



2017-18
ANNUAL REPORT



LIST OF ACRONYMS

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

AF: Application Framework	FOP: Front-of-Package
AFP: Abnormal Freezing Point	GTHL: Greater Toronto Hockey League
AGM: Annual General Meeting	MAG: Milk Access for Growth
BF: Butterfat	MLSE: Maple Leaf Sports and Entertainment
BPDP: (Dairy) Business and Product Development Program	MMO: Milk Movement Obligation
C16: Palmitic Acid	MP: Member of Parliament
CDC: Canadian Dairy Commission	MPC: Milk Protein Concentrate(s)
CDN: Canadian Dairy Network	MPP: Member of Provincial Parliament
CETA: Canada-European Union (EU) Comprehensive Economic and Trade Agreement	MSQ: Market-Sharing Quota
CFIA: Canadian Food Inspection Agency	MUV: Milk Utilization and Verification
CLA: Conjugated Linoleic Acid	NAFTA: North American Free Trade Agreement
CLTS: Canadian Livestock Tracking System	NZ: New Zealand
CMSMC: Canadian Milk Supply Management Committee	ODC: Ontario Dairy Council
CNE: Canadian National Exhibition	OHL: Ontario Hockey League
COP: Cost of Production	OMAFRA: Ontario Ministry of Agriculture, Food and Rural Affairs
CPTPP: Comprehensive and Progressive Agreement for Trans-Pacific Partnership	PSQ: Plant Supply Quota
CQM: Canadian Quality Milk	RMQ: Raw Milk Quality
CUSMA: Canada-United States-Mexico Agreement	ROI: Return on Investment
DDPIP: Domestic Dairy Product Innovation Program	SCC: Somatic Cell Count
DFC: Dairy Farmers of Canada	SMP: Skim Milk Powder
DFO: Dairy Farmers of Ontario	SNF: Solids-Not-Fat
DIP: Dairy Innovation Program	SPC: Spring Policy Conference
DPC: Dairy Producer Committee	TFC: Toronto Football Club
ESMP: Elementary School Milk Program	TPP: Trans-Pacific Partnership
FES: Farm Evaluation System	TQ: (Monthly) Total Quota
FFA: Free Fatty Acid	TR: (Monthly) Total Requirements
FFCO: Farm and Food Care Ontario	WMP: Western Milk Pool
	WTO: World Trade Organization

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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.



2017-18 MILK PRODUCTION BY THE NUMBERS



3,017,388,885

LITRES OF MILK PRODUCED IN 2017-18



3,504

DAIRY FARMS IN ONTARIO



2,238,458,852

FARMGATE VALUE OF MILK SALES



217

TRUCKS TRANSPORTING THE MILK



849,786

LITRES OF MILK DONATED BY LOCAL DAIRY FARMERS TO ONTARIO FOOD BANKS



72

DAIRY PROCESSING PLANTS

THE PRICE FARMERS ARE PAID

Average gross per hectolitre*	\$74.390
Deductions	
Transportation**	2.689
Market Expansion Fee	1.500
Administrative Licence Fees	0.625
CQM Administrative Licence Fees	0.000
CanWest DHI	0.060
Research	0.050
Total deductions	\$4.924
Average net price per hectolitre	\$69.466

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

**Deduction rates shown are weighted averages where rates changed during the year.

HOW MILK IS USED



FLUID

29,592,848 kilograms of butterfat (24.9%)



DIP

131,943 kilograms of butterfat (0.1%)



MSQ

88,693,793 kilograms of butterfat (74.6%)



DEP

490,523 kilograms of butterfat (0.4%)

MESSAGE FROM OUR CHAIR, RALPH DIETRICH

It is my pleasure to have the opportunity to write the Chair's message for this last year, as I retire from the DFO Board. I take great pride in the perseverance that our industry and organization continues to demonstrate. This past year has faced significant challenges. Producers in Ontario and across the country have worked together to find ways to meet these challenges, with a commitment to our values and belief in our strong system. Our main efforts this past year were focused on the threats to supply management through NAFTA renegotiations, the need to effectively balance milk production with market requirements, and the oversight and effective use of Ontario marketing dollars.

NAFTA renegotiations posed significant threats to our supply managed system, with U.S. pressure of dismantling our dairy system and gaining full access to the Canadian dairy market. Our Board took these threats very seriously and embarked upon a strategy to engage and educate Canadian and U.S. policy makers and consumers about the benefits of supply management.

DFO made great efforts to address these issues. We, with our industry partners, travelled to all of the NAFTA renegotiation rounds, attended official briefings, met with government, and held numerous stakeholder meetings, for both those who hold common interests and those we were seeking to educate.

Stakeholder meetings were held with the National Farmers Union, Teamsters, Wisconsin Farmers Union, U.S. elected officials, and Canadian labour unions. We had an important message to share—that the Canadian dairy system is one of the strongest in the world, experiencing massive growth and investment without government support. We were able to effectively explain how our system works and why it is vital to Canada's rural and local economies.

We were successful in developing a strategic relationship with the Wisconsin Farmers Union as they were motivated to introduce a form of production control into the U.S. dairy system. After several meetings with U.S. dairy farmers across Wisconsin, Michigan, Illinois, and New York, there was a better understanding and recognition of the value of supply management and even a resolution by Dairy Farmers of America to begin studying how they could introduce a system to control overproduction.

When Canada announced that it had reached an agreement for a new NAFTA (now called the Canada-United States-Mexico Agreement or CUSMA), we were very disappointed about the increased market access and the elimination of Class 7, the cap on the amount of milk protein concentrates (MPC), skim milk powder (SMP) and infant formula exports, and new disclosure and consultation requirements regarding milk pricing and classes.

We are all concerned about what CUSMA means to our future. These concerns are real and understandable. However, our dairy system is built on very strong foundations. Despite these changes, we have the support of government to continue supply management. We have continued growth in our markets and significant investments to sustain our sector.

Even with market growth this year, we needed to adjust our production to meet the market requirements—without overproduction. The strength of our system is that we proactively take the necessary steps to avoid overproduction. When requirements in demand were changed in January 2018, measures were introduced to reduce production quota to meet our commitment to balance supply with demand. Accordingly, the Board, with the recommendation of the P5 quota committee, implemented measures to slow production. These steps have resulted in Ontario staying within its provincial over-quota penalty and allowed for right-sized milk production. The Board recognizes what these adjustments meant to dairy producers and their operations. We are thankful to all producers for doing their part in adjusting production to meet the requirements.

Balancing production supply to market demand is the essence of what the Canadian dairy system is designed to do.

This past year, we also spent notable efforts in the implementation of measures to ensure the effective use of Ontario producer promotion dollars. Accordingly, the Board created a new promotion committee and adopted terms of reference for the oversight and accountability governing the use of promotional funds. The Board agreed to use the funds for pre-generic advertising to grow the market without interfering in processor operations. Additionally, we identified strategic opportunities to work with aligned stakeholders to grow dairy consumption. In July 2018, DFO hired a new Chief Marketing and Business Development Officer, Sean Bredt, who immediately embarked upon developing a strategic plan, with the ultimate goal of implementing programs that demonstrate measurable objectives and growth.

The past year saw the Canadian dairy system take a great deal of pressure, but the foundation held strong. As producers, we should be proud of the endurance of our system. It not only works for Canada, but I saw first-hand the admiration of U.S. dairy farmers who were given the opportunity to understand how it works and learn about its sustainability.

The DFO Board and staff remain committed to building on these strengths and promoting Canadian milk and a strong, growing, and vibrant dairy sector that benefits both producers and consumers.

In conclusion, as I retire from the DFO Board, I reflect on our industry that has evolved as required. I am confident our industry will continue to meet and deal with the challenges of today and the future. We have the best system in the world and we need to keep it. Thanks for the opportunity to be part of it. It has been an honour to work with our industry partners, my fellow Board members, and our staff at DFO, on your behalf.



A handwritten signature in black ink that reads "Ralph Dietrich". The signature is written in a cursive, flowing style.

MESSAGE FROM OUR GENERAL MANAGER, **GRAHAM LLOYD**

The 2017-2018 year represented an extremely busy and unpredictable period in the Ontario dairy industry. Yet, at the same time, it also demonstrated the strength, resilience, and dynamism of Ontario dairy.

Ontario dairy producers experienced continued growth in demand for dairy products but had to control milk production to balance that demand. Running parallel were new investment plans for processing, demonstrating continued confidence in the long-term strength and growth potential of Canadian dairy.

While everyday business carried on, international trade and the NAFTA renegotiations dominated Canadian producers' focus and Dairy Farmers of Ontario's (DFO) activities. Increasing demands by the U.S. to dismantle supply management captured farmers, processors, government, public, and media interest in a near unprecedented way; creating uncertainty for many months.

DFO staff worked closely and tirelessly with all stakeholders—provincial and federal government officials and policy-makers, processors, provincial boards, DFC, and consumers—to advocate for and demonstrate the benefits of the Canadian dairy system, with DFO chair Ralph Dietrich and I attending all NAFTA renegotiation rounds.

On September 30, 2018 a new agreement, identified in Canada as the Canada-United States-Mexico Agreement (CUSMA), was announced, granting increased access to our domestic dairy market, while allowing continued competitive pricing for domestic milk ingredients. It also put a cap on the amount of milk protein concentrates (MPC), skim milk powder (SMP), and infant formula that the Canadian industry can export globally.

The full impact of the agreement is yet unknown. The federal government has promised full and fair compensation for losses to Canadian farmers and the dairy industry. DFO's Board and staff will work diligently through multi-stakeholder consultations to minimize the impact of the agreement.

While increased market access was granted, the general principles of supply management continue to be defended, including the right to maintain production controls to meet demand, and to set pricing to ensure Canadian producers continue to obtain a fair price for their milk. Our immediate next step is to work with stakeholders to address requirements outlined in CUSMA to diversify markets for our dairy products and continue to maximize growth.

The Canadian dairy sector should be proud of the way we worked together to deliver a unified strategy, voice, and message that connected and resonated with the Canadian public. Consumer awareness of the quality of Canadian milk, Canadian family farms, and the value to consumers of a balanced, sustainable, resilient supply management system was amplified throughout the long and occasionally difficult process.

Another significant operational activity this year was the assumption of responsibility over Ontario producer marketing dollars. Early in the year, DFO commissioned an advisory group to help plan the most effective and efficient use of these funds. Key strategic areas that DFO identified for the use of promotion funds is pre-competitive

generic advertising for Canadian milk, strategic partnerships designed to increase domestic dairy consumption, capital investments to attract and promote new investment, and continued research. The overarching objective must be to grow overall dairy consumption and increase milk production at the farm level through focused programs and the development of new opportunities with recognized growth drivers.

DFO refocused and relaunched the *Recharge with Milk* campaign, partnering with the Ottawa Senators, Maple Leaf Sports and Entertainment (MLSE), and DPCs toward a common goal of advancing grassroots sports initiatives and developing new sporting opportunities for youth at the community level, while educating consumers and young athletes on the nutrition and sports performance benefits of milk.

Early in 2018, DFO entered into a partnership with Restaurants Canada, the representative association for the restaurant and foodservice industry. This positive, strategic relationship provides opportunities to collaboratively promote dairy to the restaurant and foodservice industry, share consumer insight, and build a meaningful dialogue between the agri-food supply chain and the province's tastemakers.

The 2019 Ontario Milk Calendar was produced by DFO for distribution to consumers across all English-speaking provinces and to foodservice members through Restaurants Canada's *MENU* magazine, marking the beginning of a partnered initiative to expand and unify our culinary and consumer messaging, with clear connections to consumer purchase decisions at the restaurant and retail levels.

Other areas that evidence the strength and dynamism of Ontario dairy are the significant succession planning activities undertaken by DFO, and in identifying market requirements. I encourage readers to review the details in this report.

Our dairy system is built on a strong foundation and enduring principles. They were tested throughout this year, but hold firm. We have the support of our government for supply management and a strong forecast for growth, with ongoing investments to sustain it. I am heartened by the grit and resolve shown by our sector throughout the past year, and have every confidence we have the plans and collective will to not only overcome these challenges, but thrive together.

I remain ever grateful for the opportunity to work in this industry and support its continued growth and strength.



A stylized, handwritten signature in black ink, likely reading 'Graham Lloyd'.

BOARD MEMBERS BY REGION



1

Bart Rijke (2nd Vice-Chair)

Ottawa-Carleton, Glengarry, Prescott and Russell



2

Nick Thurler

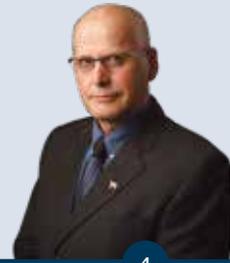
Dundas, Ottawa-Carleton, and Stormont



3

Henry Oosterhof

Frontenac, Grenville, Lanark, Leeds and Renfrew



4

Sid Atkinson

Hastings, Lennox & Addington, Northumberland and Prince Edward



5

Will Vanderhorst

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 (Vice-Chair)

Oxford and Waterloo



9

Paul Vis

Elgin, Essex, Kent, Lambton and Middlesex



10

Henry Wydeven

Huron and Perth



11

Ralph Dietrich (Chair)

Bruce and Grey



12

Steve Runnalls

Northern Ontario and Haliburton

SENIOR MANAGEMENT TEAM



- from left to right -

Patrice Dubé – Director of Economics & Policy Development / **Shikha Jain** – Director of Planning, HR & Organizational Development

Sean Bredt – Chief Marketing & Business Development Officer / **Graham Lloyd** – General Manager & Chief Executive Officer

Rey Moisan – Director of Finance and Treasurer / **Ryan Mills** – General Counsel & Corporate Secretary

OPERATIONS BY DIVISION



ECONOMICS AND POLICY DEVELOPMENT

DFO's Economics and Policy Development Division 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 Economics and Policy Development Division is also responsible for overseeing the Ontario Dairy Farm Accounting Project, which collects data from Ontario dairy farms for the national cost of production (COP).

Markets, Production, and Pricing

Market Requirements

On a butterfat (BF) basis, P5 fluid and industrial milk requirements decreased by 1.6 per cent, industrial milk requirements increased by 2.2 per cent, and Domestic Dairy Product Innovation Program (DDPIP) and Dairy Innovation Program (DIP) requirements continued to decrease over the past dairy year as contracts expired and interest in DIP contracts declined. The growth allowance was reduced in June, from five per cent to two per cent, and then totally eliminated in October as a result of the implementation of the new monthly total requirements (TR)/total quota (TQ) models (See Policy Development and Implementation section, page 14). The P5 market requirements (provincial quota) for the 12-month period ending October 2018 has increased by 0.6 per cent. This is comprised of a 1.6 per cent increase in fluid butterfat requirements and a 0.3 per cent increase in industrial milk requirements.

