

CANADIAN BROILER HATCHING EGG MARKETING AGENCY

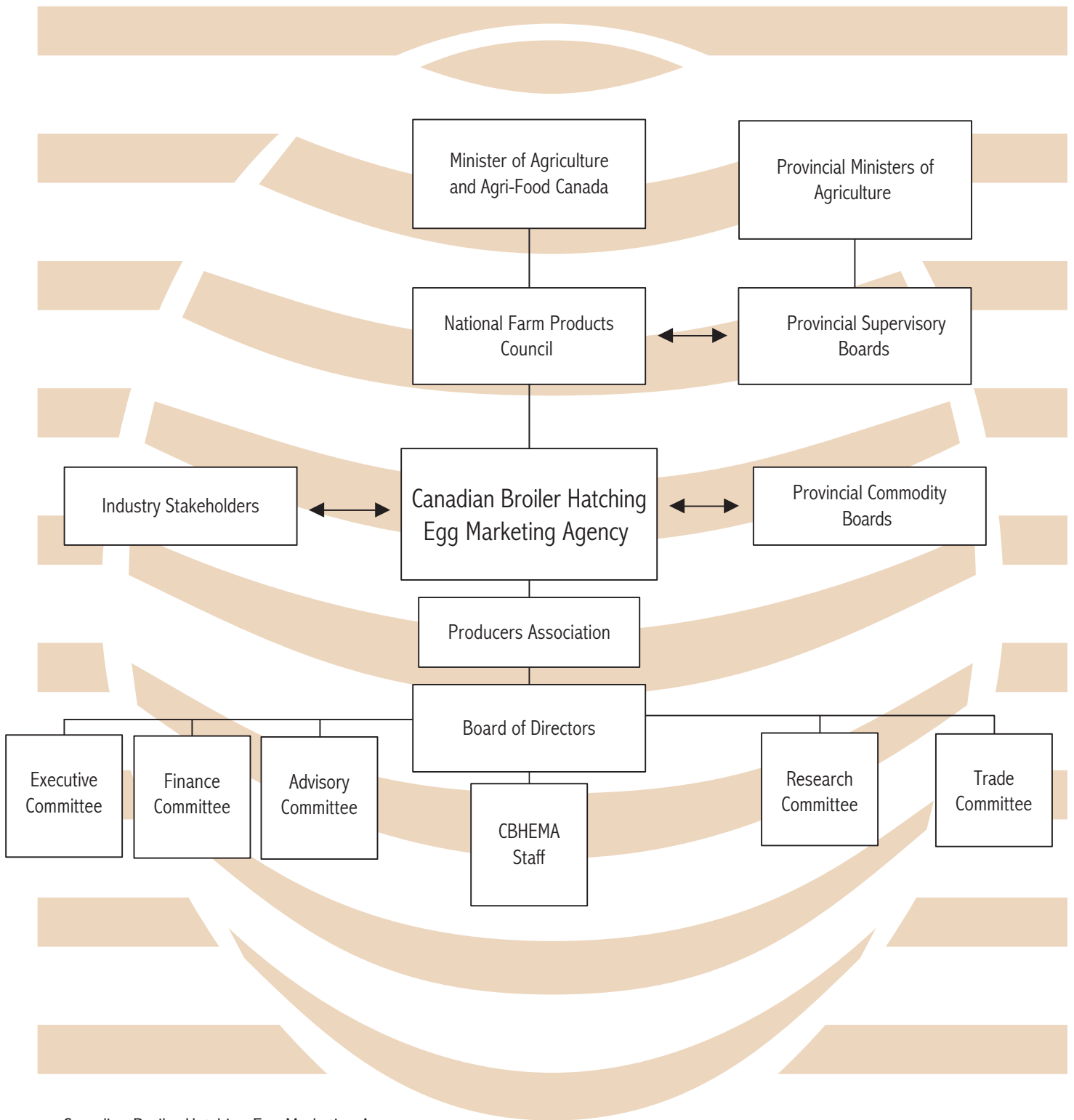


20th Edition

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Annual Report



CBHEMA ORGANIZATIONAL STRUCTURE



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CHAIRMAN'S REPORT FOR 2006

It is a pleasure to report to you as chair of CBHEMA on this, its 20th anniversary. I have had the privilege of serving as your chair for the last 5 years, which has brought many challenges but has also been a rewarding experience.

It has now been 20 years since hatching egg producers established a national agency and have had the opportunity to operate under a supply management system in Canada. Throughout this time, hatching egg producers have enjoyed stability, profitability and growth that are the envy of other sectors of Canadian agriculture. It is true that we are involved in producing a commodity that has enjoyed unparalleled growth and popularity world-wide over the past two decades, but I am convinced that hatching egg producers would not have benefited to the extent we have if we were operating in an open market rather than supply management since 1986.

However, supply management has not been without critics who have complained that either the system is outdated or unresponsive to consumer demand or drives the price of food up for consumers or all of the above. These criticisms have been around since the beginnings of supply management in the 70s and, in my opinion, have never had much substance to them.

These critics don't stop to think that producers have little influence on the price consumers pay for food, especially as today's consumer selects food for their wholesomeness or healthful benefits while equally demanding convenience.

Study after study has shown how little the producer gets from the overall consumer dollar. In fact, farmers operating under supply management receive just 2 to 4¢ for every dollar the consumer spends on food. A real-life example of this occurred in the summer of 2003, when Canadian beef prices completely collapsed because of the finding of BSE in one cow in Alberta. While cattle producer prices fell by 50-60% during that summer, retail prices for beef actually rose during the same time. There are other countries that deregulated their agriculture sectors which resulted in lower prices to producers but no change in consumer prices. Against this backdrop, one can see how weak the argument is that supply management raises prices to consumers.

