 Milk Calendar were distributed across Ontario last year, resulting in a significant build-out of the consumer database that will feed DFO’s marketing and consumer relationship strategy. Calendar distribution changed in 2019 and will now be driven through events and direct mail to optimize ROI and connect directly with consumers.

Milk & Honey Menu

The Milk & Honey Menu promotion saw 13 Feast On certified restaurants participate in creating local, Milk Calendar-inspired recipes as special menu items in January 2019. Insights showed a marked consumer interest in food origins and partnerships between agriculture and communities. The promotion will expand in fiscal 2020 with plans to further integrate the program in partnership with Ontario Culinary Tourism Alliance (Feast On).

EVENTS

DFO once again welcomed thousands of people to the dairy barn during the 2019 Canadian National Exhibition from Aug. 16 to Sept. 2. As in previous years, the booth set-up allowed attendees to see the front and back of cows. Milking demonstrations were performed to packed crowds every day at noon and 4:30 p.m.

New to the booth this year was updated branding to reflect DFO’s Dairy Done Right master brand. This included new staff and volunteer uniforms, farm photography and bracelets that were handed out to visitors who stopped by to learn more about the dairy industry. Nearly 400 visitors were invited to play an interactive dairy education game to test their knowledge of dairy farming. Results below show a marked increase in participant’s self-declared knowledge after participating in the game:

<table>
<thead>
<tr>
<th>No knowledge</th>
<th>Little knowledge</th>
<th>Good knowledge</th>
<th>I am an expert</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before</td>
<td>23%</td>
<td>48%</td>
<td>16%</td>
</tr>
<tr>
<td>After</td>
<td>7%</td>
<td>17%</td>
<td>21%</td>
</tr>
<tr>
<td>Increase/decrease</td>
<td>69%</td>
<td>65%</td>
<td>31%</td>
</tr>
</tbody>
</table>

Royal Agricultural Winter Fair

In November 2018, DFO hosted the education booth with live milking demonstrations at the Royal Agricultural Winter Fair, at Exhibition Place grounds in Toronto, Ont., from Nov. 2 to 11, 2019. The education display at the Royal Agricultural Winter Fair hosted approximately 13,000 students and 260,000 visitors over 10 days. The fair included
special presentations to six high school groups and their students who were enrolled in special high skills majors in agriculture and hospitality. Guest speakers included Looknauth Ramsahoi, Supervisor, Dairy Analysis Agriculture and Food Laboratory, University of Guelph; Bryan Taylor, Arcane web development and marketing; and Omid McDonald, owner, Dairy Distillery, creator of Vodkow, a milk-derived alcoholic beverage.

DFO assumed the role of Presenting Sponsor of the Royal Cheese and Butter competition and hosted a pop-up Dairy Boutique featuring Ontario cheese and dairy products for sampling and sale onsite.

**Community Partnerships**

**Dairy Education Program**

The Dairy Education Program is a pillar of DFO’s mandate and is offered for free to elementary teachers in Ontario. It offers an exciting and interactive learning opportunity that gives students insight into exciting aspects of the dairy industry.

Two key educational events were held in 2018-19 in January and July aimed at connecting dairy educators. In January 2019, 46 dairy educators attended the mid-term meeting, held during DFO’s AGM. Educators and secretary-treasurers were trained on the new electronic expense reporting system, Norming, which launched in March. All educators now use this system to report their time and expenses. The system will improve and expand statistical tracking and create a smoother and simpler format for approval and payment.

<table>
<thead>
<tr>
<th>2018-19 SCHOOL YEAR STATISTICS AT A GLANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td># of educators</td>
</tr>
<tr>
<td>GTA educators</td>
</tr>
<tr>
<td>County/district educators</td>
</tr>
<tr>
<td>Regional educators</td>
</tr>
</tbody>
</table>

Promotion of the education program to school boards and teachers continues to be a focus:

- Promotional package sent to all Ontario school boards in August;
- Applications for formal partnerships sent to 31 boards;
- Digital push continues on www.SchoolShows.ca and three school resource directories in Ottawa, Niagara and Toronto;
- Strategic media-buy in the fall edition of the Elementary Teachers Federation of Ontario’s magazine, The Voice.

In May 2019, DFO and the Dairy Education team were recognized by the Toronto District School Board with a Certificate of Appreciation at its annual Educational Programming Partnership Celebration reception.

**Elementary School Milk Program (ESMP)**

ESMP has been providing fresh, cold milk to almost one million students every day in schools across Ontario for 33 years. Program recruitment for the 2019-20 school year began in May 2019. A total of 2,094 schools were registered as of Nov. 18, 2019, 170 more than the previous year.

<table>
<thead>
<tr>
<th>ESMP – 2018–19 OVERVIEW (ONTARIO)</th>
</tr>
</thead>
<tbody>
<tr>
<td># of participating schools</td>
</tr>
<tr>
<td>Total annual milk sales*</td>
</tr>
<tr>
<td>White milk</td>
</tr>
<tr>
<td>Chocolate milk</td>
</tr>
</tbody>
</table>

*as reported by 43 per cent of participating schools

In 2019, the school registration process was enhanced so schools no longer need to register every year but will instead remain registered unless they ask to be removed. Schools reporting their milk volumes three times throughout the year will receive additional rewards for each report. New promotional and printed materials were created and distributed in the September reward box.

In May 2019, DFO was proud to host the National School Milk Conference, attended by DFC and representatives from each province. Guest speakers included Karen McIntyre, Director General, Health Products and Food Branch for Health Canada, and Ron Lund, President and Chief Executive Officer for the Association of Canadian Advertisers. The focus was on future collaboration through social and traditional media, as well as the development of shared goals. The next meeting will be held in February 2020 in Winnipeg, Man.

**Breakfast Program Pilot**

In January 2019, DFO launched a pilot rebate program to provide milk to Ontario students at the best possible cost while ensuring the highest quality and food safety. DFO worked with a large dairy distributor, Ontario Student Nutrition Services and Student Nutrition Ontario, a provincial grant administrator made up of 14 Lead Agencies that services the province regionally. Through more than 39 community partnerships across the province, school boards,
public health units, community groups and parents were supported at the local level in four select regions - Ottawa, Toronto, North Bay and Guelph. Each region received a rebate of 10 cents per single serving sold in the test period from January to April 2019. The pilot cost DFO $105,033 and created a 14.4 per cent lift in milk servings in the identified areas. Total new revenue based on marginal revenue per litre at Farmgate was $35,306.50.

Vending
At the beginning of 2019, DFO conducting an evaluation of the legacy DFC vending machine program to determine whether it fit into the DFO 2019-20 plan. The audit scope determined the number and location of machines, what products they contain and what state of repair they are in.

Nutrition Outreach & Advocacy
To help reinstate dairy as an inspired food choice, it is important for DFO to gain credibility with leading influencers of food, health and lifestyle choices. One key target will be healthcare professionals. In August, DFO began consumer research to learn what influences their decision-making when it comes to defining the role of dairy in their meal plans. The research will enable DFO to target the most influential group of healthcare professionals with the science of dairy’s positive impact on health. The results were available in late October 2019, and will kick off intense planning for DFO to develop partnerships that increase dairy’s credibility.

Business Development
Engaging with new and potential partners is a priority for DFO across the processor, retail, grocery and foodservice sectors. At least 30 partner opportunities were reviewed and investigated in 2018-19, of which 16 were approved to proceed and 10 are in discussion.

Early data from these initiatives suggest incremental volume (actual + targeted) of as much as 4.8 million litres of raw milk – an average gain of 1.75L for every $1 spent.

Processor Programs
Over the last year, DFO met with large and small processors to outline established criteria for collaborative growth initiatives and educate processors on how DFO can help them progress and grow dairy consumption. This includes promotional campaigns, new product launches, increased capacity, product innovation and packaging. In conjunction with Custan Foods, a specialty broker/distributor servicing retailers across Ontario, DFO assisted in securing 22 new listings for various Ontario cheese processors at Sobeys and Foodland grocery store locations. This exposure created further incremental opportunities with other retail clients.

Start-up/Scale-up Program
DFO continued the successful Start-Up/Scale-Up program in 2018-19. Formerly known as the business development program, Start-Up/Scale-Up was launched to provide mentorship for entrepreneurs interested in entering the dairy processing business and provide guidance on how to prepare as applicants to one of 12 $10,000 grants available to entrepreneurs currently building their businesses by scaling-up.