Total market requirements, including the growth allowance, in the Western Milk Pool (WMP) increased by 3.1 per cent over the same period.

Production

Milk production has been very strong, with the P5 filling 104.3 per cent of quota, which includes the growth allowance during the 2017-18 dairy year. The Canadian Milk Supply Management Committee (CMSMC) reinstated over-quota and under-quota penalties in June 2018 after having suspended penalties since April 2016. Penalties were suspended to allow time for production and markets

to rebalance; however, with butter stocks well above targeted levels, production disciplines needed to be reintroduced. As a result, the P5 pool paid over-quota penalties in both June and July at a cost of just over \$0.30 cents per hectolitre for P5 producers.

In Ontario, production was 4.0 per cent higher than the last dairy year on a volume basis and 4.6 per cent higher on a butterfat basis. The fill rate on producer quota issuance declined in Ontario with the 2017 quota increases. This lower fill rate combined with the credit day utilization limitation measure introduced in July 2018 resulted in producer credits falling under -10 days in recent months. P5 producers had a credit position under -12 days. In early 2018, production started to outpace demand for butterfat, causing rising butter stock levels. The large number of credits in the system led to concerns that—even with a quota adjustment—milk production would continue to increase as producers used their credits.



Markets

Current market trends point to continued growth prospects in coming months. While the fluid market on a volume basis has experienced declines of about 2.1 per cent, cream sales in the last year have been very strong, which contributed to strong Canadian butterfat requirements. Cream retail sales have been more than four per cent for most of the last year, and most recently were at 4.9 per cent. Butter retail sales have also been strong since the beginning of 2017,

NAFTA

renegotiations were distinguished by unity of effort and a common voice throughout multilateral lobby and public relations efforts, with an agreement in principle reached on September 30, 2018. Work continues.

2017-18

showed resilience and persistent retail sales growth for cream, butter, and cheese, with increasing demand for grass-fed dairy products.



with sales mostly over 3.0 per cent. Cheese classes have also had excellent growth in the last year, with the entire category up 3.2 per cent. Dairy product sales growth is expected to continue into the next 12 months.

Butter Stocks

At the end of October 2018, total industry butter stocks held by processors and the Canadian Dairy Commission (CDC) were about 38,100 tonnes. The P10 target level for December is 17,000 tonnes. Current stocks far exceed the target. After having no Plan A stocks for a number of years, Plan A butter stocks are now almost full at 2,750 tonnes, coming down just 250 tonnes since the end-of-dairy-year target level of 3,000 tonnes. The CDC exported butter in August—within Canada’s World Trade Organization (WTO) limitations—to try to reduce butter stock levels.

Producer Quota

The P5 quota committee approved a 1.0 per cent quota increase in November 2017; however, with the change in demand in early 2018, a 1.5 per cent quota decrease was approved in May 2018, and a further 1.5 per cent decrease was approved for Ontario in July 2018. In Ontario, the use of credit days was also limited to one day per month. The P5 quota committee cancelled all fall incentive days for 2018. This was done to bring production back in line with P5 quota, especially with the reintroduction of pool over-quota penalties, and to reduce butter stock levels. Measures adopted in Ontario reduced milk production by an average of close to two per cent for the first three months of the dairy year. With new investments expected to start in 2019, the demand for butterfat and skim milk will continue to be closely monitored to ensure production is in line with market demand.

• PRODUCER RETURNS AND DEDUCTIONS (\$ per HL)

	2017	2018
Average gross per hectolitre	\$77.400	\$74.390
Deductions		
Transportation	\$2.642	2.689
Market Expansion Fee	\$1.500	1.500
Administrative Licence Fees	\$0.635	0.625
CQM Administrative Licence Fees	\$0.020	0.000
CanWest DHI	\$0.060	0.060
Research	\$0.050	0.050
Total Deductions	\$4.907	\$4.924
Average Net Price Per Hectolitre	\$72.493	\$69.466

Pricing

A Class 1 to 4 milk price increase was implemented across the P5 on February 1, 2018. The national formula (50 per cent consumer price index and 50 per cent cost of production/producer cash costs), as agreed to by producers and processors, called for a decrease of 0.3476 per cent in milk prices compared with the February 1, 2017 level. A CMSMC decision related to Class 4b resulted in an increase of \$0.06 per kilogram of butterfat in Classes 1 to 4, which was applied on February 1, 2018. The P5 supervisory body approved offsetting the increase in butterfat price with the decrease from the national pricing formula. The net result of these price adjustments is a small adjustment applied to Solids-Not-Fat (SNF).

In addition, there was an increase of \$0.039 per kg of butterfat applied to Class 1 prices for one year in February 2017. This increase was applied as a result of a delay in implementing the national agreement between producers and processors. This increase was removed on February 1, 2018. Therefore, there was a decrease of \$0.039 per kg to the Class 1 butterfat price, effective February 1, 2018. The combined impact of the adjustment to the SNF price for Classes 1 to 4, as well as the decrease in the Class 1 butterfat price, resulted in a decrease of about \$0.08 per hL in the P5 producer blend price pool.

A Class 1 to 4 milk price increase was implemented across the P5 on September 1, 2018. This adjustment is a result of a special consultation with the CDC and is an advance of the February 2020 price adjustment. The CDC also stated there will not be another price adjustment coming from the national pricing formula in February 2019. The September adjustment increased the price of milk in Classes 1 to 4 by 4.5207 per cent. This translates to about \$2.58 per hL or a 3.4 per cent increase in the P5 producer blend price.

For the 12-month period ending October 2018, the within-quota component prices paid to Ontario producers averaged \$10.6715 per kg for butterfat, \$6.7970 per kg for protein, and \$1.4071 per kg for other solids (\$74.38 per hL at the Ontario average composition). This was a decrease of 3.5 per cent in the producer blend price compared with the previous dairy year, at 2017 composition.

There was a modest recovery in the skim milk powder (SMP) world price at the beginning of 2018; however, the price of SMP dropped in June and July, then slightly recovered in the subsequent two months, only to drop again in October. The price volatility is largely due to trade concerns. Retaliatory tariffs on U.S. exports—especially from Mexico and China—have impacted dairy and, specifically, SMP exports. There are concerns U.S. surpluses due to reduced foreign demand will cause further world price decreases. Production is strong in the U.S. and New Zealand, where fewer new cases of *Mycobacterium bovis* (*M. Bovis*) have been reported, while Australia and Europe are facing drought, which could result in higher feed costs and reduced production, but probably not enough to offset the impact of production increase, with an overall world price decrease as a net result.

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



● **ONTARIO CLASS PRICES, EFFECTIVE FEBRUARY 1, 2018**

Class	Product Description	COMPONENT PRICES			PRICE AT AVERAGE
		Butterfat \$/kg	Protein \$/kg	Other Solids \$/kg	Ontario Composition \$/hl
1(a)	Fluid Milk and Beverages	7.6056	7.9817	7.9817	104.12
1(b)	Fluid Creams	7.6056	7.5500	7.5500	100.17
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			
2(a)	Yogurts	8.6721	6.0042	6.0042	90.39
2(b)	Ice Cream and Sour Cream	8.6721	6.0042	6.0042	90.39
3(a)	Fine Cheese and Curds	8.6721	12.9098	0.8808	83.69
3(b)	Cheddar and Cream Cheese	8.6721	12.5602	0.8808	82.53
3(c)1	Variety Cheeses	8.6721	12.9098	0.8808	83.69
3(c)2	Variety Cheeses	8.6721	14.0190	0.8808	87.40
3(d)	Mozzarella for Fresh Pizza	8.5910	8.8077	0.8716	69.61
4(a)	Butter and Powder	8.6721	5.4421	5.4421	85.24
4(b)	Condensed/Evap Milk for Retail	8.6721	5.5518	5.5518	86.25
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			
4(d)	Inventories, Plant Losses	8.6721	5.4421	5.4421	85.24

Class prices are similar throughout the P5 Pool.

● **SPECIAL CLASS COMPONENT PRICES, EFFECTIVE OCTOBER 1, 2018**

Special Class	Product Description	COMPONENT PRICES			PRICE AT AVERAGE
		Butterfat \$/kg	Protein \$/kg	Other Solids \$/kg	Ontario Composition \$/hl
5(a)	Cheese	7.4776	4.6705	0.5005	49.0800
5(b)	Non-Cheese	7.4776	1.8311	1.8311	47.3200
5(c)	Confectionery	6.8832	1.6878	1.6878	43.5800
5(d)	Committed Exports	CONTRACT BASIS			

● **WORLD MARKET PRICES FOR DAIRY PRODUCTS AND PRODUCER BLEND PRICE**

	January 2017 \$/tonne US	July 2017 \$/tonne US	January 2018 \$/tonne US	July 2018 \$/tonne US
Butter	4,700	5,900	4,800	5,100
Effective Tariff	200.0%	260.0%	188.0%	224.0%
Protection (%)				
SMP	2,300	2,000	1,700	1,870
Effective Tariff	102.0%	69.0%	41.0%	63.0%
Protection (%)				
Cheese	3,800	3,800	3,400	3,800
Effective Tariff	57.0%	53.0%	34.0%	58.0%
Protection (%)				
Milk	370	367	295	312
Effective Tariff	67.0%	60.0%	26.0%	41.0%
Protection (%)				
Producer Price (Standard Milk)	42.51 Cdn/hl	43.72 Cdn/hl	33.27 Cdn/hl	39.52 Cdn/hl

- Effective tariff protection is the landed price, including tariff divided by domestic price. This calculation indicates the per cent by which the related domestic product price could be increased before imported product would be competitive at the world price indicated in the table, while using the applicable exchange rate for the month in question (i.e. \$Cdn/US - \$1.31 January 2017; \$1.27 July 2017; \$1.24 January 2018; \$1.31 July 2018);

- Butter/SMP/cheese prices are averages of U.S. and New Zealand (NZ) prices; tariff protection is less than indicated in table if calculated at the lower of U.S. or NZ prices, which can vary significantly from month to month;
- SMP is included in Class 7 as of February 2017, so the effective tariff protection is just for historical comparison.

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. Special Classes account for about 9.4 per cent of national butterfat production and 30.6 per cent of national SNF production.

Solids-Not-Fat (SNF) to Butterfat (BF) Ratio



Ontario finished the 2018 fiscal year with an SNF to BF production ratio of 2.2407, which is 1.9 per cent below the provincial target of 2.2840.

In the past fiscal year of the new policy, 1,725 Ontario producers have been over-ratio at least once. Under the P5 SNF policy, \$3.4 million was collected and paid out on BF to the 3,669 Ontario producers who were under ratio in one or more months.

Policy Development and Implementation

CDC Monthly Total Requirements (TR)/Monthly Total Quota (TQ) Models

In October 2018, the Canadian Milk Supply Management Committee (CMSMC) approved a monthly total requirement model with total quota calculated retroactive to August 1, 2018. Since the total quota allocated to the pool will match the monthly total requirements, it was determined there is no longer a need for a growth allowance, which was subsequently eliminated. The over- and under-quota penalty will now be calculated at the P10 level instead of at the regional pool levels with limits set at 1.25 and -2.00 per cent. In July 2020 and every year thereafter, a butter stock reconciliation will be conducted in order to ensure that quota allocated to pools is in line with the established target stocks.



These changes were required because the Canadian dairy industry landscape is facing new challenges in measuring and forecasting total demand. Evolutions in the dairy industry landscape— such as unprecedented market growth—are among the main reasons for this challenge. As a result, the industry needed to revisit traditional methods and try to develop more efficient tools to best determine market size and how much of the market growth potential could be filled with domestic production from P5 and P4 pools. An accurate and reliable model to measure and forecast total demand is crucial since results are eventually converted into quota issued to producers to supply the milk necessary to fill all market needs.

A working committee comprised of the CDC, Dairy Farmers of Canada (DFC), and provincial milk marketing board staff was created to review several cornerstone calculations and models used by the industry. After multiple webinars since March 2016, committee members concluded the current total requirement calculation model (using 12-month figures) and the current total quota model are not sufficiently market responsive, especially in an environment where most—if not all—dairy commodities are growing. The committee found a lag between TR and TQ cumulated over time, representing 13.4 million kg of butterfat in May 2018. This lag is one of the main reasons the P5 experienced situations where quota allocated to the pool was more than filled while, at the same time, evidence showed overall P5 demand was not being met.

Committee members agreed to propose new monthly TR and TQ models to replace current models. These new models will be more reactive to market needs by using monthly data instead of 12-month figures. By recalculating TR and TQ using the new monthly models from August 2014 to May 2018, it eliminated the lag between TR and TQ calculations, as well as increased TR and TQ allocated to provinces and pools. The recalculation revealed the new models are simpler as well as more coherent and transparent when compared with current models.

True Protein Pricing

Following the last round of negotiations between producers and processors at the national level, a decision was made to modify milk protein testing in Canada from total protein to true protein, effective September 1, 2018. True protein has been used as the official test for payment in the U.S. since January 2000. The change helps resolve an issue over how losses from filtration are accounted and paid for between producers and processors and increases equity among all processors.

The true protein test will be used for processor billing and producer payment. The change to true protein will result in protein tests decreasing on average by 5.5 per cent; however, the difference will be recaptured in the lactose and other solids test. On average, this change will be revenue neutral to producers since the price charged to processors will be adjusted accordingly.

Allocation Policy for Classes 2 (a) and 3 (a) Growth and the Milk Available for the Growth Program



The *P5 Harmonized Milk Allocation Policy* for allocating milk supplies to support Class 2(a) – yogurt, and Class 3(a) – cheeses continued to ensure that additional milk was available to support growth in the prioritized Classes 2(a) and 3(a), and in all other growing milk classes.

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) for the 2014-15, 2015-16, 2016-17, and 2017-18 dairy years. The milk available in the P5 growth reserve originated from two sources, the net Classes 2(a)/3(a) market-sharing quota (MSQ) growth and the growth allowance.

• P5 GROWTH AND GROWTH RESERVE

Dairy Year	P5 Growth Reserve (M litres)	P5 Growth in Class 2(a) and 3(a) (M litres)	Residual Milk (M litres)
2014-15	80.6	72.4	8.2
2015-16	123.4	103.2	20.2
2016-17	133.5	156.7	(23.1)
2017-18	164.6	146.3	18.3

The table indicates the milk available in the P5 growth reserve was sufficient to meet the raw milk requirements for growth in Classes 2(a) and 3(a) in each dairy year, except 2016-17, with residual milk varying between 8.0 and 20.0 million litres from 2014 to 2018. This residual milk was used to replace whole milk requirements for Class 2(a) that would have been satisfied with Class 2(a) SNF (skim milk).

Available milk in the growth reserve was sufficient to meet all of the growth in 2017-18, as opposed to 2016-17, when milk available in the P5 growth reserve was sufficient to satisfy the net growth in Classes 2(a) and 3(a) but not sufficient to satisfy all growth. Growth is currently calculated using the volume above the base year reference. A company is still entitled to receive the milk falling below its reference under the current policy to prevent cannibalization of markets amongst companies. The policy is being examined to determine how best to calculate growth for potential policy revision. With the elimination of the 2.0 per cent growth allowance, a P5 supervisory body decision was made to replace this volume with a pre-set amount of 82.2 million litres. The milk in the growth reserve for Classes 2(a) and 3(a) growth will then be made of quota increases associated with growth in Classes 2(a) and 3(a), and a preset volume of 82.2 million litres.



The CMSMC's implementation of a 5.0 per cent growth allowance between August 2015 and May 2018 is now eliminated as of October 2018. Of the 5.0 per cent, 2.0 per cent was permanent and 3.0 per cent was temporary. The growth allowance was adopted to anticipate future market growth. However, the adoption of the monthly TR and TQ models, where monthly quota allocated matches monthly quota requirements, is much more reactive to market variations and does not require the continued use of a market "anticipation" factor such as the growth allowance.

The pools' over- and under-quota penalties have been suspended between March 2016 and June 2018 which allowed the P5 pool to avoid paying over-quota penalties while providing additional time to rebalance production and markets. The reintroduction of the regional pool over-quota penalties in June 2018 has impacted the P5 producers' blend price by approximately \$0.30 per hl for both June and July 2018.

The CMSMC continues to receive project proposals under the initiative to support growing markets through the Milk Access for Growth (MAG) program. The purpose of the MAG program is to encourage new investments in the dairy sector that will help grow the overall Canadian demand for milk and milk products. These investments include expansion/establishment of plants by Canadian

dairy processors, further processors of food or any other products, or Canadian or foreign investors seeking to establish a business in Canada. The program may be used for new or existing products (dairy or other products containing dairy ingredients), with an emphasis on growth. Quota associated with a MAG contract will be allocated nationally and shared monthly based on each pool's share of total quota. P5 provinces have agreed any committed volumes of milk through a MAG contract will be moved within the P5 on a Milk Movement Obligation (MMO) basis proportionate to the deliveries by the host province. Milk allocation by host provinces will be delivered to the plant based on prevailing provincial allocation policy.



OPERATIONS AND REGULATORY COMPLIANCE

DFO's Operations and Regulatory Compliance Division is responsible for farm quota, quality assurance regulations and policies, milk and sample transportation, milk allocation logistics, and research.

Assurance Programs and Field Services

Producers



For the fiscal year ending October 31, 2018, there were 3,504 producers representing a decrease of 2.3 per cent from the previous year's 3,586 producers. These licensed dairy producers continued to support more than 10,000 Ontario farm families and generated revenue of \$2,238,458,852.

● NUMBER OF LICENSED ONTARIO MILK PRODUCERS

2008	4,375
2009	4,218
2010	4,174
2011	4,116
2012	4,042
2013	3,980
2014	3,896
2015	3,780
2016	3,705
2017	3,586
2018	3,504

New Entrant Quota Assistance Program (NEQAP)

NEQAP was introduced in August 2009 to assist new entrants entering the dairy industry. From August 2009 to October 2018, 80 producers entered the industry through NEQAP, of which seven were organic producers.

The Board gave priority access in the NEQAP program to producers wanting to ship organic milk. Two applicants were selected in 2018 to start as organic producers in 2019.

New Producer Program (NPP)

NPP was introduced in August 2009 as another program that assists producers entering the dairy industry. Since its inception, 108 producers have used NPP to enter the industry, and 98 are currently shipping milk.

As of October 31, 2018, there were 117 applicants in the NPP queue.

Raw Milk Quality Penalties

As a result of harmonizing P5 Raw Milk Quality Program policies within the P5, penalty regulations for somatic cell count (SCC), bacteria, and abnormal freezing point (AFP) were amended, effective May 1, 2018.

The financial penalty for first AFP violation in a rolling 12-month period is now \$0 per hL.

Regarding SCC and bacteria, penalties are now calculated using a demerit system, where a demerit is applied to each test result in penalty range. A penalty is incurred when there is at least one penalty-level test result or demerit in the third month of a three-month period, and at least 40 per cent of the test results are in penalty range or have a demerit applied in the same three-month period.

The new demerit system for SCC and bacteria penalty calculation was implemented in May 2018 with the first penalties applied in July (the third month in the first three-month period). Therefore, there were no SCC or bacteria penalties in May or June 2018. However, May and June test results were taken into consideration when July penalties were calculated.

As shown in the table below, in the rolling 12-month period ending October 2018, the number of AFP and non-Grade A penalties decreased compared with the previous year. A total of 111 AFP penalties were assessed at \$0. The number of SCC and bacteria penalties increased. This is attributed to the fact that the demerit

system results in penalties being applied sooner. As with other regulatory changes, it is expected producers will adjust to the new programs and improve milk quality to avoid further penalties.

● RAW MILK QUALITY PENALTIES

Raw Milk Quality Area	Number of Penalties		
	12-month period ending October 2018	12-month period ending October 2017	Change
SCC	529	249	112.4%
Bacteria	68	48	41.7%
AFP	178	194	-8.2%
Non-Grade A	225	307	-26.7%

The number of inhibitor penalties increased from 22 to 27, with 26 of the 27 inhibitor penalties being first level.

In the rolling 12-month period ending October 2018, the provincial SCC weighted average was 209,000 cells/mL, with the lowest at 191,000 cells/mL in April 2018 and the highest at 235,000 cells/mL in August 2018. During this period, the weighted provincial average SCC was 200,000 cells/mL or less for four consecutive months from February to May 2018.

Grade A inspections

As shown in the table below, during the 12-month period ending October 2018, a total of 3,215 initial Grade A inspections were conducted.

● GRADE A INSPECTIONS

	12-month period ending October 2018		12-month period ending October 2017	
	Count	%	Count	%
Grade A	2,866	89.1	2,756	87.4
Conditional Grade A	153	4.8	130	4.2
Non-Grade A	195	6.1	266	8.5
Unsanitary non-Grade A	1	0.01	0	0.00
Total	3,215		3,132	

The percentage of inspections resulting in Grade A classification increased to 89.1 per cent from 87.4 per cent in the 12-month period ending October 2018. In addition, the percentage of non-Grade A classifications decreased from 8.5 per cent to 6.1 per cent. The percentage of conditional Grade A classifications was relatively constant. Higher compliance levels are a positive sign, particularly in an environment where about 40 per cent of initial inspections are unannounced.

Animal care and welfare provisions were added to Ontario Regulation 761 and came into effect on May 1, 2018. Compliance is reviewed during Grade A inspections.

Grade A inspections are also scheduled based on risk, in addition to inspections performed prior to scheduled proAction validations. A farm'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.

proAction®



As of October 31, 2018, 99 per cent of Ontario producers were registered under Canadian Quality Milk (CQM)/proAction. The remaining one per cent includes six producers with overdue validations or who have been withdrawn from the program, in addition to new producers awaiting validation.

A total of 12 producers were assessed penalties from November 1, 2017, to October 31, 2018.

DFO has considered implementing a shut-off penalty for failure to meet proAction requirements. DFO's current position is to add shut-off provisions at the end of the proAction rollout scheduled for the end of September 2023.

Livestock Traceability

proAction's cattle traceability requirements became mandatory in September 2017. Under this program, producers are required to report animal births, movements, on-farm disposals, animal exports, and tag cross-references (lost tags replaced with a different number) to the national traceability database known as the Canadian Livestock Tracking System (CLTS).

DFC and the Canadian Dairy Network have made great progress in developing DairyTrace—a new, national traceability system—and continues to work on this initiative. Until implementation, producers are encouraged to report cattle traceability events to the CLTS.

Animal Care



In July 2018, DFC and Holstein Canada signed a four-year contract for the provision of cattle assessments. The new contract is effective as of October 2018.

Under the new contract, the cost of cattle assessments is \$7 per cow assessed plus a \$125 herd visit fee. This fee structure applies to all producers whether or not they are Holstein Canada's classification clients. If the assessment is conducted during a classification visit, the \$125 farm visit fee is credited back to the producer.

DFO has informed all producers of the assessment scheduling process through multiple communication channels.

Biosecurity Rollout

The next proAction milestone is the implementation of biosecurity requirements, which will become mandatory in September 2019.

DFO has been developing a training program that includes biosecurity requirements as well as a number of key animal care and welfare elements, such as down cattle management, animal-based measures, and cull cow decisions. DFO's funding application under the Canadian Agricultural Partnership program, to offset part of the training program cost, was granted. Veterinarians trained by DFO as proAction advisers will deliver producer training.

Environment

Discussions continue within DFC's environment working group to develop requirements for a possible phase two of the environment module. The single requirement approved to date is a valid environmental farm plan, which is scheduled to become mandatory in 2021.

Sample Suitability

Maintaining the cold chain for milk samples is the main driver of sample suitability. Samples must be retained between zero and four degrees Celsius from the time they are collected on the farm to when they are tested at the laboratory. This process involves bulk tank milk graders having an ice/water mixture in cooler inserts, managing sample depot refrigeration, and maintaining the temperature in the refrigerated transport, courier transport, and laboratory storage.

Sample suitability during the 2017-18 fiscal year starting Nov. 1, 2017 can be seen in the table below.

• SAMPLE SUITABILITY

Period	Average Suitability	High and Low Suitability by Depot Location
November 2017 to January 2018	98%	Kingston (99.6%) - Manitoulin (71.2%)
February to April 2018	99%	Peterborough (99.9%) - Athens (92.1%)
May to July 2018	98%	Odessa (99.8%) - Listowel (97.2%)
August to October 2018	98%	Colborne (99.9%) - Sudbury (81.7%)

Contributing Factors and Management Measures

Extreme weather conditions throughout the year pose various logistical and cold chain maintenance challenges. In addition, temperature breach during transportation, power outages, missing time-temperature data, and bulk tank milk graders not being able to keep samples cold are other contributors to lower suitability.

To improve sample suitability rates, DFO is working toward improving coolers used at depots to courier the samples, using new sample transportation trucks with better HVAC capabilities, and conducting research on effects of storage temperature and duration on microbial quality and composition of milk samples. DFO will also be working on

improving the speed at which test results are processed and posted.

Rejected Loads Due to Quality

As shown in the table below, a total of 42 loads were rejected due to quality during the 12-month period ending October 2018, compared with 18 in the previous 12-month period.

● ONTARIO LOADS DELIVERED AND REJECTED

	12-month period ending October 2018	12-month period ending October 2017
Ontario loads delivered	103,644	102,473
Rejected loads due to quality	42 (0.04%)	18 (0.02%)

While the number of loads rejected due to quality increased as compared with the same period the previous year, the increase is not statistically significant considering the number of loads delivered.

The reason for rejection with highest incidence continued to be the presence of black specks (22 loads).

Iodine testing

Load samples are first tested to determine iodine levels in loads delivered to processors. Bulk tank samples associated with loads exceeding a threshold of 300 mcg/L 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 2018 iodine testing program started in June. By the end of October, 481 load samples were tested. The majority of these loads, or 85.7 per cent, were in the normal range, while 12.3 per cent were in the elevated range (350 to 500 mcg/L), and 2.1 per cent in the high range (greater than 500 mcg/L). A total of 134 loads (27.9 per cent) were flagged for traceback testing, which resulted in 832 bulk tank samples tested. Of these, 27 had iodine levels in the high range, which represents 4.6 per cent of the producers captured within the iodine testing program.

Results from a University of Guelph study in 2016-17 indicated that in addition to well-understood contributors, such as higher iodine content in feed and increased teat and udder coverage with iodine teat dip, higher iodine levels in water also contributed to high iodine levels in milk.

DFO will provide information to producers on how to solve issues on high iodide levels in water in 2019.

Milk Transportation

Transportation Costs

The November 2017 to October 2018 transportation charge to producers increased by \$0.05/hl compared with the previous year. The \$0.05/hl increase comes from a \$0.07/hl increase in transportation costs and a \$0.02/hl increase in revenues over the same timeframe as shown in the table below.

● TRANSPORTATION COST, REVENUE AND CHARGE TO PRODUCERS

Fiscal Year-to-Date	Transportation Cost \$/hl	Transportation Revenue \$/hl	Charge to Producer
November 2016 to October 2017	2.76	0.12	2.64
November 2017 to October 2018	2.83	0.14	2.69
Year-over-year (YOY) Variance	0.07	0.02	0.05

The \$0.07/hl increase in transportation costs was a net result of the individual components shown in the table below.

● TRANSPORTATION EXPENSE (YOY VARIANCE)

Transportation Expense	YOY* Variance \$/hl
Inflation ¹	0.03
Fuel ²	0.08
Operations ³	0.03
DHA Milk ⁴	(0.07)
Net Increase⁵	0.07

*Year-over-year

1. Inflation: Rate formula increase, labour and equipment costs

2. Fuel: Increase in fuel prices

3. Operations: Increased kilometres traveled due to the imbalance in milk supply and demand between southeastern and southwestern Ontario

4. DHA Milk: Savings resulting from cancellation of the DHA milk program

5. Net Increase: Overall net increase in transportation costs

The \$0.02/hl increase in the transportation revenues was a net result of the individual components shown in the table below.