In 2018-19, DFO allocated $76,941.98 under the program that included 18 new participants focused on niche markets, such as on-farm, organic, Middle Eastern, Latin, grass-fed and keto. Eight completed the initial Start-Up mentoring phase and nine participants received matching grants.

Retail/Food Service Partners
DFO has also been working to communicate and form partnerships with various end-use sellers in the Ontario market to execute growth initiatives. In May 2019, DFO launched a local program with Longo’s stores to focus awareness and purchase intent for Ontario cheeses within the retailer’s deli department. This has led to in-store sampling and demonstrations from cheesemakers, as well as the creation of segregated display space and signage to promote local foods and increase consumer awareness about locally-made dairy products. The Longo’s program also included Milk Calendar distribution in all Longo’s stores as well as through Grocery Gateway home delivery.
Support from Longo’s also came in the form of traditional print and digital advertising on its website and placement of Ontario dairy products in their popular Loft Series Cooking Classes. Longo’s has been a valued partner for DFO and the exposure gained through its program has led to additional support for processors with other retail customers. DFO looks to build upon this model and focus its efforts to grow consumption of dairy products throughout the next fiscal year.

DFO also partnered with Pizza Pizza in October 2019 to promote four new cheese specialty pizzas during a six-week promotion. The new promo items will continue be available as regular menu items after the promotion.

Other discussions currently underway to facilitate growth include: Tim Hortons, McDonald’s, Fortino’s, Flanagan Foodservice, Sysco Foodservice, Sobeys, Denninger’s and On the Run Convenience, among others.

**Restaurants Canada (RC) Partnership**

DFO completed a partnership with Restaurants Canada (RC) with the goal to:

1. increase dairy use in the foodservice sector through recipes, editorial content and innovation;
2. build strategic partnerships to better enable a common approach on many issues of mutual interest;
3. work with the foodservice sector to increase access to the agri-food supply chain to facilitate domestic sales.

In 2019, DFO published two takeover issues and three long-form content pieces featuring Ontario dairy in RC’s national trade publication, MENU magazine, along with monthly digital content to its more than 120,000 members.

DFO had a booth at the 2019 RC show, which featured a variety of high-visibility ancillary activations, including a Breakfast with Champions sponsorship, Top-to-Top VIP activations, in-show culinary co-activations with Labatt and Steam Whistle and an Opening Night Reception Ontario harvest table that featured 23 Ontario cheeses and dairy products presented with local food purveyors. DFO’s booth had seven Ontario dairy producer sampling stations, which allowed DFO to leverage the opportunity to present and promote Ontario dairy to the restaurant and foodservice industry. DFO also produced eight unscripted video segments with Chef Brad Long, in collaboration with RC and the Ontario Culinary Tourism Alliance (Feast On), which will be co-promoted by all partners.

**PLANNING, HUMAN RESOURCES & ORGANIZATIONAL DEVELOPMENT**

The Human Resources and Organizational Development team is responsible for strategic planning, organizational development, human resources, project management, facilities management and administrative services.

**Strategic Planning**

The April 2019 strategic planning session marked the beginning of the development of the 2019-20 strategic plan. Board Members and senior staff attended a two-day session with the chairs of provincial milk marketing boards and DFC as industry partners invited to participate on the first day. From the session outcomes, together with feedback collected from the DFO producer consultation process and board direction, the 2020 strategic plan was drafted for approval by DFO’s Board. Subsequently, the budget and operational work plan were developed. On Sept. 10, 2019 the Board approved the 2019-20 strategic plan.

DFO took a more proactive approach to meet the needs of the changing domestic market and new consumer. The changing domestic market results from trade concessions, such as market access, export limitations and the elimination of Class 7. There is an increased demand for specialized products and niche markets. **Technology is changing the way food is produced and accessed. The new consumer is socially and environmentally conscious and is interested in where his or her food comes from. Given these recognized realities, DFO continues to address industry risks and opportunities with a more focused, proactive and strategic approach, as reflected in the strategic plan for 2020.**

To view the 2019-20 Strategic Plan target, priorities and goals, please see page 41.

**Human Resources**

Throughout 2019, DFO continued to evaluate the organization’s business needs and invested efforts into having a skilled workforce to deliver on its strategic goals and operational accountabilities. As workforce changes take place, DFO strategically restructures and attracts talent to effectively meet its objectives.
In August 2019, Cheryl Smith joined DFO as the Chief Executive Officer (CEO). Between February and August, following the departure of the General Manager (GM) and CEO on Jan. 31, 2019, Murray Sherk, DFO Chair, took on additional responsibilities to manage external-facing responsibilities of the organization and the staff executive team managed internal operations.

Arlene Minott joined as General Counsel and Corporate Secretary in October 2019, completing the staff executive team complement.

As of Oct. 31, 2019, DFO had 98 employees. During fiscal 2019, 27 hiring processes were completed. In large part, the new positions were created to build out the new marketing and business development division. The majority of the team has now been hired, with a few expected positions to be completed in 2020. As internal resources were hired, the need for consultants and agencies was reduced. DFO has reviewed internal resources that service various departments, such as in IT, Legal and HR, to ensure proper support is in place as DFO expands.

DFO congratulated Estelle Beehler on her retirement from DFO in April 2019 after 28 years of service to Ontario producers. Estelle ended her career as a Transportation Officer. DFO also congratulates Tom McKeown on his retirement after 35 years of service. Tom ended his career as Marketing Accounting Clerk in July 2019. And finally, DFO congratulated Gerry Weaver who retired at the end of October 2019 after a 22-year career at DFO as a Field Services Representative.

Organizational Development

To stay competitive and relevant in the marketplace, DFO changed its job title structure effective Aug. 1, 2019. DFO’s Executive team (formerly the Director team) now comprises the CEO and Chief Officers. Director titles are being used for senior managers. This was an important change to reflect actual scope of responsibilities and ensure market relevance, especially at a time of attracting talent and to retain employees.

<table>
<thead>
<tr>
<th>New Executive Titles (former Director team)</th>
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<tbody>
<tr>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>Cheryl Smith</td>
</tr>
<tr>
<td>Chief Strategy and Administrative Officer</td>
</tr>
<tr>
<td>Shikha Jain</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>Rey Moisan</td>
</tr>
<tr>
<td>Chief Economics and Policy Development Officer</td>
</tr>
<tr>
<td>Patrice Dubé</td>
</tr>
<tr>
<td>Chief Marketing and Business Development Officer</td>
</tr>
<tr>
<td>Sean Bredt</td>
</tr>
<tr>
<td>General Counsel and Corporate Secretary</td>
</tr>
<tr>
<td>Arlene Minott</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>New Director Titles</th>
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</thead>
<tbody>
<tr>
<td>Director, Finance</td>
</tr>
<tr>
<td>Kathleen Rampaul</td>
</tr>
<tr>
<td>Director, Economics and Policy Development</td>
</tr>
<tr>
<td>Kristin Benke</td>
</tr>
<tr>
<td>Director, Quality Assurance and Regulatory Compliance</td>
</tr>
<tr>
<td>Maria Leal</td>
</tr>
<tr>
<td>Director, Logistics</td>
</tr>
<tr>
<td>Rob Nosek</td>
</tr>
<tr>
<td>Director, Communications</td>
</tr>
<tr>
<td>Heather MacGregor</td>
</tr>
<tr>
<td>Director, Marketing Communications and Strategy</td>
</tr>
<tr>
<td>Christy Rae Clem</td>
</tr>
<tr>
<td>Director, Marketing Consumer Programs</td>
</tr>
<tr>
<td>Kate Longmire</td>
</tr>
<tr>
<td>Director, Community Partnerships</td>
</tr>
<tr>
<td>Sabrina Babooram</td>
</tr>
<tr>
<td>Director, Business Development</td>
</tr>
<tr>
<td>Alan Grebinski</td>
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“How we work around here” Initiative

As part of DFO’s commitment to continuous improvement, and to support the rapid organizational change currently underway, DFO launched a “How we work around here” initiative in August 2019. This included an online, confidential all-staff employee engagement survey and staff focus groups to gather feedback on organizational effectiveness and opportunities for improvement. An aggregate results report was shared at an all-staff team day in September 2019.
Action plans were developed by the executive team, with plans to communicate to staff in December and implement in 2020.

Highlights of the engagement survey results are below:

- eighty-eight per cent employee response rate;
- High engagement levels with an overall engagement score of four out of five;
- four per cent higher engagement score than industry average for like-organizations across all categories;
- seventy-eight per cent of employees say they would rate DFO as a great place to work.