● TRANSPORTATION EXPENSE (YOY VARIANCE)

Transportation Revenue	YOY* Variance \$/hl
P5 Pooling ¹	0.06
DHA Transportation ²	(0.04)
Net Increase³	0.02

*Year-over-year

1. P5 Pool: \$1.9M increase in P5 pooling transfers

2. DHA Transportation: \$1.2M decrease in DHA transportation revenue

3. Net Increase: Overall net increase in transportation revenues

Milk Transportation Policies

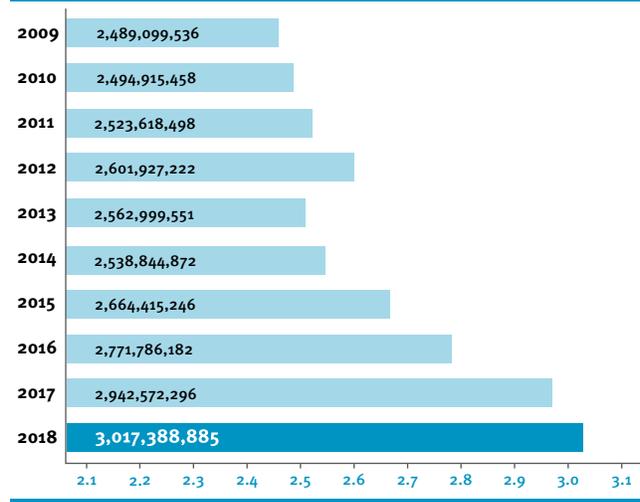


On March 27, 2018, DFO's Board approved changes to the *Milk Transportation Policies* with respect to every day pick-up service. These changes went into effect on June 1, 2018. Producers on the Every Day Pick-Up program prior to June 1, 2018, were grandfathered under the old policy for 12 months before they have to comply with the new policy.

Milk Allocation

In the fiscal year ending October 31, 2018, Ontario dairy producers shipped 3,017,388,885 L of milk.

● **TOTAL ANNUAL SHIPMENTS MARKETED BY DAIRY FARMERS OF ONTARIO 2009-18 (BILLIONS OF LITRES)**



Organic Milk

Organic milk production increased by more than one million litres this past fiscal year compared with the previous year.

● **ORGANIC MILK INDUSTRY IN ONTARIO**

Number of organic certified plants	20
Number of organic farms	81

● **ORGANIC MILK PRODUCTION AND MARKETING IN ONTARIO**

Period	Total Organic Production (litres)	Volume Marketed Organic (litres)	Percentage Marketed Organic
November 2016 to October 2017	33,269,069	30,473,183	91.6%
November 2017 to October 2018	34,503,525	34,214,246	99.2%

During the past fiscal year, 90.1 per cent of the total organic production was marketed to Class 1 and 2 plants.

Grass-Fed Milk



Due to the fact that no national grass-fed standards exist, DFO developed a temporary standard for Ontario to meet the growing demand for grass-fed milk.

As of November 1, 2018, there are 33 producers in Ontario providing a total of 825,000 L of grass-fed milk per month to four plants under DFO's temporary standards.

DFC is leading the development of a Canadian grass-fed standard with the goal of having a national standard in place in early 2019. DFO will adopt the national standard once it is finalized.

Skimming of Surplus Milk

DFO skimmed milk from December 2017 to July 2018. Over the same time period, DFO received 52.7 million litres of surplus milk from the P5 and Newfoundland. Available skimming capacity is utilized in other provinces before milk is cascaded westward to Ontario.

Plants



As of October 31, 2018, DFO is delivering milk to 72 plants located in Ontario. DFO also delivers milk to one plant in Manitoba and one plant in Quebec. Plant supply quota (PSQ) is issued to 42 plants, while the remaining plants receive their volume as on-demand milk.

Over the last fiscal year one plant ceased operations in Ontario and one new plant commenced operations.

Plant Metering and Sampling

Twenty-six plants in Ontario with a combined annual volume of 2.6 billion litres use meters to measure milk volume for payment purposes as opposed to using volumes recorded at the bulk tank at the time of pick-up.

Twenty-four of these plants are also paying for milk composition based on the load sample taken at the plant versus the producer samples taken at the farm.

One additional plant is on a six-month trial for the metering and sampling program and is expected to be active by January 2019.

Bulk Tank Calibration Program

In 2017, DFO added a second bulk tank calibration truck, which doubled DFO's capacity to calibrate bulk tanks in the province. In 2018, DFO sold the original calibration truck, which was in service since 2011, and outfitted a new tractor trailer as a replacement.

One truck operates in eastern Ontario and the second in southwest/central Ontario.

Research and Development

In 2018, DFO undertook several market growth projects aligning with the strategic direction to grow the market.

Dairy Business and Product Development Program (BPDP)



The BPDP provides a business incubator program to support new and existing dairy processors in starting or scaling up dairy. In 2018, 10 processors participated in the program, which provides support from initial product ideas through to launch and distribution, as well as a matching grant of up to \$10,000 per accepted applicant.

Dairy Business and Marketing Plan Evaluation Program (Bootcamp)



The Dairy Business and Marketing Plan Evaluation Program provides dairy business start-ups an opportunity to learn from entrepreneurial and dairy industry experts. Starting in April 2018, the program worked with 10 participants who met with food business start-up experts and DFO staff for an initial assessment followed by four mentoring sessions over an eight-week period where participants were provided additional support to complete their business plans and, if desired, assistance with applying to the BPDP.

Research Projects

DFO contributed funding to several dairy production projects. Current areas of focus included testing grass-fed, organic, and conventional milk samples with the purpose of establishing the base biomarker levels for the standard and testing all Ontario bulk tank samples for free fatty acid (FFA) and palmitic acid (C16) to determine next steps for reducing FFA levels on farms where results are consistently high.

Research Project Highlights

Grass-Fed Biomarkers and Standard



DFO tested grass-fed, organic, and conventional milk samples to determine levels of conjugated linoleic acid (CLA) and omega-6 to omega-3 ratios, and monitoring current grass-fed milk.

Recognizing the different production systems in place across Canada as well as varying costs, DFC undertook two national studies on grass-fed milk: consumer perception and cost of production (COP) for grass-fed milk.

DFC plans to submit the final national standard to the Canadian Food Inspection Agency (CFIA) by March 2019, and will also work on exploring logo requirements.

Free Fatty Acid (FFA)

In 2018, all Ontario bulk tank samples were tested by Guelph Lab service for FFA and C16. DFO, in collaboration with University of Guelph, is reviewing the associations with specific production factors to determine next steps for reducing FFA levels on farms where results are consistently high. Preliminary results showed more than 10 per cent of bulk tank samples in the 12-month period exceeded the threshold.

University of Guelph (U of G)

Grants-in-Aid Projects

DFO allocates a total of \$120,000 grants-in-aid per year to university departments engaged in dairy research. U of G department grants include:

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 awarded for three years of full-time doctorate study in an area of research of interest to DFO. To ensure that the award remains competitive and attracts exceptional students to the PhD program, DFO's Board approved increasing the DFO Doctoral Scholarship from \$20,000 to \$35,000 per year for three years, beginning in 2019.

DFO contributes \$200,000 per year for each research chair.

Research Chairs

- Dairy Science Research Chair: Dr. Gisèle LaPointe
- Dairy Cattle Health Research Chair: Dr. David Kelton

LEGAL SERVICES AND GOVERNMENT RELATIONS

DFO's Legal Services and Government Relations Division is responsible for DFO's legal affairs, tribunal appeals, risk mitigation, government relations, and Board secretariat.

Government Relations

Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

On January 23, 2018, Canada and the 10 remaining member countries of the Trans-Pacific Partnership (TPP), without the inclusion of the U.S., concluded discussions in Tokyo, Japan, on the new CPTPP. Under the CPTPP, 3.25 per cent market access was given, without U.S. participation, which is expected to be filled by Australia and New Zealand. During fiscal 2018, DFO lobbied federal and provincial government officials, citing if the U.S. wants access to the Canadian dairy market, it should not be granted through a renegotiated North American Free Trade Agreement (NAFTA), but through the original TPP.

NAFTA Renegotiations and the Canada-United States-Mexico Agreement (CUSMA)



NAFTA renegotiations between the U.S., Mexico, and Canada were held throughout the 2018 fiscal year. DFO, working with DFC and provincial milk marketing boards, was actively engaged in NAFTA renegotiation rounds that took place mainly in Washington, D.C., Ottawa, and Mexico City.

During the renegotiations, DFO representatives travelled to Wisconsin, Michigan, Illinois, New York, and Washington, D.C. to speak to groups of dairy producers about the benefits of supply management, how the system could help their dairy industries, and possible ways they could start introducing production controls. These meetings were important in helping U.S. farmers understand the fundamental structure of supply management and its benefits for both farmers and consumers, facts often obscured by U.S. politicians and policy.

In July 2018, DFO launched the *Love Canadian Milk* campaign to address misinformation and connect with Canadians to help them understand why the dairy system is worth protecting—both for dairy farmers and consumers. The campaign was successful and significantly exceeded expectations. (See *Marketing*, 31).

On October 1, 2018, Canada's new trade agreement with the U.S. and Mexico (domestically referred to as CUSMA and as the United States-Mexico-Canada Agreement (USMCA) in the U.S.), was

announced. This agreement in principle includes an estimated 3.9 per cent access to the Canadian dairy market and the elimination of Class 7. CUSMA also includes a cap on the amount of milk protein concentrates, skim milk powder, and infant formula the industry can export.

Since the announcement, DFO board members and staff have actively met with government officials to express disappointment, requesting government officials honour their commitment to support the Canadian dairy system. DFO met with Prime Minister Justin Trudeau, Ontario Premier Doug Ford, Minister of Agriculture and Agri-Food Lawrence MacAulay, and Minister of Agriculture, Food, and Rural Affairs Ernie Hardeman as well as numerous other Members of Parliament (MPs) and Members of Provincial Parliament (MPPs).

Keep Canadians Healthy

Canada's Food Guide

In August 2017, DFO, DFC, and provincial milk marketing boards began joint lobbying efforts to address concerns with the federal government's proposed changes to *Canada's Food Guide* that would eliminate Milk and Alternatives as a food group, severely diminishing the status of dairy within the national nutrition guideline.

DFO initiated the *Keep Canadians Healthy* campaign with the goal of educating and elevating concerns regarding the proposed changes to *Canada's Food Guide*. The campaign was national and intended for producers and consumers alike. English and French websites, www.keepcanadianshealthy.ca and www.gardonslescanadiensante.ca, were established to outline dairy's importance in *Canada's Food Guide*. The campaign featured a letter Canadians could sign and send electronically to their respective MPs and MPPs.

The campaign was successful, reaching more than 1.3 million Canadians, with more than 10,000 individual supporters sending more than 57,000 letters to MPs and other elected or representative officials. Combined with other efforts, the campaign resulted in the federal government launching a formal stakeholder consultation.



Front-of-Package (FOP) Labelling

In addition to proposed changes to *Canada's Food Guide*, Health Canada has proposed changes to FOP labelling requirements. DFO has raised serious concerns with government determining overall health benefits of food based solely on its sodium, sugar, and saturated fat levels. DFO has been asking government to grant nutrient-rich dairy products special consideration based on overall

food benefits, and is advocating for comprehensive research to be used when determining the overall value of foods, with the goal of seeing dairy exempted from FOP labelling in recognition of specific and broad health and nutrition benefits.

Provincial Lobby Day

DFO board members and staff met with more than 30 MPPs on November 28, 2017, at Queen's Park in Toronto, Ont., to discuss concerns regarding NAFTA, revisions to *Canada's Food Guide*, and front-of-package labelling.

An evening reception was held that included remarks from the Minister Leal; Toby Barrett, Critic, Ministry of Agriculture, Food and Rural Affairs; and, John Vanthof, Critic, Ministry of Agriculture, Food and Rural Affairs.

Federal Lobby Day

DFC's Lobby Day was held on February 6, 2018 in Ottawa, Ont. Dairy representatives from across Canada met with federal MPs and staff from their respective provinces.

DFO representatives, including two Dairy Producer Committee (DPC) members as young leader delegates, met with more than 27 parliamentarians and their staff. Topics of discussion with MPs included NAFTA renegotiations, CPTPP, and proposed changes to *Canada's Food Guide* and front-of-package labelling.

COMMUNICATIONS

DFO's Communications Division is responsible for developing and implementing communication strategies with producers, processors, government, media, and the general public through the use of multiple communication channels, including a monthly magazine, regular bulletins and weekly publications, social media, and web services.

Events

Canadian National Exhibition (CNE)



DFO welcomed thousands of people to the dairy barn during the 2018 Canadian National Exhibition from August 17 to September 3, 2018. . Milking demonstrations were performed every day at noon and 4:30 p.m. to packed crowds.

New in 2018 was the addition of Farm & Food Care Ontario's (FFCO) virtual farm tours display, through a partnership with DFO and FFCO.

Canada's Outdoor Farm Show



Canada's Outdoor Farm Show was held in Woodstock, Ont., from September 11 to 13, 2018. Farmers from near and far attended the three-day event and were welcomed at DFO's booth in the EastGen Pavilion. Attendees had an opportunity to speak with DFO board members and DFO field services representatives.

International Plowing Match

The 2018 International Plowing Match and Rural Expo took place in Pain Court, Chatham-Kent, Ont., from September 18 to 22, 2018. The Essex-Kent DPC hosted the joint DFO and Kawartha Dairy ice cream booth, and there was also a dairy education booth in the education centre.

Royal Agricultural Winter Fair



DFO hosted the education booth with live milking demonstrations at the Royal Agricultural Winter Fair (The Royal), at Exhibition Place grounds in Toronto, Ont., from November 3 to 12, 2017. The show features cheese and butter competitions, cattle shows, and food and entertainment.

Issues Management Working Group (IMWG)

DFO participates in the IMWG, a group of communications staff from provincial marketing boards and DFC. The purpose of the IMWG is to co-ordinate and collaborate on communications and government relations issues that affect the Canadian dairy industry. In fiscal 2018, focus areas included animal welfare and trade.

Media

Media Relations and Monitoring



Media is monitored daily, and a summary of media interviews is sent to all DPC members once per week. Trade, including NAFTA, the Comprehensive Economic and Trade Agreement (CETA), and CPTPP, remained the most covered topics in 2018. Journalists in Canada, the U.S., and abroad wrote numerous stories about trade, Canadian dairy farming, and the supply management system. In May, DFO created a web page focusing on the increased media coverage surrounding dairy and trade, and shared information on these topics with the general public.

Other 2018 media topics included Health Canada's Healthy Eating Strategy, organic and conventional milk, and the Schuurmans' Canadian Milk Tour.

Social Media



From April 1 to September 1, 2018, DFO experienced an increase in followers across all social media channels compared with the previous five-month period (from November 1, 2017 to March 31, 2018). As of September 1, 2018, DFO had 12,131 page fans on Facebook (an increase of 39 per cent from the previous date range); 6,818 followers on Twitter @DairyOntario (an increase of 9.6 per cent); 1,628 followers on Twitter @OntarioMilk (an increase of 14.9 per cent); 1,523 followers on Instagram @dairy_farmersont (an increase of 19.4 per cent); and 609 followers on its newly-created Instagram @ontariodairy.

Publications

Industry and organizational information is communicated to producers through several DFO communication channels. These

include monthly Board Highlights for DPCs, *Dairy Farmer Update*, *Milk Producer* magazine, website messages posted on the dashboard and ticker, recorded phone messages on the Milkline, social media, all-producer letters, and presentations at producer meetings. A standard DFO presentation has been created and implemented for Board use at producer meetings.

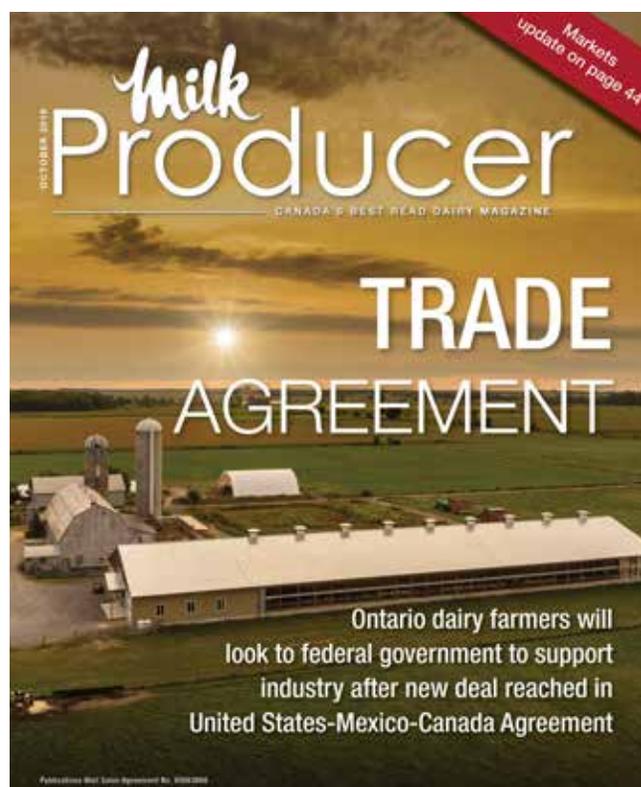
Milk Producer magazine

Milk Producer magazine continues to grow in advertising and editorial. The magazine has consistently printed more than 50 pages each issue for the past two fiscal periods—556 pages from November 2017 to August 2018. Advertising revenues have exceeded the previous year's figures for the same period, rising almost 10 per cent.

Planning for 2019 includes an in-depth readership survey as well as editorial covering human resource issues on the farm, DFO marketing and promotional activities, and mental health.

Milk Producer has been identified as the official recording medium for any DFO policy change. When applicable, the Policy Changes section appears in *Dairy News* at the front of the magazine.

Milk Producer won several awards from the Canadian Farm Writers' Federation, including gold in the technical feature category and silver and bronze in the press feature category.



Producer Publications

In fiscal 2018, weekly and monthly *Dairy Farmer Update* was redesigned to modernize the layout and allow room for more content. A restructure in the communications division allows for all producer publications to be streamlined and have better consistency in messaging under the editorial team.

DFO Style Guide

DFO launched a DFO Style Guide in June 2018 to promote a corporate standard that reflects professionalism and brand cohesion. The guide sets corporate writing standards for all internal and external documents and publications. DFO has adopted the *Canadian Press Stylebook* as the organization's writing standard.

PLANNING, HR & ORGANIZATIONAL DEVELOPMENT

The Planning, HR, and Organizational Development Division is responsible for strategic planning, organizational development, human resources, project management, facilities management, and administrative services.

Strategic Planning

Highlights of goals achieved from the 2017-18 Strategic Plan include the adjustment of producer quota to meet market needs, market growth, NAFTA renegotiations, organizational restructure for business continuity, and the inclusion of marketing and promotions in DFO operations. The strategic priorities for fiscal 2019 continue to focus on market growth, effective measures for production management and trade, the implementation of the marketing and promotions business plan, and succession.

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.

Human Resources

Evolving workforce trends and changes in staff over the fiscal year resulted in numerous hires across the organization. DFO had 80 employees at the end of October 2018, including staff from the Marketing and Business Development division.

In fiscal 2018, the DFO leadership team underwent significant changes. Ryan Mills joined as General Counsel and Corporate Secretary; Rey Moisan joined as Director of Finance and Treasurer of the Board; and Sean Bredt joined as Director, Marketing and Business Development. The leadership team consists of the General Manager and five directors. Patrice Dubé, Director of Economics and Policy Development, assumed additional responsibility for oversight of operational policy development in addition to provincial and national policy development. Additionally, as part of the senior management team, Maria Leal was promoted to Assistant Director, Quality Assurance and Field Services, and was appointed by the board as the authority for regulatory compliance. Rob Nosek was promoted to Assistant Director, Milk Allocation and Transportation; Kristin Benke was promoted to Assistant Director, Economics and Policy Development; and Kathleen Rampaul was promoted to Assistant Director, Finance.

Dayforce, a human resource information system, was implemented and launched in June 2018. It brings efficiencies to DFO's payroll system and provides employees easy online access to their human resource needs.

Organizational Development

In September 2018, DFO restructured its operations division. Quota has been moved to the Finance division. Research was split into two areas: production research stayed with the Production

department, and market research moved to the Marketing and Business Development division. The bulk milk tank calibrations program, metering, and sampling moved under the Milk Allocation and Transportation department. Both the Production and Milk Allocation and Transportation departments report to the general manager in the interim. Other restructures include the Communications division, where an editorial team was created to streamline publications, creating greater consistency in messaging and co-ordination of cross-divisional efforts.



Based on the feedback received through the producer consultation process and from DPCs at the 2017 spring policy conference (SPC), DFO conducted a DPC workshop at the 2018 SPC. Feedback and suggestions from the session were evaluated through a DPC task force comprising DPC member volunteers and staff, resulting in a revised DPC mandate, identification of new DPC training materials, and a pilot DPC communication portal to be implemented in 2019.

Corporate training plans include all-staff, small group, and individual training.

Building Facilities



DFO purchased additional security at head office in October 2018, offering enhanced security for the front entrance of the building and main reception area as well as mobile security monitoring. The system will be implemented in fiscal 2019.

DFO continues to lease head office space to Doherty Engineering. In December 2017, DFC informed DFO it will no longer require leased space at DFO's head office and vacated the premises, effective January 31, 2018. DFO will be using this office space for its own staffing needs for the Marketing and Business Development division.

INFORMATION TECHNOLOGY (IT)

The Information Technology Division is responsible for information technology services, including programming and upkeep of the DFO information technology system and data centre, as well as infrastructure networks and IT customer support.

Application Framework (AF) Project

Work continued on the AF project in 2018, with the third-party software vendor's (BDO) contract ending October 2018. DFO IT staff are finalizing the new system, working closely with internal staff to complete required functionality and testing. The new system is currently operating parallel to the legacy system so that daily operations can be supported while still completing the new system. A staged implementation designed to gradually increase stability and system viability and full parallel testing are scheduled for 2019.

Other System Updates

Raw Milk Quality (RMQ) Program

Due to RMQ program changes ratified by OMAFRA in early 2018, systems were upgraded to include new penalty calculations based on three-month rolling percentage ensuring accurate information on DFOWeb, Milkline, and monthly producer statements. Systems were operational on May 1, 2018, with a three-month grace period until the program started in full on August 1, 2018.

P5 Quota Policy

Due to quota decreases and credit day restrictions for producers in 2018, changes were implemented well within limited time restrictions impacting quota exchange, quota balances, credit balances, and producer statements.

Everyday Pick-up Policy

In June 2018, the Everyday Pick-up Policy was modified for producers and changes were made to producer financial statements, as well as transportation logistics, to ensure policy changes were reflected in the legacy system.

Farm Evaluation System (FES)

As part of the proAction program, inspection software and mobile devices were deployed to DFO field staff in 2017. Work has started on the Field Staff Farm Inspection program, or FES, to replace the end-of-life farm inspection hardware and software currently used by DFO field staff. It is scheduled for release in early 2019.

IT Network Upgrade

A comprehensive review of the DFO network architecture led to a full network hardware replacement project that took place throughout 2018. The new, simplified architecture has resulted in better performance and lower costs, and implements new security, stability, access, and management features.

Mail Server

In early 2018, DFO's email server was upgraded for all users. This is the first step in moving to a newer end-user email client software, which will be upgraded in 2019 as part of a hardware refresh.

FINANCE

DFO's Finance Division is responsible for budgeting, financial, and accounting services, including billing of processors and payment to producers and transporters, pool accounting, and blend price calculations.

Credit Program Update



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, five processors account for about 89.5 per cent of total milk sales; however, their financial stability is very strong. Two additional processors are currently paying for milk deliveries in advance of shipments. The accounts receivable protection fund totalled \$4.94 million at the end of October 2018.

Milk Utilization Audit

KPMG continued to provide audit services for verification of milk utilization declarations as per the five-year term contract that began in 2016. The scope of the audit included audit requirements for the new ingredients class and recent updates.

Milk Utilization and Verification (MUV) System

DFO and the Ontario Dairy Council (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. The incorporation of Milk Utilization Verification (M.U.V.) Inc. was completed in July 2017 and is now managed by a separate board comprised of ODC and DFO representatives.



In February 2017, the MUV system for processor declarations and milk utilization verification was updated to comply with national ingredients program requirements and was rolled out to processors in the seven provinces that had signed the licence agreement for using the system.

Updates within MUV are being worked on that will add functionality to allow processors to account for items such as:

- segregating true protein from total protein, which includes non-protein nitrogen (NPN), a component that does not contribute to cheese yields;
- and production based reporting for fluid products.

BOARD

Board Elections

Nick Thurler was acclaimed to represent producers in Region 2 for his second term on the Board.

Bonnie den Haan was elected to represent producers in Region 6 for her first term on the Board.

Henry Wydeven was acclaimed to represent producers in Region 10 for his second term on the Board.

Immediately following the adjournment of DFO's annual general meeting (AGM) on January 11, 2018, the four-year term of the newly elected Board members commenced.

Board Executive

At a Special Meeting of the Board held on January 11, 2018, Ralph Dietrich was re-elected as Chair, Murray Sherk was re-elected Vice-Chair, and Bart Rijke was elected 2nd Vice-Chair of DFO's Board.

Board Secretary

At a Special Meeting of the Board held on January 11, 2018, Ryan Mills was reappointed Secretary to the Board.

Board Treasurer

During fiscal 2018, Sharon Hutchinson (January), Frank Murphy (March-June), and Kathleen Rampaul (February, July to October) were appointed Treasurer of the Board. On October 30, 2018, Rey Moisan, Director of Finance, was appointed Treasurer of the Board on a permanent basis. Numerous appointments throughout the year took place on account of staff transitions.

Board Meetings

The Board held regular meetings every month of the fiscal year. A Special Meeting was held in January 2018 to elect the Board's Executive for 2018, and meetings were held in April and September 2018 for strategic planning and the fiscal 2019 budget.

Board business during 2018 included time spent at required committee meetings, meetings of other industry organizations on which DFO has representation, working with local DPCs, and being involved in various activities on behalf of DFO's Board.

Board members actively participate on DFO committees and regularly attend DFC, P5, and CMSMC meetings.

Producers, Industry Partners and Staff Appreciated

In closing, the Board would like to thank the DPCs for their valuable input in policy development and for their hard work in supporting the dairy industry in local communities through lobbying, community events and partnerships, and producer engagement activities.

The Board would also like to express its appreciation to all of DFO's

industry partners for their ongoing partnership and support in pursuit of strengthening the Canadian dairy industry.

Lastly, the Board thanks and extends its appreciation to the staff for their dedication and hard work during the year on behalf of dairy producers and in support of the dairy industry.

Signed on behalf of the Board,



Ralph Dietrich
Chair of the Board



Ryan Mills
General Counsel and Corporate Secretary

HIGHLIGHTS FROM 2017-18

Market Growth

Cream retail sales in excess of four per cent were seen for most of the year, with a recent peak of 4.9 per cent. Staying mostly over three per cent, butter sales showed continued strength, with cheese category sales rising 3.2 per cent. Continued growth is forecast through 2019.

NAFTA Renegotiations

Dairy farmers, government, and sector leaders worked together throughout the NAFTA negotiations to promote the clear benefits of supply management with a common voice and unified effort throughout the difficult federal trade lobby process.

DFO representatives met with the Wisconsin Farmers Union to discuss the strength of the supply management system as U.S. farmers' interest in developing a similar system to address oversupply in their market continues to grow.

Efforts included a strategic mix of public relations and engagement activities to complement intensive lobby activities in both Canada and the U.S.

Monthly TR/TQ

The move to monthly TR/TQ models by the CDC improved accuracy by providing production signal clarity and added enhanced forecasting ability and balance to the supply management system.

Application Framework

DFO has taken the final stages of the project in-house for parallel testing.

Succession Planning

DFO leadership undertook significant staff restructuring to meet the priorities identified within the Strategic Plan.

Grade A Farm Inspections

Following the implementation of the Risk-Based Inspection Program in 2016, the number of Grade A Ontario farms has risen from 83.8 per cent in 2016 to 89.1 per cent in 2018.

Every Day Pick-Up Policy

Changes to the Every Day Pick-Up Policy went into effect June 1, 2018.

Grass-Fed Market

Growth continues in the grass-fed market, with 33 producers shipping 825,000 litres to four plants under DFO's temporary grass-fed standard.

Animal Care

proAction's animal care program became mandatory in September 2017, with the bulk of validations completed on schedule in 2018.

Cattle Assessments

Holstein Canada was selected as the national third-party service provider to conduct consistent, standardized assessments for dairy cattle.

Incorporation of MUV

Milk Utilization Verification (M.U.V.) Inc., a joint venture between DFO and the ODC, was incorporated in July 2017, and is now managed by a separate board comprised of ODC and DFO representatives. In 2018, the MUV system was updated to comply with national ingredients program requirements, with new processor billing functionality added in September 2018, and more on the way.

Milk Producer Magazine

Milk Producer advertising revenue continues to grow, with an increase of 10 per cent in 2018.

IT Network Upgrade

DFO completed work on a full network hardware replacement that has resulted in better performance at a lower cost, with new security, stability, access, and management features.

Marketing and Promotions

DFO hired a new Chief Marketing and Business Development Officer to optimize strategic marketing activities and scale investment returns.

Dairy Education Program

New partnerships and consistent efforts resulted in a 59 per cent increase in the number of schools visited this fiscal.

2018-19 STRATEGIC PLAN



DFO's Board approved the 2018-19 Strategic Plan at the September 10, 2018 Special Board Meeting. Four strategic priorities were identified that set the direction of DFO. Key priorities and related strategic goals to achieve these priorities are listed below.