DPC Support
In fiscal 2019, DFO established a training and development sub-committee that reports to the Board’s governance committee. The mandate of the sub-committee is to identify training and development opportunities for producers and develop a framework/program for producer training to enhance leadership, engagement and succession. The committee will comprise two board members, two DFO staff and four producers at large. The producers at large will be selected through an application process that will commence in 2020.

Highlights

- DFO continues to identify young producers for industry opportunities. A guideline outlining the qualification and selection process to select young delegates for leadership opportunities was established in May 2019. Robert Larmer of Durham County and Chanelle Martin of Stormont County were selected to attend as young delegates at DFC’s AGM in Saskatoon, Sask., in July 2019;
- A communication portal intended for better DPC collaboration and 2-way dialogue with DFO was launched in January 2019. The portal is used to share information, resources and ask common questions. 33% of DPCs, currently 98 members are participating on the portal;
- A newly proposed non-binding resolution process was developed and presented to DPCs at Fall Regional Meetings in October 2019. After collection of DPC feedback, any changes will be implemented in 2020;
- A travel cap policy for DPC travel to meetings was approved, effective Aug. 1, 2019.

Producer Consultations
DFO’s producer consultation process continued to provide valuable feedback to the organization throughout 2019. Confidential feedback collected from producers on industry and organizational issues was collected into a report presented to DFO board and staff. The feedback was analyzed, and recommendations were considered as they relate to daily operations and developing DFO’s strategic plan. A report was presented in March 2019 that identified common themes, such as proAction, markets, border controls, blend price, quota policies and communications.

In April 2019, DFO revised the process to reduce the number of farm visits and increase the number of focused producer consultations. When the original consultation process was introduced, it was important to visit many farms to identify and address systemic issues. The at-large producer consultation process will continue; however, with a smaller scope as many of the systemic issues have been addressed, reducing the frequency needed to identify and track the issues. Changes to the process were vetted by the University of Guelph to ensure statistical significance, creating more efficiencies for the future. Increasing the number of smaller, focused producer consultations allows DFO to obtain feedback on specific or topical issues. In 2019, small group consultations included communications audit, DFC mental health project and No Sunday Shippers.

Building Facilities
DFO has revamped its finance office space to better utilize the area for increased workspaces and developed plans to house the new Marketing and Business Development division. In the interim, until plans are solidified, extra workstations have been set up to accommodate additional staff in the peace room at head office and the previously-occupied DFC rented space.

FINANCE
DFO’s Finance team is responsible for budgeting, financial and accounting services, including billing of processors and payment to producers and transporters, pool accounting, blend price calculations and quota administration.

Mileage Rate
Effective Aug. 1, 2019, a new mileage rate of $0.52 per kilometre was approved. On a go-forward basis, the Board approved using published Canada Revenue Agency rates every January to guide DFO’s annual travel distance rate to keep current and in accordance with market standards.

Credit Program Update
Throughout 2019, DFO continued to monitor the financial stability of its customers, through a third party, to safeguard the financial interests of Ontario dairy producers. From a risk perspective, four processors account for about 90 per cent of total milk sales; however, their financial stability is very strong. The accounts receivable protection fund totaled $5 million at the end of Oct. 31, 2019.

Milk Utilization Audit Services
KPMG continued to provide milk utilization audit services in 2018-19 as per the five-year term contract that began in 2016. The scope of the audit included audit requirements for the new ingredients class.
Milk Utilization Verification (MUV) System
DFO and ODC jointly own the MUV system, which is the web-enabled electronic application used by processors to declare how the milk they receive from their marketing boards is used for the purposes of billing and verification. When the MUV system was licensed to other provinces, DFO and ODC agreed to incorporate the system to operate it as an independent entity. As at Oct. 31, 2019, seven other provinces are licensed users. The incorporation of MUV was completed in July 2017 and is now managed by a separate board comprising ODC and DFO representatives.

Updates within MUV continue to be worked on to add functionality for processors and reflect changes in policy.

INFORMATION TECHNOLOGY
The Information Technology team is responsible for information technology services, including programming and maintenance of the DFO information technology systems and data centre, as well as infrastructure networks and IT customer support.

Milk Management System (MMS)
(formally known as the Application Framework project)
DFO began the staged implementation of MMS on Jan. 1, 2019, using the data synchronization mechanism to enable pieces of the new MMS system to interface simultaneously with the existing system. Operational deployments continued through the year, with current focus on finalization of the main calculation algorithm for kg and other items used in billing and payments. A significant deployment of all lab test results became operational in the new system November 2019. Staff began to do broad side-by-side financial comparisons and validation of the complete process. Training plans for staff were developed including a full project plan for launch in 2020.

Farm Evaluation System (FES)
A new mobile farm evaluation system (FES) was implemented in September 2019, which allows for enhanced data collection and reporting functions. Producers can access these new reports from the milk.org website.

Online Meeting Tools
A new online meeting and collaboration tool, Cisco WebEx, was implemented in spring 2019. This replaced the aging Microsoft Lync-based system and allows for increased reliability and productivity for meetings, including internal staff and third parties alike.

Productivity Tools
Productivity tools for staff began a refresh in 2019, including laptop hardware and software replacements. This refresh included upgrades to the Windows 10 operating system and Microsoft Office 365 tools, including server-side components and integration with Microsoft’s Office 365 cloud-based systems, and is set to conclude in 2020.

Server Storage
A project began in 2019 to replace the storage devices inside our data centres, including all virtual server storage and network attached storage. This replacement provides enhanced performance, capacity, support and redundancy for all our network storage and is set to conclude in 2020.

LEGAL SERVICES AND BOARD
The Legal Services team is responsible for legal services, corporate secretary and board-related matters.

Board Elections
John Wynands was elected to represent producers in Region 3 for his first term on the Board.

Albert Fledderus was acclaimed to represent producers in Region 7 for his second term on the Board.

Mark Hamel was elected to represent producers in Region 11 for his first term on the Board.

Immediately following the adjournment of the DFO’s annual general meeting (AGM) on January 10, 2019, the four-year term of the newly elected Board members commenced.

Board By-Election
In March 2019, Will Vanderhorst, board member for Region 5, announced his resignation from the Board, effective April 1, 2019. In accordance with Regulation 760 under the Milk Act, DFO’s board had determined the process for the by-election in Region 5, with the nomination period starting March 20, 2019.

On June 7, 2019, Don Gordon was elected in a by-election to represent producers of Region 5. His first term on the board started immediately for the remainder of the four-year-term which commenced on Jan. 12, 2017.

In June 2019, Paul Vis, board member for Region 9, announced his resignation from the board, effective Jan. 16, 2020. In accordance with Regulation 760 under the Milk Act, DFO’s board had determined the process for the by-election in Region 9 will commence with the regular scheduled 2019 board elections.

Board Executive
At a special meeting held on January 10, 2019, DFO’s board elected its 2019 Board Executive. Murray Sherk, Board Member Region 8, was elected as Chair. Bart Rijke, Board Member Region 1, was elected as Vice-Chair. Nick Thurler, Board Member Region 2, was elected as 2nd Vice-Chair.
2019-20 STRATEGIC PLAN

DFO continues to address industry opportunities and risks with a more focused and proactive approach as reflected in the 2020 strategic plan. Three strategic priorities have been identified that will set the organization’s direction: system, consumer and organizational readiness. While the plan will be reviewed annually, it has been developed with a two- to three-year focus. Key priorities and related strategic goals to achieve the 2019-20 Strategic Plan are listed below.

Overarching target for 2019–20
Grow quota allocation in the P5 by a minimum of 2.5 per cent annually.

Strategic priorities for 2019–20

System readiness: Be competitive in the new domestic market.

Consumer readiness: Make Canadian dairy an inspired food choice.

Organizational readiness: Enable organizational effectiveness in face of changing demands.

2019–20 Goals

Strategic priority 1—System readiness
Be competitive in the new domestic market.

► Goal 1a—Identify opportunities for optimal pricing structure.
► Goal 1b—Reduce structural surplus in the system.
► Goal 1c—Enable effective production management.
► Goal 1d—Eliminate Class 7 and reclassify Class 7 products to meet trade obligations.
► Goal 1e—Increase effectiveness of milk allocation system.
► Goal 1f—Examine alternate quota allocation models.

Strategic priority 2—Consumer readiness
Make Canadian dairy an inspired food choice.

► Goal 2a—Increase the relevance of fluid milk.
► Goal 2b—Build consumer confidence in producer and farm practices.
► Goal 2c—Build return on investment (ROI) focused partnerships.
► Goal 2d—Develop programs to support validated specialized markets.
► Goal 2e—Enable market innovation.

Strategic priority 3—Organizational readiness
Enable organizational effectiveness in face of changing demands.

► Goal 3a—Implement an efficient IT system.
► Goal 3b—Implement DFO’s succession strategy.
► Goal 3c—Garner government support through strategic partners.
► Goal 3d—Strengthen national collaboration through pursuit of common goals.
► Goal 3e—Leverage data to drive market growth.

Building relationships with industry partners and stakeholders is key to the success of the dairy industry and continues to be an important focus at DFO.
To the Members of Dairy Farmers of Ontario

Opinion

We have audited the financial statements of Dairy Farmers of Ontario (the Entity), which comprise:

• the statement of financial position as at October 31, 2019
• the statement of operations and changes in fund balance - unrestricted, quota exchange, research, accounts receivable financial protection, marketing and business development funds for the year then ended
• the statement of cash flows for the year then ended
• and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at October 31, 2019, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “Auditors’ Responsibilities for the Audit of the Financial Statements” section of our auditors’ report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

• the information, other than the financial statements and the auditors’ report thereon, included in the annual report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors’ report thereon, included in the annual report as at the date of this auditors’ report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors’ report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either
intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity’s financial reporting process.

**Auditors’ Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants,
Licensed Public Accountants
Vaughan, Canada
December 11, 2019
# Statement of Financial Position
October 31, 2019 with comparative information for 2018

## Assets

<table>
<thead>
<tr>
<th>Current assets</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$58,910,288</td>
<td>$80,641,948</td>
</tr>
<tr>
<td>Short-term investments (note 4)</td>
<td>-</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Accounts receivable (notes 2 &amp; 18)</td>
<td>221,445,090</td>
<td>193,720,519</td>
</tr>
<tr>
<td>Quota inventory (note 3)</td>
<td>212,160</td>
<td>222,480</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>932,253</td>
<td>685,149</td>
</tr>
<tr>
<td></td>
<td><strong>281,499,791</strong></td>
<td><strong>277,270,096</strong></td>
</tr>
<tr>
<td>Long-term investments (note 4)</td>
<td>5,041,484</td>
<td>5,041,484</td>
</tr>
<tr>
<td>Capital assets (note 5)</td>
<td>7,108,097</td>
<td>7,053,285</td>
</tr>
<tr>
<td></td>
<td><strong>293,649,372</strong></td>
<td><strong>289,364,865</strong></td>
</tr>
</tbody>
</table>

## Liabilities and Fund Balances

<table>
<thead>
<tr>
<th>Current liabilities</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and accrued liabilities (notes 6 &amp; 7)</td>
<td>$235,448,934</td>
<td>$233,312,562</td>
</tr>
<tr>
<td>Deferred capital contributions (note 8)</td>
<td>888,697</td>
<td>937,500</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Fund balances</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>12,983,501</td>
<td>11,535,766</td>
</tr>
<tr>
<td>Quota Exchange</td>
<td>952,695</td>
<td>952,695</td>
</tr>
<tr>
<td>Research</td>
<td>1,841,735</td>
<td>1,286,028</td>
</tr>
<tr>
<td>Accounts Receivable Financial Protection</td>
<td>4,999,795</td>
<td>4,944,149</td>
</tr>
<tr>
<td>Marketing and Business Development</td>
<td>36,534,015</td>
<td>36,396,165</td>
</tr>
<tr>
<td></td>
<td><strong>57,311,741</strong></td>
<td><strong>55,114,803</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Commitments (note 17)</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Contingencies (note 20)</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>293,649,372</strong></td>
<td><strong>289,364,865</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.

On behalf of the Board

Chair

1st Vice-Chair

2nd Vice-Chair
## Statement of Operations & Changes in Fund Balance-Unrestricted

Year ended October 31, 2019 with comparative information for 2018

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative licence fees (note 10)</td>
<td>$18,695,689</td>
<td>$18,939,179</td>
</tr>
<tr>
<td>Administrative licence fees CQM program (note 10)</td>
<td>-</td>
<td>150,778</td>
</tr>
<tr>
<td>Investment income (note 4)</td>
<td>486,168</td>
<td>514,791</td>
</tr>
<tr>
<td>Raw Milk Quality program</td>
<td>1,271,260</td>
<td>1,587,330</td>
</tr>
<tr>
<td>proAction/CQM program</td>
<td>104,902</td>
<td>73,637</td>
</tr>
<tr>
<td>Assignment administrative fees</td>
<td>11,518</td>
<td>20,114</td>
</tr>
<tr>
<td>Quota exchange administrative fees</td>
<td>69,058</td>
<td>51,635</td>
</tr>
<tr>
<td>Milk Producer magazine</td>
<td>596,524</td>
<td>588,622</td>
</tr>
<tr>
<td>Other revenues (note 11)</td>
<td>342,897</td>
<td>430,758</td>
</tr>
<tr>
<td>Gain on disposal of capital assets</td>
<td>39,000</td>
<td>90,500</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$21,617,016</td>
<td>$22,447,344</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative and policy development (note 13)</td>
<td>13,396,779</td>
<td>13,960,344</td>
</tr>
<tr>
<td>Dairy Producer Committees</td>
<td>793,068</td>
<td>799,146</td>
</tr>
<tr>
<td>Payments to affiliates (note 15)</td>
<td>1,141,676</td>
<td>1,087,081</td>
</tr>
<tr>
<td>Raw Milk Quality program</td>
<td>1,705,204</td>
<td>1,789,590</td>
</tr>
<tr>
<td>proAction/CQM program</td>
<td>282,117</td>
<td>92,678</td>
</tr>
<tr>
<td>Milk tests, central laboratory</td>
<td>1,076,691</td>
<td>566,004</td>
</tr>
<tr>
<td>Processor utilization audit</td>
<td>232,126</td>
<td>190,084</td>
</tr>
<tr>
<td>Milk Producer magazine</td>
<td>583,186</td>
<td>523,378</td>
</tr>
<tr>
<td>Annual meeting</td>
<td>281,918</td>
<td>224,291</td>
</tr>
<tr>
<td>Depreciation</td>
<td>676,516</td>
<td>632,524</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>20,169,281</td>
<td>19,865,120</td>
</tr>
<tr>
<td><strong>Excess of revenue over expenses</strong></td>
<td>$1,447,735</td>
<td>$2,582,224</td>
</tr>
<tr>
<td><strong>Unrestricted funds, beginning of year</strong></td>
<td>$11,535,766</td>
<td>$8,953,542</td>
</tr>
<tr>
<td><strong>Unrestricted funds, end of year</strong></td>
<td>$12,983,501</td>
<td>$11,535,766</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
## Statement of Operations & Changes in Fund Balance-Quota Exchange

Year ended October 31, 2019 with comparative information for 2018

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>$124,412,640</td>
<td>$191,234,880</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory, beginning of year</td>
<td>222,480</td>
<td>212,880</td>
</tr>
<tr>
<td>Purchases</td>
<td>124,402,320</td>
<td>191,244,481</td>
</tr>
<tr>
<td><strong>Total Cost of sales</strong></td>
<td>124,624,800</td>
<td>191,457,361</td>
</tr>
<tr>
<td>Inventory, end of year</td>
<td>(212,160)</td>
<td>(222,480)</td>
</tr>
<tr>
<td><strong>Sales</strong></td>
<td>124,412,640</td>
<td>191,234,881</td>
</tr>
<tr>
<td><strong>Excess of sales over cost of sales (cost of sales over sales)</strong></td>
<td>-</td>
<td>(1)</td>
</tr>
<tr>
<td><strong>Fund balance, beginning of year</strong></td>
<td>952,695</td>
<td>952,696</td>
</tr>
<tr>
<td><strong>Fund balance, end of year</strong></td>
<td>$952,695</td>
<td>$952,695</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.