- 1. To grow the market for Canadian milk and dairy components.**
 - To increase quota allocation to P5 by a minimum of three per cent;
 - To implement a measurable marketing plan that makes optimal use of marketing dollars and results in positive returns on investment (ROI);
 - To promote the health benefits of dairy through a measurable consumer education strategy.
- 2. To have a domestic supply management system that effectively addresses current and future market conditions.**
 - To build processor market intelligence into the national market forecasting;
 - To examine current quota allocation and identify ways to meet market requirements;
 - To identify policy elements to provide more agility and flexibility for production management within the P5 environment.
- 3. To strengthen and develop organizational processes, resources and tools for succession management.**
 - To launch the first phase of the IT application framework;
 - To implement a talent management plan;
 - To develop and implement a content management plan for DFO stakeholders.
- 4. To strengthen national collaboration through the pursuit of common goals.**
 - To work on a trade strategy, including national lobbying and messaging;
 - To identify a method of gaining perspectives from marketing boards on issues affecting all Canadian producers;
 - To build the credibility of proAction with processors and consumers;
 - To nationally develop and implement a processor and consumer communication plan on the benefits of proAction.

MARKETING



DFO's Marketing and Business Development Division is responsible for marketing and promotions on behalf of producers to consumers both directly and in partnership with dairy processors including marketing programs, community outreach and education, consumer research, and business development. The division was new to DFO as a result of the repatriation of the marketing funds formerly granted to DFC. The overarching goal is to increase net new growth for Canadian dairy, and ultimately increase producer quota.

DIVISION DESIGN & STRATEGY

Key goals for 2018 included hiring a new director, developing a Marketing and Business Development strategy, creating a division structure, and executing existing programs, partnerships, and campaigns (Recharge with Milk, Milk Calendar, dairy education, ESMP, vending, Love Canadian Milk, Restaurants Canada partnership, and SIAL).

In addition, a strategic approach has been taken with all marketing programs to ensure they are measurable and may be evaluated against defined criteria tied to an overall strategy.

Key elements of the divisional design and strategy include:

- *Developing a marketing strategy based on credible consumer research.* In September, consumer research was initiated to establish a clear assessment of consumer perceptions and motivations with respect to dairy.
- *Developing a brand strategy.* DFO has initiated work to ensure that a consistent brand message is developed that is aligned with research. This consistency will make sure that all creative builds to a single idea toward a defined end goal.
- *Developing a divisional team structure.* The functions and roles include:
 - Marketing strategy and consumer communications:
 - Direct marketing to consumers through all media channels, with responsibility for consumer

strategy, brand message, consumer research, and nutrition;

- Marketing programs: Marketing to consumers through programs such as *Recharge with Milk* and culinary programs including program execution and tracking;
- Community programs: Marketing to key influencer communities such as education and health/nutrition professionals through the Ontario Dairy Education Program, ESMP, vending and similar programs;
- Business development: Proactively engaging processors to enable them to develop innovative products, services, and promotions that drive quota growth.

The full marketing plan will be complete by the end of March 2019, and will detail the focus of division efforts and resourcing requirements, along with an approach for regular and transparent program measurement and evaluation.

RECHARGE WITH MILK





\$1.5M

allocated over three years to
increase access to sport for
youth in communities
across Ontario

30,000+
subscriptions

earned through the Love Canadian
Milk campaign, providing DFO
the means to engage consumers
in an ongoing dialogue

11M+

units of fresh milk provided
to Ontario students through
the ESMP in 2017-18

59%

growth in the number
of Ontario schools hosting
Ontario Dairy Education
Program presentations

On July 16, 2018, DFO announced it was relaunching the *Recharge with Milk* (RWM) campaign. The new program is focused on helping increase the accessibility of youth participation in sports in communities across Ontario, with an investment of \$1.5M over three years to increase participation.

One of the key elements of the campaign is to leverage professional sports teams to grow awareness of the performance and health benefits of milk through pro-level team affiliation and program ambassadorship. DFO completed partnership deals with Maple Leaf Sports and Entertainment (MLSE) which includes the Toronto Maple Leafs, Toronto Marlies, Toronto Raptors, Raptors 905, and the Toronto Football Club (TFC), as well as the Ottawa Senators. DFO also continued its partnership with the Greater Toronto Hockey League (GTHL).



The campaign was successfully launched with significant progress in the following areas:

1. In-arena brand activation: Signage and marketing opportunities at various professional sports venues are in place. These include in-ice logos, in-arena signage, digital message boards, executive and concourse video loops, rink boards, various events, in-game activations, and significant social media feeds;
2. Grassroots activation: DPCs have completed more than 20 sponsorships from local teams to Ontario Hockey League (OHL) activities in some communities. In addition, DFO is looking to develop additional partnerships to further enhance the activity at the local level;

3. Greater Toronto Hockey League (GTHL): DFO has continued its sponsorship of the Greater Toronto Hockey League for the 2018-19 season. This sponsorship includes on-uniform RWM branding, in-rink signage, and sampling at various events and tournaments;
4. Processor Partnerships: DFO has actively engaged with processors. Several partnerships are in progress, which will build on DFO marketing activities and secure samples for various events at no charge with a direct connection to retail;
5. Social Media: DFO has proposed a comprehensive social media program for launch in January 2019. The strategy will leverage pro team and athlete content via both franchise and player social media feeds to direct high-demand, engaging and influential content toward the campaign's primary and secondary audiences—grocery-buying decision makers (primarily mothers) and youth aged 10 to 15. Youth content will position milk as the choice of professional brand ambassadors, and parent messages will educate on the natural performance properties of milk and dairy as part of an active, healthy lifestyle.

Success will be measured using conversion-based criteria aligned with in-stream reporting, assessment, and measurement activities to deliver validated returns on investment (ROI) tied to defined market growth objectives. This approach will provide DFO with the continuous insight needed to optimize investment and effort and the ability to respond to emergent challenges and opportunities.

2019 MILK CALENDAR



The 2019 Milk Calendar was curated, designed, and printed between July and October 31, 2018, for launch at the Royal Agricultural Winter Fair in early November 2018. The calendar recipes were submitted by real Canadian home and professional chefs and shortlisted to a final selection of 14 recipes selected for their originality, accessibility, and dairy ingredient representation.

DFO has printed one million calendars, with every English-speaking province participating. The goals of the new, targeted Ontario distribution program are as follows:

1. To deliver calendars to people who subscribe online to ensure targeted, measurable distribution;

2. Build awareness of DairyOntario.ca as a source for regular dairy recipes and culinary content in preparation for the 2019 launch of the online culinary program;
3. To create meaningful, aligned community activation and distribution points tied to purchase intent; and
4. To build DFO's email list of dairy consumers to grow consumption, promote processor partners, and educate consumers.

Preparatory research was conducted with Environics Analytics to focus distribution on dairy friendly families in key Ontario markets, and to identify the top-performing grocery banners. This led DFO to implement a different distribution plan than previous years, based on growing research-based consumer profiles, building a high-value consumer email database to extend the investment value across multiple growth and engagement initiatives throughout the coming year(s), identifying gaps and opportunities across audience segments, and creating a platform for meaningful consumer dialogue.

● BREAKDOWN OF 2019 MILK CALENDAR DISTRIBUTION

# of Calendars	Distribution Outlet
180,000	Distribution to other provinces
120,000	Shows: Royal Agricultural Winter Fair, Restaurants Canada Show
300,000	Events: Holiday Fair in the Square, exit samples
200,000	Partnerships: Longo's execution, Feast On Restaurants
200,000	Direct: Consumer subscription



From left to right: Sean Bredt, Chief Marketing & Business Development Officer (DFO); Ralph Dietrich, Board Chair (DFO); Graham Lloyd, General Manager & CEO (DFO); Anthony Longo, President and CEO (Longo's); Joseph Longo, General Counsel and VP, Real Estate (Longo's); Rosanne Longo, Chair, Longo's Family Charitable Foundation and Consumer Spokesperson (Longo's)

DFO has partnered with Longo's. The Longo's Milk Calendar program will take place from November 2018 to January 2019 and will feature in-store calendar distribution and displays, recipe sampling featuring Ontario dairy products, and online social media activation.

Consumer subscriptions are driven by a mix of print, digital, and social media advertising (10M + impressions) across the *Toronto Star*, *Metroland* and *Postmedia* community networks, with additional support from *Canadian Living* magazine digital, print, and subscriber programming.

RESEARCH

In October 2018, DFO embarked on a substantive research project to understand consumer perceptions and behaviours as they relate to the purchase and consumption of milk and dairy products in Ontario. The research investment will ensure the development of an insight-driven and evidence-based strategic marketing plan and brand strategy. This approach will afford DFO the means to better understand key audience segments and connect meaningfully through marketing programs and initiatives designed to educate, influence, build trust and ultimately transform consumer behaviours in key areas.

The research project follows a three-phased approach:

1. Qualitative research: October - November 2018
2. Quantitative research: November - December 2018
3. Tracking studies: January - February 2019

LOVE CANADIAN MILK

To connect with the public and government partners during the NAFTA renegotiations, DFO developed and launched the *Love Canadian Milk* campaign. The campaign was designed to provide the facts about the supply management system, address industry myths, and share positive messages about Canadian dairy and dairy farming families using a multipronged, strategic approach.

On July 3, 2018, DFO took out full page ads in the *National Post* and *The Hill Times* thanking Canadians and the provincial and federal governments for their continued support of the dairy industry. The following day, DFO officially launched the *Love Canadian Milk* campaign. DFO shared the campaign with all levels of government, consumers and key decision-makers. The campaign's main message was: The Canadian dairy system isn't just about balancing supply and demand to ensure a fair return for dairy farmers. It ensures Canadians can count on safe, high-quality milk produced by local farming families. It keeps artificial growth hormones out of the milk we drink. It grows our rural economy. It minimizes waste. And, it costs taxpayers nothing. KEEP MY MILK 100% CANADIAN.



The campaign generated a strong, positive response across social media platforms while maintaining excellent results shown in conversions, conversion costs, and conversion rates. The campaign has generated more than 30,000 public form submissions since its launch.

SCHOOL PROGRAMS



In 2018, DFO took full control of all school programs in Ontario. The marketing team spent most of the year evaluating program components and building strategy to optimize and expand this new mandate in 2019.

Ontario Dairy Education Program

In 1995, DFO launched the Ontario Dairy Education Program. Today, approximately 50 educators provide free curriculum-connected lessons to students in elementary and secondary schools across Ontario. The program reached 38 per cent of all schools in Ontario last year.

● ONTARIO DAIRY EDUCATION PROGRAM REACH

	2016/17	2017/18	Difference
Number of Presentations	8,531	9,231	up 8%
Number of Students	189,717	210,206	up 11%
Number of Schools	1,155	1,840	up 59%

The numbers above do not include the hundreds of thousands of people reached at fairs, festivals, and other special events hosted by educators.

In 2018, DFO signed a three-year contract with the Toronto District School Board to be an approved provider of classroom programming in all its schools. The dairy education program is listed on the board's website and promoted to its teachers.

Promotion of the program continues to be a focus, with a new video developed in 2018 to promote and explain the benefits and capabilities of the program to Ontario schools and educators. Mailings went out to every school board in Ontario at the beginning of August 2018, and included a memory key with the program video.

School board requirements have prompted the request for all educators to provide vulnerable sector checks. Ads were placed in three school resource directories in the Ottawa, Niagara, and Toronto areas. The program also has a page on a website called SchoolShows.ca, which promotes classroom augmentation through guests and field trip opportunities.

The program continues to grow and adapt to curriculum needs in the classroom. Educators now have access to a new resource platform built on SharePoint where program resources are available to them free for download at any time.

The focus for secondary school programming has been in the special high skills major (SHSM) programs in agriculture and food through classroom lessons in geography, science, economics, and careers. Secondary school student learning is supported by dairy educator presentations at career fairs and special field learning modules at the Royal Agricultural Winter Fair.

Elementary School Milk Program (ESMP)

The ESMP has been providing milk in schools across Ontario for 32 years. More than 70 per cent of elementary schools in Ontario have participated. The ESMP makes fresh, cold milk available to almost one million students every day.

The ESMP ran in a total of 2,214 Ontario schools during the 2017-18 school year. Program recruitment for the 2018-19 school year began in May 2018 and, as of October 31, 2018, 1,909 schools were registered—an increase of 437 schools registered at end of fiscal 2017. The goal is to register 2,650 schools for the 2018-19 school year, which will be a 20 per cent increase over last year.

As of October 23, 2018 Five Star dairies have reported sales of more than 11 million 237- and 250-mL cartons of milk to students in the 2017-18 school year, with efforts underway to bring dairy partner reporting compliance to 100 per cent.

Reward boxes for ESMP participation were distributed to participating Ontario schools in late September and early October 2018.

Vending Program

DFO inherited the school vending program from DFC in January 2018. There are more than 300 machines deployed across Ontario, in elementary schools, secondary schools, post-secondary schools, and community centres. Making milk available to students in all their activities is the goal of the program. DFO is conducting an audit of the program to ensure metrics and measurements are clear.

BUSINESS DEVELOPMENT

DFO has initiated a process to develop a clear set of criteria and a process for capital and promotional requests. DFO has completed an internal assessment and received approval from the board to share the preliminary criteria and process with key stakeholders (processors, government, and other dairy organizations) for their feedback. The program is expected to launch at DFO's AGM in January 2019.

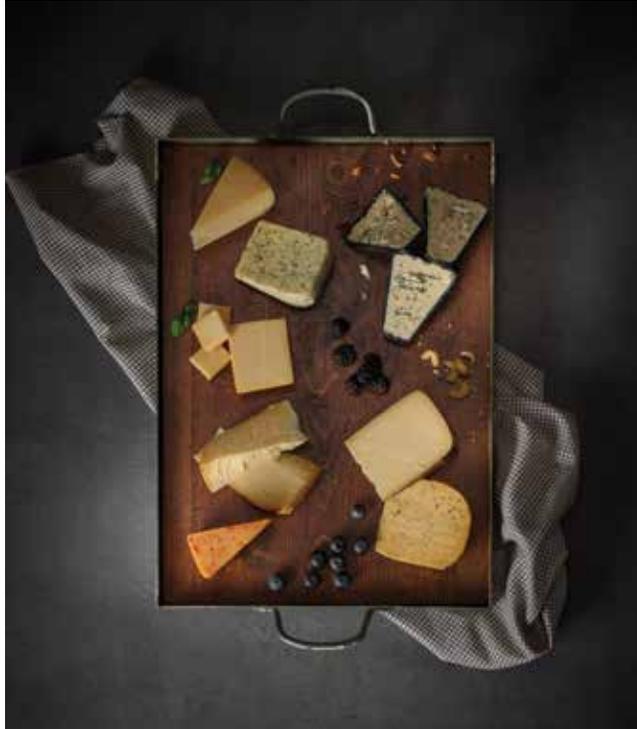


DFO initiated the development of partnerships with several companies to increase their usage of dairy or to change consumer behaviour.