## Statement of Operations & Changes in Fund Balance-Research

Year ended October 31, 2019 with comparative information for 2018

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research fees (note 16)</td>
<td>$1,495,190</td>
<td>$1,508,431</td>
</tr>
<tr>
<td>Toronto Stock Yards Land Development (note 16)</td>
<td>147,665</td>
<td>145,054</td>
</tr>
<tr>
<td>Investment income (note 4)</td>
<td>39,945</td>
<td>16,774</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>1,682,800</td>
<td>1,670,259</td>
</tr>
<tr>
<td><strong>Disbursements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research projects</td>
<td>349,762</td>
<td>627,992</td>
</tr>
<tr>
<td>Ontario Dairy Farm Accounting Project</td>
<td>148,495</td>
<td>138,820</td>
</tr>
<tr>
<td>Dairy Science Research Chair</td>
<td>200,000</td>
<td>200,000</td>
</tr>
<tr>
<td>Dairy Animal Health Research Chair</td>
<td>-</td>
<td>200,000</td>
</tr>
<tr>
<td>Production Research by Dairy Farmers of Canada</td>
<td>262,006</td>
<td>-</td>
</tr>
<tr>
<td>Toronto Stock Yards Land Development (note 16)</td>
<td>166,830</td>
<td>143,880</td>
</tr>
<tr>
<td><strong>Total Disbursements</strong></td>
<td>1,127,093</td>
<td>1,310,692</td>
</tr>
<tr>
<td>Excess of revenue over disbursements</td>
<td>555,707</td>
<td>359,567</td>
</tr>
<tr>
<td><strong>Fund balance, beginning of year</strong></td>
<td>1,286,028</td>
<td>926,461</td>
</tr>
<tr>
<td><strong>Fund balance, end of year</strong></td>
<td>$1,841,735</td>
<td>$1,286,028</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
### Statement of Operations & Changes in Fund Balance - Accounts Receivable Financial Protection

Year ended October 31, 2019 with comparative information for 2018

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest (note 4)</td>
<td>$117,402</td>
<td>$45,085</td>
</tr>
<tr>
<td><strong>Disbursements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative assistance</td>
<td>61,756</td>
<td>50,932</td>
</tr>
<tr>
<td>Excess of revenue over disbursements (disbursements over revenue)</td>
<td>55,646</td>
<td>(5,847)</td>
</tr>
<tr>
<td>Fund balance, beginning of year</td>
<td>4,944,149</td>
<td>4,949,996</td>
</tr>
<tr>
<td><strong>Fund balance, end of year</strong></td>
<td>$4,999,795</td>
<td>$4,944,149</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.

### Statement of Operations & Changes in Fund Balance - Marketing and Business Development

Year ended October 31, 2019 with comparative information for 2018

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market expansion fees (note 12)</td>
<td>$44,858,284</td>
<td>$45,263,623</td>
</tr>
<tr>
<td>Investment income (note 4)</td>
<td>951,761</td>
<td>347,750</td>
</tr>
<tr>
<td><strong>Program Expenditures</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer marketing</td>
<td>27,239,507</td>
<td>2,072,278</td>
</tr>
<tr>
<td>Community programs</td>
<td>2,716,768</td>
<td>1,787,141</td>
</tr>
<tr>
<td>Business development programs</td>
<td>3,242,752</td>
<td>561,733</td>
</tr>
<tr>
<td>National projects</td>
<td>5,476,333</td>
<td>5,540,774</td>
</tr>
<tr>
<td>Support costs</td>
<td>3,437,518</td>
<td>813,749</td>
</tr>
<tr>
<td><strong>Excess of revenue over expenditures</strong></td>
<td>3,697,167</td>
<td>34,835,698</td>
</tr>
<tr>
<td>Fund balance, beginning of year</td>
<td>36,396,165</td>
<td>-</td>
</tr>
<tr>
<td>Less: Market expansion fee holiday – November, 2018</td>
<td>(3,559,317)</td>
<td>-</td>
</tr>
<tr>
<td>Transfer in from prior year unspent funds</td>
<td>-</td>
<td>1,560,467</td>
</tr>
<tr>
<td><strong>Fund balance, end of year</strong></td>
<td>$36,534,015</td>
<td>$36,396,165</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
# Statement of Cash Flows

Year ended October 31, 2019 with comparative figures for 2018

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash provided by (used in)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess of revenue over expenses (expenses over revenue)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted Fund</td>
<td>$ 1,447,735</td>
<td>$ 2,582,224</td>
</tr>
<tr>
<td>Quota Exchange Fund</td>
<td>-</td>
<td>(1)</td>
</tr>
<tr>
<td>Research Fund</td>
<td>555,707</td>
<td>359,567</td>
</tr>
<tr>
<td>Accounts Receivable Financial Protection Fund</td>
<td>55,646</td>
<td>(5,847)</td>
</tr>
<tr>
<td>Marketing and Business Development Fund</td>
<td>137,850</td>
<td>36,396,165</td>
</tr>
<tr>
<td>Items not involving cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>676,516</td>
<td>632,524</td>
</tr>
<tr>
<td>Gain on disposal of capital assets</td>
<td>(39,000)</td>
<td>(90,500)</td>
</tr>
<tr>
<td>Amortization of deferred capital contributions</td>
<td>(48,803)</td>
<td>(60,000)</td>
</tr>
<tr>
<td>Loss from investment in joint venture</td>
<td>-</td>
<td>4,595</td>
</tr>
<tr>
<td>Change in non-cash working capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(27,724,571)</td>
<td>20,827,165</td>
</tr>
<tr>
<td>Quota inventory</td>
<td>10,320</td>
<td>(9,600)</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>(247,104)</td>
<td>(116,015)</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>2,136,372</td>
<td>(18,848,771)</td>
</tr>
<tr>
<td></td>
<td>(23,039,332)</td>
<td>41,671,506</td>
</tr>
<tr>
<td><strong>Investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of short-term investments</td>
<td>-</td>
<td>(2,000,000)</td>
</tr>
<tr>
<td>Redemption of short-term investments</td>
<td>2,000,000</td>
<td>3,000,000</td>
</tr>
<tr>
<td>Purchase of capital assets</td>
<td>(731,328)</td>
<td>(1,083,347)</td>
</tr>
<tr>
<td>Proceeds on disposal of capital assets</td>
<td>39,000</td>
<td>90,500</td>
</tr>
<tr>
<td></td>
<td>1,307,673</td>
<td>7,153</td>
</tr>
<tr>
<td>Increase (decrease) in cash</td>
<td>(21,731,660)</td>
<td>41,678,659</td>
</tr>
<tr>
<td>Cash, beginning of year</td>
<td>80,641,948</td>
<td>38,963,289</td>
</tr>
<tr>
<td><strong>Cash, end of year</strong></td>
<td>$ 58,910,288</td>
<td>$ 80,641,948</td>
</tr>
<tr>
<td><strong>Supplemental non-cash information:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution of capital assets to joint venture</td>
<td>-</td>
<td>$ 45,848</td>
</tr>
<tr>
<td>See accompanying notes to financial statements.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Notes to Financial Statements

Year ended October 31, 2019

Dairy Farmers of Ontario (DFO) is a marketing board incorporated under the Milk Act as a not-for-profit organization. Formed in 1965 as the Ontario Milk Marketing Board, it was reconstituted as Dairy Farmers of Ontario in 1995 following the merger of the Ontario Milk Marketing Board and the Ontario Cream Producers’ Marketing Board. DFO is exempt from income tax under Section 149.1 (l) of the Income Tax Act (Canada).

1. Significant accounting policies:

   The financial statements have been prepared by management in accordance with Canadian Accounting Standards for Not-For-Profit Organizations in Part III of the Chartered Professional Accountants of Canada Handbook.

   (a) Fund accounting:

   The Unrestricted Fund includes revenue and expenses that represent DFO’s oversight and management of the milk distribution, economic policy development, producer support and administrative cost to support these activities.

   The Quota Exchange Fund reports the dollar value of quota exchange trading conducted by DFO.

   The Research Fund reports the research fees collected from producers and disbursements on research and education programs.

   The Accounts Receivable Financial Protection Fund reports the funds available to compensate Ontario dairy producers for any deficiencies in payments in respect of milk sold by DFO. The Accounts Receivable Financial Protection Fund includes investment income earned on resources of the fund and expenditures related to administering the fund.

   The Marketing and Business Development Fund reports the promotion fees collected from producers and disbursements on marketing and business development programs and all costs to support these programs.

   (b) Revenue Recognition:

   DFO follows the restricted fund method of accounting for revenue.

   Unrestricted contributions are recognized as revenue of the Unrestricted Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Designated contributions related to operations are recognized as revenue in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate restricted fund.

   Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

   Investment income, which is recorded on an accrual basis, includes interest income, net gain (loss) on sale of investments and change in net unrealized gains (losses).

   (c) Investment in joint venture:

   DFO accounts for its investment in Milk Utilization Verification (MUV) Inc., a jointly controlled not-for-profit organization, using the equity method. The investment is carried at cost and adjusted for any contributions or withdrawals and its share of the excess of revenues over expenses.

   (d) Financial instruments:

   Financial instruments are recorded at fair value on initial recognition. All financial instruments are subsequently measured at cost or amortized cost, and management has not elected to carry any such financial instruments at fair value.

   Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, DFO determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount DFO expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

   Investments must comply with the requirements as prescribed in the investing by-laws of the Milk Act.

   Investment income earned is allocated to funds based on fund balances and recognized as revenue in each fund.
(e) Capital assets:

Purchased capital assets are recorded at cost. Repairs and maintenance costs are charged to expense. Betterments, which extend the estimated life of an asset, are capitalized. When a capital asset no longer contributes to DFO’s ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building and building improvements</td>
<td>20 years</td>
</tr>
<tr>
<td>Office furniture and fixtures</td>
<td>10 years</td>
</tr>
<tr>
<td>Computer software and hardware</td>
<td>3-10 years</td>
</tr>
<tr>
<td>Automobiles and truck</td>
<td>3 years</td>
</tr>
</tbody>
</table>

Assets under construction are amortized once the assets are completed and available for use.

Assets purchased in support of marketing fund activities are aggregated separately and amortized into the Marketing and Business Development Fund.

(f) Allocation of indirect costs:

DFO uses fund accounting and allocates certain of its general support expenses from the Unrestricted Fund to the Marketing and Business Development Fund by identifying the appropriate basis of allocating each expense. Salaries and general administrative costs are allocated on the basis of usage, and occupancy costs are allocated on the basis of square footage used.

(g) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses and changes to fund balances during the year. Significant items subject to such estimates and assumptions include the useful life of capital assets, accrued liabilities, and allocation of indirect costs. Actual results could differ from those estimates.

2. Accounts receivable:

Accounts receivable consists primarily of amounts receivable from processors for the value of October milk shipments from DFO. Such amounts are receivable on the first and fifteenth of each month following the month of shipment.

3. Quota inventory:

Quota inventory represents the quota remaining in DFO’s bank as a result of balancing quota exchange activities valued at the October exchange clearing price.

4. Investments

(a) Short-term investments:

There were no short-term investments held on October 31, 2019. In 2018, short-term investments consisted of fixed income securities earning interest at 1.9 per cent and matured on November 27, 2018.

(b) Long-term investments:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed income securities</td>
<td>$5,000,000</td>
<td>$5,000,000</td>
</tr>
<tr>
<td>Shares of producer co-operative</td>
<td>131</td>
<td>131</td>
</tr>
<tr>
<td>Investment in joint venture</td>
<td>41,353</td>
<td>41,353</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,041,484</strong></td>
<td><strong>$5,041,484</strong></td>
</tr>
</tbody>
</table>
Fixed income securities are composed of two low volatility principal deposit notes, at interest of 0.5%, and with maturity dates of December 2, 2022 and December 2, 2023.

(c) Investment income:
Investment income in the Statement of Operations–Unrestricted comprises:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>$1,595,276</td>
<td>$924,400</td>
</tr>
<tr>
<td>Allocation to Research Fund</td>
<td>(39,945)</td>
<td>(16,774)</td>
</tr>
<tr>
<td>Allocation to Accounts Receivable Financial Protection Fund</td>
<td>(117,402)</td>
<td>(45,085)</td>
</tr>
<tr>
<td>Allocation to Marketing and Business Development Fund</td>
<td>(951,761)</td>
<td>(347,750)</td>
</tr>
<tr>
<td></td>
<td>$486,168</td>
<td>$514,791</td>
</tr>
</tbody>
</table>

(d) Risk management:
Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to interest rate and market risk. DFO has formal policies and procedures that establish target asset mix. DFO’s policies limit investments to bonds that are guaranteed by the Government of Canada and other investments as provided in the investing by-laws of the Milk Act. There has been no change to the risk exposure from 2018.

Interest rate risk arises from the possibility that changes in interest rates will affect the value of fixed income securities held by DFO.

Market risk arises as a result of trading in fixed income securities. Fluctuations in the market expose DFO to a risk of loss. DFO mitigates this risk through controls to monitor and limit concentration levels.

Credit risk refers to the risk that counterparty may default on its contractual obligations. This risk is mitigated by the Accounts Receivable Protection Fund.

5. Capital assets:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost</td>
<td>Accumulated</td>
</tr>
<tr>
<td></td>
<td></td>
<td>amortization</td>
</tr>
<tr>
<td>Land</td>
<td>$506,203</td>
<td>–</td>
</tr>
<tr>
<td>Building and building improvements</td>
<td>3,262,671</td>
<td>2,632,487</td>
</tr>
<tr>
<td>Office furniture and fixtures</td>
<td>1,041,246</td>
<td>714,141</td>
</tr>
<tr>
<td>Computer software and hardware</td>
<td>9,755,424</td>
<td>4,439,898</td>
</tr>
<tr>
<td>Automobiles and truck</td>
<td>921,021</td>
<td>591,942</td>
</tr>
</tbody>
</table>

Included in office furniture and fixtures is $42,365 (2018 – nil) related to assets held in the Marketing and Business Development Fund.

Included in computer software and hardware are assets under construction totaling $4,675,224 (2018 - $4,675,224) relating to the new business software.
6. Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities include amounts payable to producers and transporters for the value of October milk shipments to DFO. Payments to producers are made on the first and fifteenth of each month following the month of shipment.

7. Milk and Transportation Pool Operations:

Included in accounts payable and accrued liabilities is the net amount payable to/ (recoverable from) producers in respect of pool operations.

<table>
<thead>
<tr>
<th>Milk Value</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$2,347,198,504</td>
<td>$2,238,445,033</td>
</tr>
<tr>
<td>Purchases</td>
<td>2,347,269,377</td>
<td>2,238,458,851</td>
</tr>
<tr>
<td>Recoverable from producers, beginning of year</td>
<td>(70,873)</td>
<td>(13,818)</td>
</tr>
<tr>
<td>Recoverable from producers, end of year</td>
<td>(140,537)</td>
<td>(69,664)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transportation</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recovered from producers</td>
<td>$86,440,171</td>
<td>$85,387,172</td>
</tr>
<tr>
<td>Expenses</td>
<td>86,452,317</td>
<td>85,409,693</td>
</tr>
<tr>
<td>Recoverable from producers, beginning of year</td>
<td>(12,146)</td>
<td>(22,521)</td>
</tr>
<tr>
<td>Recoverable from producers, end of year</td>
<td>(59,800)</td>
<td>(47,654)</td>
</tr>
<tr>
<td>Total Recoverable from producers</td>
<td>$ (200,337)</td>
<td>$ (117,318)</td>
</tr>
</tbody>
</table>

8. Deferred capital contributions:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of year</td>
<td>$937,500</td>
<td>$997,500</td>
</tr>
<tr>
<td>Amortization of deferred capital contributions</td>
<td>(48,803)</td>
<td>(60,000)</td>
</tr>
<tr>
<td></td>
<td>$888,697</td>
<td>937,500</td>
</tr>
</tbody>
</table>

These contributions relate to funds received through the Traceability Foundations Initiative (TFI) Contribution Agreement. Under this Agreement, DFO partnered with a dairy processor and other processor to develop an electronic system that enables forward and backward traceability throughout the dairy sector. The Agreement provided DFO with $1,422,501, of which $1,237,500 of the contributions related to capital. These amounts are accounted for as deferred capital contributions and are amortized and recognized in income over a period of five to 10 years to match the useful life of the related transporter handheld devices and the new business software.
9. **Management of capital:**

DFO defines its capital as the amounts included in its fund balances. DFO’s objective when managing its capital is to safeguard its ability to continue as a going concern so that it can continue to provide the appropriate level of benefits and services to the producers.