These include:

- Tim Hortons
- Pizza Pizza Limited
- Longo's

Restaurants Canada Partnership



In January 2018, DFO and Restaurants Canada announced a joint partnership, working toward increasing the foodservice sector's access to the Ontario agri-food supply chain and facilitating new conversations and innovation in response to the needs and preferences of a common consumer audience.

DFO has completed a partnership with Restaurants Canada (RC) with the goals of:

1. Increasing foodservice sector awareness of dairy as a high-quality local food;
2. Co-creating high-demand culinary content such as recipes and chef, restaurant, and dairy product profiles;
3. Highlighting product innovation, including specialty packaging, new dairy products addressing increasingly diverse consumer groups, and products and recipes to meet complex dietary requirements;
4. Building strategic cross-sector partnerships to enable a common approach on many issues of mutual interest in order to help facilitate domestic sales.

To date, DFO has participated in three issues of *MENU*, RC's industry magazine, in addition to sponsoring RC Show 2018, attended by 15,000 foodservice professionals at the Enercare Centre in Toronto. The 2018 partnership is bookended by a Milk Calendar culinary content extension, with co-created culinary content planned for digital distribution on DairyOntario.ca in 2019.

SIAL Show, Montreal



From May 2 to 4, 2018, DFO participated in the SIAL show at the Palais des congrès de Montréal, in Montreal, Que. The purpose was to showcase Ontario dairy processors before a national and international buying delegation. Presenting with six Ontario processors (Stonetown Artisan Cheese, Parmalat (Balderson), Arla (Tre Stelle), St-Albert, Shepherd Gourmet Dairy, and International Cheese) of various sizes ranging from on-farm to international. Processors participated in open-booth style product samplings with live culinary activations on DFO's main stage.

The show's success will be based on an annual review of resulting distributor deals and sales attributed to the show investment. A survey was sent out to processor participants after the show and all stated they made positive new connections with potential partners and they anticipate a lift in sales from a mix of restaurant and foodservice clients.

FINANCIAL REPORTS



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DAIRY FARMERS OF ONTARIO

We have audited the accompanying financial statements of Dairy Farmers of Ontario, which comprise the statement of financial position as at October 31, 2018, the statements of operations and changes in fund balances of the unrestricted, quota exchange, research, accounts receivable financial protection funds, marketing and business development funds, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's

preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Dairy Farmers of Ontario as at October 31, 2018, 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.

KPMG LLP

Chartered Professional Accountants,
Licensed Public Accountants

December 12, 2018
Vaughan, Canada





Statement of Financial Position

October 31, 2018 with comparative information for 2017

	2018	2017
Current assets		
Cash	\$ 80,641,948	\$ 38,963,289
Short-term investments (note 4)	2,000,000	3,000,000
Accounts receivable (notes 2 & 18)	193,720,519	214,547,684
Quote inventory (note 3)	222,480	212,880
Prepaid expenses	685,149	569,134
	277,270,096	257,292,987
Long-term investments (note 4)	5,041,484	5,000,131
Capital assets (note 5)	7,053,285	6,648,410
	\$ 289,364,865	\$ 268,941,528

Liabilities and Fund Balances

Current liabilities

Accounts payable and accrued liabilities (notes 6, 7 & 12) \$ 233,312,562 \$ 252,161,333

Deferred capital contributions (note 8)

937,500 997,500

Fund balances

Unrestricted	11,535,766	8,953,542
Quota Exchange	952,695	952,696
Research (note 16)	1,286,028	926,461
Accounts Receivable Financial Protection	4,944,149	4,949,996
Marketing and Business Development (note 12)	36,396,165	-
	55,114,803	\$ 15,782,695

Commitments (note 17)

Contingencies (note 20)

\$ 289,364,865 **\$ 268,941,528**

See accompanying notes to financial statements.

On behalf of the Board

Chair



Vice-Chair



2nd Vice-Chair



Statement of Operations & Changes in Fund Balance-Unrestricted

Year ended October 31, 2018 with comparative information for 2017

	2018	2017
Revenue		
Administrative licence fees (note 10)	\$ 18,939,179	\$ 18,689,249
Administrative licence fees CQM program (note 10)	150,778	588,535
Investment income (note 4)	514,791	416,465
Raw Milk Quality program	1,587,330	1,270,037
CQM revenue	73,637	86,375
Assignment administrative fees	20,114	25,590
Quota exchange administrative fees	51,635	52,987
<i>Milk Producer</i> magazine	588,622	527,024
Other revenue (note 11)	430,758	679,873
Gain on disposal of capital assets	90,500	44,358
	22,447,344	22,380,493
Expenses		
Administrative and policy development (note 14)	13,960,344	14,192,752
Dairy Producer Committees	799,146	734,251
Grants and payments to affiliates (note 15)	1,087,081	1,113,386
Raw Milk Quality program	1,880,605	2,147,531
Milk tests, central laboratory	566,004	643,128
CQM program costs	1,663	8,514
Processor utilization audit	190,084	210,001
<i>Milk Producer</i> magazine	523,378	504,615
Annual meeting	224,291	217,113
Depreciation	632,524	625,001
	19,865,120	20,396,292
Excess of revenue over expenses before the undernoted	2,582,224	1,984,201
Less: Administrative licence fee holiday - February	-	(1,440,797)
Less: Administrative licence fee holiday - September	-	(1,538,990)
Excess of revenue over expenses (expenses over revenue)	2,582,224	(995,586)
Unrestricted funds, beginning of year	8,953,542	9,949,128
Unrestricted funds, end of year	\$ 11,535,766	\$ 8,953,542

See accompanying notes to financial statements.

Statement of Operations & Changes in Fund Balance-Quota Exchange

Year ended October 31, 2018 with comparative information for 2017

	2018	2017
Sales	\$ 191,234,880	\$ 245,568,720
Cost of sales		
Inventory, beginning of year	212,880	211,440
Purchases	191,244,481	245,570,159
	191,457,361	245,781,599
Inventory, end of year	(222,480)	(212,880)
	191,234,881	245,568,719
Excess of sales over cost of sales (cost of sales over sales)	(1)	1
Fund balance, beginning of year	952,696	952,695
Fund balance, end of year	\$ 952,695	\$ 952,696

See accompanying notes to financial statements.

Statement of Operations & Changes in Fund Balance-Research

Year ended October 31, 2018 with comparative information for 2017

	2018	2017
Revenue		
Research fees (note 16)	\$ 1,508,431	\$ 1,471,264
Toronto Stock Yards Land Development (note 16)	145,054	142,494
Investment income (note 4)	16,774	-
	1,670,259	1,613,758
Disbursements		
Research projects	627,992	819,922
Ontario Dairy Farm Accounting Project	138,820	280,532
Dairy Science Research Chair	200,000	200,000
Dairy Animal Health Research Chair	200,000	200,000
Toronto Stock Yards Land Development (note 16)	143,880	146,300
	1,310,692	1,646,754
Excess of revenue over disbursements (disbursements over revenue)	359,567	(32,996)
Fund balance, beginning of year	926,461	959,457
Fund balance, end of year	\$ 1,286,028	\$ 926,461

See accompanying notes to financial statements.

Statement of Operations & Changes in Fund Balance- Accounts Receivable Financial Protection

Year ended October 31, 2018 with comparative information for 2017

	2018	2017
Revenue		
Investment income (note 4)	\$ 45,085	\$ 50,015
Disbursements		
Administrative assistance	50,932	60,230
	50,932	60,230
Excess of disbursements over revenue	(5,847)	(10,215)
Fund balance, beginning of year	4,949,996	4,960,211
Fund balance, end of year	\$ 4,944,149	\$ 4,949,996

See accompanying notes to financial statements.

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

Year ended October 31, 2018 with comparative information for 2017

	2018	2017
Revenue		
Market expansion fees (note 12)	\$ 45,263,623	\$ -
Investment income (note 4)	347,750	-
	45,611,373	-
Program Expenditures		
Consumer marketing	1,759,278	-
Community programs	1,787,141	-
Business Development programs	561,733	-
DFO consumer research	313,000	-
National projects	5,540,774	-
	9,961,926	-
Support costs	813,749	-
	10,775,675	-
Excess of revenue over expenditures	34,835,698	-
Fund balance, beginning of year	-	-
Transfer in of prior year unspent funds (note 12)	1,560,467	-
Fund balance, end of year	\$ 36,396,165	\$ -

See accompanying notes to financial statements.

Statement of Cash Flows

Year ended October 31, 2018 with comparative figures for 2017

	2018	2017
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses (expenses over revenue)		
Unrestricted fund	\$ 2,582,224	\$ (995,586)
Quota exchange fund	(1)	1
Research fund	359,567	(32,996)
Accounts Receivable Financial Protection fund	(5,847)	(10,215)
Marketing and Business Development fund	36,396,165	-
Items not involving cash		
Depreciation	632,524	625,001
Gain on disposal of capital assets	(90,500)	(44,358)
Amortization of deferred capital contributions	(60,000)	(60,000)
Loss from investment in joint venture	4,595	-
Change in non-cash working capital		
Accounts receivable	20,827,165	(5,613,985)
Quota inventory	(9,600)	(1,440)
Prepaid expenses	(116,015)	(28,858)
Accounts payable and accrued liabilities	(18,848,771)	12,349,727
	41,671,506	6,187,291
Investing activities		
Purchase of long term investments	-	(3,000,000)
Purchase of short term investments	(2,000,000)	(1,000,000)
Redemption of short term investments	3,000,000	4,000,000
Purchase of capital assets	(1,083,347)	(1,513,808)
Proceeds on disposal of capital assets	90,500	68,513
	7,153	(1,445,295)
Increase in cash	41,678,659	4,741,996
Cash, beginning of year	38,963,289	34,221,293
Cash, end of year	\$ 80,641,948	\$ 38,963,289
Supplemental non-cash information:		
Contribution of capital assets to joint venture	\$45,948	-

See accompanying notes to financial statements.

Notes to Financial Statements

Year ended October 31, 2018

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:

DFO follows the restricted fund method of accounting for revenue.

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:

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).

Investment income earned on Accounts Receivable Financial Protection Fund resources is recognized as revenue in that fund.

(c) Investment in joint ventures:

DFO accounts for its investment in 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:

Building and building improvements	20 years
Office furniture and fixtures	10 years
Computer software and hardware	3-10 years
Automobiles and truck	3 years

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

(f) 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 carrying amount of capital assets and accrued liabilities. 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:

Short-term investments consist of fixed income securities earning interest at 1.9 per cent (2017 – 2.0 per cent and 1.66 per cent) and maturing on November 27, 2018 (2017 - November 24 and November 27, 2017).

(b) Long-term investments:

	2018	2017
Fixed income securities	\$ 5,000,000	\$ 5,000,000
Shares of producer co-operative	131	131
Shares of producer co-operative	41,353	-
	\$ 5,041,484	\$ 5,000,131

Fixed income securities are composed of two low volatility principal deposit notes, at interest of 0.5 per cent, and with maturity dates of December 2, 2022 and December 2, 2023.

(c) **Investment income:**

Investment income in the Statement of Operations – Unrestricted is comprised of:

	2018	2017
Interest income	\$ 924,400	\$ 466,480
Allocation to Research Fund	(16,774)	-
Allocation to Accounts Receivable Financial Protection Fund	(45,085)	(50,015)
Allocation to Marketing and Business Development Fund	(347,750)	-
	\$ 514,791	\$ 416,465

(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 2017.

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:**

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 506,203	-	\$ 506,203	\$ 506,203
Building and building improvements	3,262,671	2,572,307	690,364	708,520
Office furniture and fixtures	922,785	674,343	248,442	280,998
Computer software and hardware	9,359,309	4,149,966	5,209,343	4,829,428
Automobiles and truck	889,973	491,040	398,933	323,261
	\$ 14,940,941	7,887,656	\$ 7,053,285	\$ 6,648,410

Included in computer software and hardware are assets under construction totaling \$4,675,224 (2017 - \$4,172,979) 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.

Included in accounts payable and accrued liabilities are government remittances payable of \$3,313 (2017 – \$82,764) relating to payroll taxes, health taxes, and workers' safety insurance.

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.

	2018		2017	
Milk Value				
Sales	\$	2,238,445,033	\$	2,268,605,435
Purchases		2,238,458,851		2,268,628,152
		(13,818)		(22,717)
(Recoverable from) producers, beginning of year		(55,846)		(33,129)
(Recoverable from) producers, end of year		(69,664)		(55,846)
Transportation				
Recovered from producers		85,387,172	\$	81,132,801
Expenses		85,409,693	\$	81,175,440
		(22,521)		(42,639)
Payable to/(Recoverable from) producers, beginning of year		(25,133)		17,506
(Recoverable from) producers, end of year		(47,654)		(25,133)
Total Payable to/(Recoverable from) producers end of year	\$	(117,318)	\$	(80,979)

8. Deferred capital contributions:

	2018		2017	
Balance, beginning of year	\$	997,500	\$	1,057,500
Less amortization of deferred capital contributions		(60,000)		(60,000)
	\$	937,500		997,500

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 (2017 - \$0.635) per hectolitre on milk marketed by DFO. CQM administration licence fees were at \$0.020 cents per hectolitre and ceased to be levied on February 1, 2018 (2017 - \$0.020).

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 2018, market expansion fees of \$45,263,623 (2017- \$44,139,897) were collected from producers at a rate of \$1.50 (2017-\$1.50) per hectolitre for promotional activities. During the year, the Board approved the creation of a Marketing and Business Development fund to directly administer these activities.

Included in 2017 accounts payable and accrued liabilities, was \$1,560,467 of unspent promotion fees collected. In 2018, these amounts were transferred into the Marketing Business and Development fund.

13. CanWest DHI:

Levies collected for remittance to CanWest DHI remain unchanged at \$0.060 cents per hectolitre on all milk shipments to DFO. During the year, \$1,810,545 (2017- \$1,765,622) was collected from producers and remitted to CanWest DHI.