A portion of DFO’s capital is restricted in that DFO is required to meet certain requirements in order to utilize its externally restricted funds, as described in note 1. DFO has been in compliance with these restrictions throughout the year. DFO sets the amount of internally restricted funds in proportion to risk, manages the net asset structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

10. **Administrative licence fees:**

Licence fees for administrative purposes is currently at $0.625 (Prior to February 1, 2018 - $0.635) per hectolitre on milk marketed by DFO. CQM administration licence fees was at $0.020 per hectolitre and ceased to be levied on February 1, 2018.

11. **Other revenue:**

Other revenue includes property rental income, administrative service fees charged to other third parties and amortization of deferred capital contributions.

12. **Marketing and Business Development:**

During 2019, market expansion fees of $44,858,284 (2018– $45,263,623) were levied from producers at a rate of $1.50 (2018-$1.50) per hectolitre for market expansion and promotional activities.

13. **Administrative and policy development expenses:**

Administrative and policy development expenses are detailed as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff salaries and benefits (i)</td>
<td>$7,974,474</td>
<td>$9,077,366</td>
</tr>
<tr>
<td>Communications programs and activities (ii)</td>
<td>723,924</td>
<td>614,045</td>
</tr>
<tr>
<td>Board Members’ per diems, allowances and travel, elections (iii)</td>
<td>1,040,199</td>
<td>845,500</td>
</tr>
<tr>
<td>Hiring costs, staff travel and meeting costs</td>
<td>702,285</td>
<td>707,722</td>
</tr>
<tr>
<td>Assistance from contractors and others (iv)</td>
<td>563,315</td>
<td>561,271</td>
</tr>
<tr>
<td>Office (v)</td>
<td>629,579</td>
<td>659,007</td>
</tr>
<tr>
<td>Equipment rental and maintenance</td>
<td>353,557</td>
<td>335,212</td>
</tr>
<tr>
<td>Insurance</td>
<td>377,866</td>
<td>380,764</td>
</tr>
<tr>
<td>Office maintenance, utilities, taxes and rent</td>
<td>304,649</td>
<td>337,294</td>
</tr>
<tr>
<td>Professional fees</td>
<td>600,581</td>
<td>345,995</td>
</tr>
<tr>
<td>Calibration truck operations</td>
<td>126,350</td>
<td>96,168</td>
</tr>
</tbody>
</table>

|                      | $13,396,779 | $13,960,344 |

(i) DFO has a defined contribution pension plan. The assets of the plan are held separately from those of DFO in an independently administered fund. The pension expense is equal to the contribution paid by DFO. The contributions paid and expensed by DFO during the year amounted to $377,082 (2018–$355,402).

(ii) Communication programs and activities include the costs of producer and government communications, information brochures and the annual report.
(iii) Board Members’ per diems, allowances and travel include an annual honorarium for the Chair of $62,820 (2018–$61,287), Vice-Chair $32,037 (2018–$31,256), 2nd Vice-Chair $17,229 (2018–$16,809) and other Board Members of $13,041 (2018–$12,723). Board Members were paid per diem rates of $298 (2018–$290) and a half-day rate of $149 (2018–$145). Board Members’ travel includes a travel allowance of $1,680.

(iv) Assistance from contractors and staff supports includes consulting costs, clerical support, translation costs and training costs. Included in the current year are information technology consulting costs of $152,000 (2018–$142,200) for the development of the new business software and staff training costs of $129,316 (2018–$189,652).

(v) Office expenses include amounts for stationery, supplies, subscriptions, postage, courier costs and similar expenses. This includes materials and distribution costs for materials sent to producers from the various functions included in the unrestricted fund.

14. Allocation of indirect costs:
Indirect costs for services and salaries to support activities of the marketing and business development fund were allocated from the unrestricted fund as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff salaries and benefits</td>
<td>$530,039</td>
<td>–</td>
</tr>
<tr>
<td>Office maintenance, utilities, taxes and rent</td>
<td>58,710</td>
<td>–</td>
</tr>
<tr>
<td>Office expenses</td>
<td>48,247</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>$636,996</td>
<td>–</td>
</tr>
</tbody>
</table>

15. Payments to affiliates:
Payments to affiliates consist of payments to Dairy Farmers of Canada (DFC). DFC is a national association that advocates for Canadian dairy. DFO has representation on its board of directors and helps support their activities. In the current year, DFO contributed $1,141,676 (2018 – $1,087,081) in membership fees.

16. Research fund:
(a) Research fees remained at $0.050 per hectolitre.

(b) The Research Fund balance at year end includes an unspent allotment of $64,491 (2018–$83,656) from the Toronto Stock Yards Land Development Fund. Spending of these funds is restricted for research and education purposes.

17. Commitments:
During the year, DFO entered into long-term contracts and commitments in support of its Marketing and Business Development Fund activities and Research Fund activities. These contracts have resulted in commitments that extend beyond the current year as follows:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing contracts</td>
<td>$2,727,178</td>
<td>$2,657,771</td>
<td>$2,584,891</td>
<td>$1,541,872</td>
<td>–</td>
</tr>
<tr>
<td>Research commitments</td>
<td>$490,000</td>
<td>$505,000</td>
<td>$400,000</td>
<td>$400,000</td>
<td>$200,000</td>
</tr>
<tr>
<td></td>
<td>$3,217,178</td>
<td>$3,162,771</td>
<td>$2,984,891</td>
<td>$1,941,872</td>
<td>$200,000</td>
</tr>
</tbody>
</table>
18. Related party transactions:

DFO has invested in Milk Utilization Verification (MUV) Inc., a jointly controlled not-for-profit organization. DFO and Ontario Dairy Council (ODC) jointly contributed their share of the MUV system, which is the web-enabled electronic application used by processors to declare how the milk they receive from their marketing boards is used for the purposes of billing and verification. The initial contribution was recorded at net book value on November 1, 2017 of $45,948. During the course of the year, net costs of $40,154 (2018-$28,906) were expensed in the unrestricted fund, and receivables from MUV Inc. of $434,948 (2018-$204,220) were accrued on the statement of financial position.

19. Credit facility:

DFO’s credit facility remains at $35 million at a rate of prime less 0.8% (2018 – prime less 0.8%). The facility has not been drawn on during the year.

20. Contingencies:

DFO is involved from time to time in litigation, which arises in the normal course of operations. Liabilities on any litigation are recognized in the financial statements when the outcome becomes reasonably determinable.

21. Comparative information:

Certain comparative figures have been reclassified from those previously presented to conform with the financial statement presentation adopted in the current year.
The past year (2018-19) has been a year of challenges and change for the dairy industry: uncertainty over trade agreements, shifting consumer demands and changing government policies were all issues facing dairy farmers and the dairy industry as a whole. But with the support of producers from across the country, Dairy Farmers of Canada (DFC) has been working tirelessly on a number of fronts to assure the long-term viability of the dairy sector.

While it is impossible to summarize all of DFC’s achievements this past year, here are some highlights.

**DFC 2.0: The Reengineering of DFC**

Under the leadership and direction of the Board of Directors, DFC worked to modernize the organization. In consultation with provinces, dairy farmers and stakeholders, DFC 2.0 charts a course for the organization’s future, taking into consideration the many pressures and challenges facing the dairy sector.

Following a robust strategic planning process, our Board of Directors and the P10 Chairs set objectives for the organizations. The 2019 strategic plan identified four objectives: ensuring effective governance; engaging Canadians on the value of supply management; marketing to Millennials; and developing and leveraging effective partnerships and strategic business relationships. On governance, which is the bedrock of a solid organization, and while putting in place a robust strategic planning process, the funding model was restructured to bring stability to the organization. As well, activities were streamlined to focus on organizational objectives.

**Trade Negotiations and Compensation**

Throughout the Canada-United States-Mexico Agreement (CUSMA) negotiations, DFC worked tirelessly to bring farmers’ concerns to the forefront. Although DFC was not advocating for compensation at the outset, as the U.S., Mexico and Canada negotiations were unfolding, the government conceded dairy production to foreign producers, and from that point the focus was to seek compensation for the losses.

On August 16, 2019, DFC welcomed the federal government’s announcement of $1.75 billion dollars to compensate dairy farmers for the losses incurred from the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership trade agreements. This was no small feat, but with the support of all provinces and speaking with one voice, we were able to meet the objective. The $1.75 billion is in addition to the $250 million from the Dairy Farm Investment Program, which brings the total compensation to $2 billion. As CUSMA is awaiting ratification, DFC will continue working with the federal government to ensure proper compensation and a prosperous dairy industry for future generations.

DFC is also working jointly with producers as part of the Dairy Strategic Working Group which is exploring how the dairy supply management system can be fully leveraged, as well as identifying the actions required to support growth and innovation in the dairy sector to help ensure its ongoing success.

**Canada’s Healthy Eating Strategy**

The latest Canada’s Food Guide combined the “dairy and alternatives” and “meat and alternatives” categories into one “protein” category. DFC expressed its concerns with this change in several ways: conducting media interviews, running ads, creating resources for health professionals and highlighting third-party findings to ensure public perception remained rooted in scientific evidence. DFC continues to engage with political parties on this issue.

DFC also continues to liaise with the government on proposed new front-of-package labelling requirements. If enacted, these requirements could discourage consumption of dairy products, despite well-established scientific evidence showing their beneficial effects on health, which DFC considers contradictory to the policy’s goals. DFC is monitoring next steps on this proposed regulation.

The bill that proposed to restrict the marketing of “unhealthy” foods and beverages to children, Bill S-228, was terminated with the dissolution of Parliament before the federal election. DFC and other agri-food stakeholders will continue to argue against the potential
mischaracterization of many dairy products as “unhealthy” under the expectation similar legislation may be reintroduced in the future.

**Lifecycle Analysis: Improved Environmental Performance**

In early 2019, DFC released the latest lifecycle assessment of the industry’s environmental performance, showing dairy farmers continue to reduce their environmental impact by adopting more sustainable farming practices. The research revealed the following:

- A decrease of seven per cent for the carbon footprint per litre of milk;
- A decrease of six per cent for water consumption;
- A decrease of 11 per cent for land use associated with the production per litre of milk.

Overall, milk production is responsible for less than one per cent of Canada’s total greenhouse gas emissions.

**Sustainable Production and proAction®**

Dairy farmers continue to demonstrate their commitment to excellence in dairy production through the proAction program. This year, the first proAction progress report was released, which highlighted the high standards set by and for the Canadian dairy industry are being met. A new version of the Integrated Reference Manual and Workbook was approved, along with an update to the 2009 *Code of Practice for the Care and Handling of Dairy Cattle*. New government grants allowed DFC to continue implementation of proAction, pursue stakeholder engagement and initiate a sustainability strategy. Another grant enabled DFC to further implement the livestock traceability module and Dairy Trace. DFC also completed a benchmarking pilot for cattle assessments with Holstein Canada and began the next round.

DFC was pleased to receive international recognition from Unilever for its commitments toward sustainable milk production practices, something that would not have been possible without the robust, credible and ambitious proAction program.
DFC research shows consumers want to know what products are made with Canadian dairy, which is why the Blue Cow Logo certification is an important step toward clarity. Awareness of the Blue Cow Logo, profiled in all DFC campaigns, has reached an all-time high, with four out of five Canadians now recognizing the logo. The logo experienced a 300 per cent increase in certification requests in the months immediately following the CUSMA announcement as Canadian consumers clamoured for Canadian dairy products. Today, more than 7,600 products carry the logo, and we expect this number to continue to grow.

**Tim Hortons**

DFC renewed its partnership in 2019 with Tim Hortons, Canada’s preeminent quick service restaurant chain. With more than 4,000 locations across Canada, Tim Hortons featured the Blue Cow logo in its coffee, ice cappuccino and iced beverage innovations throughout the year. The logo was applied on various media and generated more than five billion impressions. Tim Hortons is also an important dairy cream user in food service.

**Research Initiatives**

DFC’s research activities provide the fact-based scientific evidence to support DFC’s advocacy efforts and identify best practices in dairy farming. Twenty-two new projects were initiated in the last year, including projects on Johne’s disease and mastitis, euthanasia and the handling of non-ambulatory animals, and the effect of dairy on blood glucose control, insulin sensitivity and the risk of type 2 diabetes. DFC maintains a website, dairyresearch.ca, where farmers can access the latest information to assist them.

**Election Strategy Update**

On Oct. 22, 2019, Canadian voters elected a minority government to the House of Commons. DFC will continue to raise dairy industry concerns and focus on advocacy efforts with elected officials and government parties to ensure the long-term success of the dairy industry.

Following input from farmers at DFC’s annual policy conference last February, DFC’s strategy was to allow the national campaign to unfold naturally while engaging the parties and candidates at the grassroots level on issues affecting the dairy industry. DFC sought commitments from all major parties on important issues for Canadian dairy farmers. DFC efforts confirmed that all parties were in favour of: fair compensation for dairy farmers if CUSMA is ratified; maintaining the current threshold of Canadian content for “Product of Canada;” taking into account all scientific research when developing the Healthy Eating Strategy; and investing more resources to the Canada Border Services Agency and Canadian Food Inspection Agency for border enforcement.

Faced with so many challenges, the past year demonstrated the vital role played by your national organization. DFC committed to further engaging Canadians about the sector’s benefits and maximizing opportunities for dairy farmers to speak with a strong, united and national voice.
A SUSTAINABLE FUTURE FOR CANADIAN DAIRY FARMING

The focused efforts of the Canadian dairy industry to emerge as leaders in agricultural sustainability practices are showing strong positive outcomes as shown in the information as reported by Dairy Farmers of Canada. Programs like proAction® combined with thousands of on-farm innovations and practice enhancements by dairy farming families show progress toward a goal that inspires and unites farmers, sector partners and consumers.

proAction® ENVIRONMENT MODULE

The second phase of the proAction environment module has been designed, with an on-farm pilot expected in 2020¹.

$2.7 M + $5.1M

Grants from Agriculture and Agri-Food Canada to help expand the breadth and reach of Canadian dairy farmers’ proAction program, including the enhancement of proAction animal care modules, and initiate an environmental sustainability strategy¹.

SUSTAINABLE AGRICULTURAL CODE

The Canadian Dairy industry and proAction have met the benchmark for recognition within Unilever’s Sustainable Agriculture Code, which is part of Unilever’s commitment to ensuring supplier and farmer sustainability across their supply chain.

ANIMAL CARE

Dairy Farmers of Canada initiated an update to the Code of Practice for the Care and Handling of Dairy Cattle that encompasses recent scientific insights and superior on-farm practices².

ANIMAL HEALTH CANADA

A new governance model is planned through a new industry-government partnership to support inter-disciplinary decision-making and shared resources and management³.

FOOD PRODUCTION & FEEDING STRATEGIES

A growing number of Canadian dairy farmers are using environmentally positive feed production methods like crop rotation and tillage reduction in conjunction with ration optimization strategies like forage management enhancements to mitigate the effects of dairy farming².
INCREASED MILK PRODUCTION PER COW MITIGATES ENVIRONMENTAL IMPACT

Sustainable on-farm practices such as, increases in corn silage in cows’ rations over feeds with a higher carbon footprint, along with similar initiatives have increased per-cow milk production 12.8 per cent while decreasing the environmental effects of dairy farming.

A survey of approximately 570 Canadian dairy farmers showed the ongoing commitment to sustainable farming best practices between 2011 and 2016 is paying rich environmental and production dividends².

<table>
<thead>
<tr>
<th>ACTION</th>
<th>RESULT</th>
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<tbody>
<tr>
<td>13% increase in ration formulation and feeding</td>
<td>Reduced feed-related environmental impacts</td>
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<tr>
<td>Manure managed through composting and anaerobic digestion has nearly doubled</td>
<td>Reduced $N_2O$ and $CH_4$ emissions</td>
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<tr>
<td>55% reduction in the use of conventional tillage practices</td>
<td>Reduced $N_2O$ emissions from applied nitrogen fertilizers in western provinces and reduced fuel use</td>
</tr>
<tr>
<td>50% increase in the adoption of a diversified crop rotation on some or all crop fields</td>
<td>Increased yields and reduced land use and water consumption</td>
</tr>
<tr>
<td>The proportionate use of precision agriculture technologies has doubled and, in some cases, tripled across Canada</td>
<td>Reduced fuel use for crop and forage production and potential for yield increase</td>
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The environmental impact of Canadian dairy farming is decreasing through the implementation of sustainable farming practices².

<table>
<thead>
<tr>
<th>CARBON FOOTPRINT</th>
<th>WATER CONSUMPTION</th>
<th>LAND USE</th>
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<tbody>
<tr>
<td>↓ 7.3%</td>
<td>↓ 5.6%</td>
<td>↓ 10.9%</td>
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² Canadian Milk Production LCA Update for Dairy Farmers of Canada, Groupe Ageco, 2019 CONFIRM PUBLICATION YEAR