14. Administrative and policy development expenses:

Administrative and policy development expenses exclude \$286,955 (2017-\$262,150) allocated to The *Milk Producer* magazine operations and are detailed as follows:

	2018	2017
Staff salaries and benefits (i)	\$ 9,077,366	\$ 8,884,096
Communications programs and activities (ii)	614,045	1,140,940
Board Members' per diems, allowances and travel, elections (iii)	845,500	815,184
Hiring costs, staff travel, and meeting costs	707,722	794,584
Assistance from contractors and others (iv)	561,271	584,015
Office (v)	659,007	582,647
Equipment rental and maintenance	335,212	436,713
Insurance	380,764	364,122
Office maintenance, utilities, taxes and rent	337,294	340,132
Professional fees	345,995	149,743
Calibration truck operations	96,168	100,576
	\$ 13,960,344	\$ 14,192,752

- (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 \$355,402 (2017-\$344,197).
- (ii) Communication programs and activities include the costs of producer and government communications, information brochures, and the annual report. In prior years, the cost of farm shows and the dairy education program were also included in communications but have now been included in the Marketing and Business Development Fund activities.
- (iii) Board members' per diems, allowances, and travel include an annual honorarium for the Chair of \$61,287 (2017-\$59,793), Vice-Chair \$31,256 (2017-\$30,494), 2nd Vice-Chair \$16,809 (2017-\$16,399) and other Board members of \$12,723 (2017-\$12,412). Board members were paid per diem rates of \$290 (2017-\$283) and a half-day rate of \$145 (2017-\$142). Board members' travel includes a travel allowance of \$1,680.
- (iv) Assistance from contractors includes human resource consulting costs of \$36,454 (2017-\$25,034) and information technology consulting costs of \$142,200 (2017-\$103,260) for the development of the new business software.
- (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.

15. Grants and payments to affiliates:

	2018	2017
DFC assessment	\$ 1,087,081	\$ 1,104,386
Other	-	9,000
	\$ 1,087,081	\$ 1,113,386

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 \$83,656 (2017–\$82,482) 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 in support of its Marketing and Business Development Fund activities. These contracts have resulted in commitments that extend beyond the current year as follows:

	2019	2020	2021	2022	2023
Marketing contracts	\$ 2,597,063	\$ 2,727,178	\$ 2,657,771	\$ 2,578,891	\$ 1,541,872
	\$ 2,597,063	\$ 2,727,178	\$ 2,657,771	\$ 2,578,891	\$ 1,541,872

18. Related party transactions:

During the year, DFO invested in a joint venture MUV Inc. a jointly controlled not-for-profit organization. DFO and 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 year, net costs of \$28,906 were expensed in the unrestricted fund, and receivables from MUV Inc. of \$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 per cent (2017 – prime less 0.8 per cent). 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.

DAIRY FARMERS OF CANADA REPORT



NOVEMBER 2017 – OCTOBER 2018

2018 was a transition year at DFC, with the national association realigning its structure and staff contingent.

With the arrival of a new CEO, Jacques Lefebvre, DFC engaged in a review of its activities and structure. This led to a “right-sizing” followed by a “right-fitting” of the organization. In other words, DFC aligned its staff contingent to match resources and ensure it had the best people in the right position.

DFC, under the direction of its Board of Directors, also engaged in consultations with its members and a broader segment of dairy farmers through a survey and at a delegates’ session during the annual general meeting. This input from dairy farmers provided the foundation for the development of DFC 2.0. At the heart of what we have heard:

- There is a real need to review and reform DFC, and thus execute on DFC 2.0;
- There is strong support for and recognition of the need for a single, strong national voice representing Canadian dairy farmers;
- Stable funding is an essential ingredient to ensuring a strong and effective national voice;
- It is critical that the national organization work closely and effectively with all provincial organizations; and
- Members see value in industry-wide objectives with joint accountability between DFC and the provinces.

DFC 2.0 is a rethink of the dairy farmers’ national association and it is directed by dairy farmers. Ensuring dairy farmers are in “the driver’s seat” is a core value of DFC 2.0. This is why, in an exercise absent of staff, DFC’s Board of Directors and all P10 Chairs identified four objectives for DFC in 2019:

1. Ensuring an effective DFC governance structure is in place – because a strong board and solid governance practices make for a strong DFC;
2. Marketing to millennials – because this is our future customer;
3. Engaging Canadians – because we need to gain support for dairy farmers and supply management;
4. Driving effective partnerships – because effective partnerships amongst ourselves and with third-party stakeholders will help us achieve our goals.

Consistent with this new direction for DFC, the Board of Directors continues to advance the national policy, as well as lobbying and marketing priorities as identified by members. Our elected representatives and DFC staff continue to work proactively with provincial Boards and industry partners to manage the sector, promote milk and dairy products, and maintain an effective and efficient system.

POLICY AND INTERNATIONAL TRADE

NAFTA/CUSMA

The NAFTA renegotiations, which formally started in August 2017, brought international trade back to the top of DFC’s priorities. Renegotiations culminated in an agreement which was reached on September 30, 2018. Unfortunately, the agreement in principle included concessions, which seriously impacted the Canadian dairy sector.

DFC estimates that the market access concessions agreed to as part of CUSMA represent an annual loss equivalent to 3.9 per cent of milk production. This translates to an estimated loss of \$190 million to farmers’ revenues annually. Apart from market access concessions, the CUSMA stipulates that Class 7 be eliminated, and includes provisions that aim to limit Canadian exports of SMP, milk protein

concentrates (MPC), and infant formula. Provisions limiting Canadian exports of these dairy products could amount to an additional revenue loss of \$350 million per year for Canadian dairy farmers.

Throughout renegotiations, DFC maintained a presence at each round (both formal and informal) and met regularly with government officials. In addition, DFC conducted economic impact analyses for each component of the agreement impacting the dairy industry (market access, export surcharge, etc.). Further, a comprehensive presentation was developed to explain details of the agreement as well as the impact to producers, which was shared with members.



During this time, DFC made robust representations to government officials to ensure the deal would not impact farmers negatively. Meetings were held with Prime Minister Justin Trudeau, Minister of Foreign Affairs, Chrystia Freeland, and Minister of Agriculture Lawrence MacAulay in which DFC sought commitments to defend Canadian dairy farmers during renegotiations. DFC also initiated a solid public relations strategy, which included activities such as individual videos with dairy farmers from provincial associations, press conferences, media interviews, open letters, and social media posts. In addition, DFC initiated a letter writing campaign through MyCanadianMilk.ca, which generated letters from 26,000 individuals, each sent to government officials.

In parallel, briefings were made to senators, the Official Leader of Opposition, and several key opposition MPs, resulting in many questions delivering DFC's key messages being asked during Question Period in the House of Commons.

When a deal was announced on September 30, 2018, DFC published an immediate reaction via written and video statements by DFC's President and Vice-President, followed by other public documents. An editorial article titled "The true price of giving-in to Trump's ultimatum in dairy" was sent to all major and local newspapers and was picked up by 142 media outlets.

Along with other farmers, DFC's president met again with Prime Minister Trudeau and Minister Freeland to discuss the new trade deal. DFC briefed the Leader of the Opposition, the Leader of the NDP, the Minister of Agriculture, the Prime Minister's Office, several MPs, and senior Ministerial staff on the projected impact of CUSMA on dairy farmers and the need for a mitigation strategy. In response to DFC's representation, two working groups have been created by Agriculture and Agri-Food Canada: one on mitigation, and a second on a long-term strategy for the dairy sector in the Canadian economy.

Throughout trade renegotiations and after the deal was announced, DFC informed and shared key messages with its provincial member associations and sought their input on various strategies. Dairy farmers were kept informed through the DairyExpress+ app and biweekly newsletters, tweets, posts on Facebook, and videos from our spokespeople. A toolkit intended for farmers was also developed to help them communicate with their federal MP.

In light of Canadians' reactions to the trade deal, DFC amplified the voices of Canadian farmers and consumers in support of Canadian dairy by developing a marketing campaign promoting the certification mark of origin launched in 2016. An online store was also launched in October, selling branded promotional items.

CPTPP

The CPTPP was signed by 11 transpacific trading partners on March 8, 2018. DFC expressed its disappointment that the CPTPP agreement maintained concessions agreed to in the original TPP, which then included the U.S. market access concessions agreed to as part of the CPTPP—despite the withdrawal of the U.S. from the agreement—representing a loss of 3.1 per cent of milk production in Canada.

Following the announcement of the CPTPP, representatives from DFC met with Ministers Champagne and MacAulay, who committed to implementing measures to help the sector cope with the increased imports and sustain investments in the industry.

Communications and Government Relations



In early February, DFC held Ottawa's first Lobby Day and reception of the year. Farmer delegates from all provinces met with more than 160 MPs and senators to discuss concerns related to trade and the Healthy Eating Strategy. The reception welcomed close to 400 guests including MPs and senators, Minister MacAulay, Canada's lead negotiator Frédéric Seppey, and the Standing Committee on Health Chair Bill Casey.

During the annual Policy Conference in February, DFC presented a new communications tool, the DairyExpress+ app, destined for delivery to all dairy farmers across Canada. The app provides regular news from DFC as well as offers comprehensive FAQs on a variety of topics. This important tool requires co-operation with provincial associations, since they must validate the producers' licence number in order to access the app.

To increase outreach throughout the year, the Board of Directors decided to dedicate half a day at each of their board meetings in Ottawa to lobby key Ministers, MPs, and Senators.

proAction

The work on proAction has continued according to plan, and milestones continue to be met in a timely manner. The validation phase of the Animal Care and Traceability modules of proAction began in 2017. In July 2018, DFC chose Holstein Canada again as the provider of choice for cattle assessment services, following general satisfaction with their performance in addressing arising issues during the first two years. DFC and the Canadian Dairy Network (CDN) have set up a national traceability system for dairy cattle called DairyTrace, which should be ready for use in 2019. Training material for biosecurity and completing a life cycle assessment of milk production were also part of the activities in 2017 and 2018.

In November 2017, DFC hosted a symposium entitled “Building a Sustainable Dairy Industry” which over 200 food industry stakeholders attended. The symposium allowed for valuable networking among all members of the food supply chain, with the objective of fostering work and collaboration to continue to improve the sustainability of the industry.

Food Guide and FOP labelling



DFC continued to lobby for dairy farmers’ interests on the Marketing to Children regulations and on FOP warning labelling. As a direct result of DFC’s ongoing advocacy on this file, Health Canada announced an exemption for whole milk from FOP labelling in February 2018. DFC continues to seek further exemptions or changes in the assessment criteria for all nutritious milk products with Health Canada.

Business Stakeholder Relations

In October 2018, Parmalat Canada agreed to display the DFC logo in connection with their Beatrice and Lactantia fluid milk products for the purpose of conveying that the products are made with 100 per cent Canadian milk. Parmalat also signed a DFC Advertising Logo Agreement allowing them to use the logo on all point-of-sale materials and marketing assets.

In October 2018, Saputo signed a DFC Advertising Logo agreement allowing them to use the logo on all point of sale materials and marketing assets in connection with Saputo’s launch of Joyya. The DFC logo will be displayed by Saputo in their digital, out of home, in-store, and event activations.

Chapman’s, Dairy Queen, and Tim Hortons were among the stakeholders leveraging DFC’s logo in their marketing activities, promoting the use of 100 per cent Canadian milk in the products they serve. In 2018, DFC partnered with MissFresh, an online meal kit supplier to promote menu choices that use exclusively 100 per cent Canadian dairy.

Marketing

The DFC marketing department successfully ran the following campaigns: *If it’s made with Canadian milk, it’s worth crying over*, *Pour a tall cold one*, *Holiday milk campaign*, and *Canadian cheese. Crafted with creativity*. Additionally, DFC representatives hosted marketing events or booths at 39 festivals/events/locations. Following Dairy Farmers of Canada’s new logo launch in 2017, DFC focused on educating Canadian consumers to ensure a successful logo transition in the market.

The *Buy with pride, Buy Canadian* campaign generated over 300 million impressions through in-store, online, and flyer promotion showcasing both the DFC certification logo and the message “Buy with Pride, Buy Canadian” to drive sales in the dairy, deli cheese, and frozen sections of the store.

Nutrition

The “*Strong people get more out of life*” campaign aimed to motivate consumers to increase their consumption of milk, yogurt and cheese by showing the valuable role the products can play in a healthy lifestyle in keeping them strong.

Health Professionals

DFC offered three webinars to 4,416 health professionals on the benefits of dairy products. In addition, from August 2017 to July 2018, DFC representatives visited 9,303 physicians for face-to-face discussions on the benefits of various dairy products for patients with cardiovascular disease, which makes up a significant portion of their clientele. Taking into account participation in several medical conferences across Canada, DFC’s reach was 16,781 visits in total.

Research

From April 1, 2017 to March 31, 2018, DFC invested \$1.7 million in dairy research. Combined with other investments from industry partners, Agriculture and Agri-Food Canada, and the Natural Sciences and Engineering Research Council of Canada, there was a total investment of \$7.8 million. This funded 45 research projects related to dairy cattle health, care, and welfare, sustainable milk production, dairy genetics and genomics, and human nutrition and health. The Dairy Research Symposium in February 2018 served to present key results from Dairy Research Cluster to more than 110 dairy producers, stakeholders, processors, sector partners, dairy professionals, and researchers.



What lies at the heart of the Canadian dairy system?

A commitment to quality.

Canadian dairy farmers are committed to quality. That commitment ensures Canadians can trust the milk they drink and the dairy products they consume are local, safe, and sustainable.

The Canadian dairy system provides:

Strength to operate progressive, innovative, and sustainable family businesses that continue to create and strengthen local and rural economies.

Stability to balance supply and demand, minimizing waste and returning fair value to dairy producers and processors.

Growth to continue to lead Canada's agricultural economy in the production of some of the safest, highest quality milk in the world.

Sustainability to provide safe and nutritious food economically, and with the lowest possible impact on the environment.

The value of the Ontario dairy industry...

~ **20%** of Ontario's primary agriculture economy is dairy

~ **\$6,106.850** million Ontario dairy value chain contribution in GDP

75,827 full time Ontario jobs supported by the dairy industry

3,504 local dairy farms in Ontario

849,786 L of fresh milk donated by **372** local dairy farms to Ontario food banks (2017-18)

\$1.5M+ allocated over three years by dairy farming families to increase youth access to community-level sport across Ontario

\$600M+ in new, confirmed dairy processing investments



Canada's dairy system distributes value to both consumers and dairy farmers, providing the balance needed to keep dairy farmers' commitment to quality and sustainability.

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STRENGTH



GROWTH



STABILITY



SUSTAINABILITY



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