Another complaint is that supply management is too cumbersome to respond to consumer demand. Over the course of the past 20 years, supply managed commodities have been in the forefront in responding to Canadian demands in regards to their food and how it's produced. A recent example of this is food safety programs in Canada. Of the 7 commodities that had a food safety program reviewed by the federal government at the start of 2006, 4 were supplied managed sectors.

Today, Canadian consumers have over 10 times as many chicken products to choose from as they did twenty years ago and as a result, eat twice as much chicken as they did then. Once again, reality paints a completely different picture than the criticism.



Critics have also called the system outdated and obsolete. Supply management was first called onto the carpet by these critics in the 1980s, when globalization, competitiveness and diversification were the buzzwords of the “Reaganomics” and the key to the survival of Canadian agriculture. Well, once again, experience has shown that this has not been the case, that in fact most of Canadian agriculture is in worse shape than it was in the 1980s and despite this, supply management has thrived.

Supply management will always have its critics who will rely on the same old arguments to discredit it. Fortunately these criticisms aren’t reflective of the Canadian public in general, who consistently show overwhelming support for supply management. It is time for these critics to expand their narrow vision of supply management specifically and agriculture in general and look at these in the bigger context. They have to think “outside the box” and view agriculture as not just a primary industry that is located in scattered parts of rural Canada but as an industry that provides the single most important service to Canadians – feeding them.

In the future, Canadian agriculture will also become a major player in other aspects of Canadian society, including safeguarding and improving human health, providing alternative energy sources and contributing to protecting and improving the environment.

I believe that these are the qualities Canadians are looking for from their agricultural sector and supply management is uniquely positioned to respond to these new challenges.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ed De Jong', with a stylized flourish at the end.

Ed De Jong
Chair

GENERAL MANAGER REPORT

The following will highlight some of CBHEMA's activities for 2006.

1. Amended Proclamation

Over the past several years, a number of changes have occurred in the hatching egg industry that needed to be accounted for in CBHEMA's proclamation. In 2004, as a result of a disagreement over CBHEMA's allocation methodology, Alberta withdrew from CBHEMA. In 2006, the Manitoba government dissolved the Manitoba Broiler Hatching Egg Marketing Commission and transferred its powers and authority to the Manitoba Chicken Producers. In keeping with the desire of the federal government to ensure industry stakeholders have a say in national agency affairs, CBHEMA directors decided to replace its Governor-in-Council appointee and allow the Canadian Hatchery Federation to name directors to its Board of Directors. When CBHEMA has 5 or more provinces as members, hatcheries will be able to name 2 directors - 1 from the east and 1 from the west. Finally, the Agency took the opportunity to update and shorten its name to "Canadian Hatching Egg Producers" (CHEP).



In late November, we received approval for these amendments from the last of the signatory provinces and now our amended proclamation is in the hands of the federal government. We are hopeful for a quick passage of these amendments so that our new Proclamation will be in effect by the first half of 2007.

2. Updating the Federal Provincial Agreement

Along with our Proclamation, the Agency has renewed the other parts of its Federal Provincial Agreement (FPA), which include a new operating agreement and a modified allocation methodology. The entire package was approved in principle by the board of directors in July, but since that time, the Ontario signatories have indicated that they have issues with the proposed allocation methodology.

The Agency has incorporated flexibility in its revised allocation methodology by allowing new entrants to reach the national import threshold of 17.43% by sharing annual market growth between domestic production and imports. The Ontario signatories felt that this flexibility generated too much uncertainty for member provinces of CBHEMA and therefore suggested that new entrants reach the national import threshold within a defined timeframe.

Near the end of the year, directors tried unsuccessfully to resolve this issue. As a result, CBHEMA's primary goal is to resolve this issue in 2007 in order that its renewed FPA is acceptable to all signatories.

3. Increasing CBHEMA Membership

Given that there are currently four member provinces, CBHEMA has spent considerable time over the last number of years in dialogue with non-signatory provinces regarding their membership into CBHEMA.

In addition, CBHEMA has invited hatching egg producers from Alberta, Saskatchewan and New Brunswick to attend its meetings as observers and, at its last meeting in November, producers from Saskatchewan and Alberta actively participated. At that meeting, the Saskatchewan delegation indicated that producers in that province look favourably at joining CBHEMA and that plans to proceed are underway.

CBHEMA has also held exploratory discussions with hatching egg producers in New Brunswick over the course of the past several years and plans to meet with them again early next year in order to continue this dialogue. CBHEMA is mindful however that a formal marketing structure needs to be developed in that province before hatching egg producers in New Brunswick would be able to join CBHEMA.

Finally, CBHEMA will need to resolve its allocation methodology in a fashion that meets both the needs of member provinces and non-member provinces before it can resume discussions with Alberta in regards to rejoining the Agency.

4. Next Generation of the Agricultural Policy Framework

The 5 national supply management agencies took the opportunity afforded by the government's review of its Agricultural Policy Framework (APF) to have supply management formally recognized by both federal and provincial governments as a valuable farm marketing program. Given that supply management forms the foundation of the business risk management for the poultry and dairy sectors in Canada, our organizations believe that supply management and its three pillars - import controls, producer pricing and production disciplines - should form part of the business risk management pillar of the next generation of agriculture and agri-food policy.

5. Avian Influenza Preparedness

Since the outbreak of avian influenza (AI) in the Fraser Valley in 2004, CBHEMA has worked extensively with the other poultry industry sectors to enhance our preparedness for avian influenza or other disease outbreaks.

The on-farm food safety program, CHEQT™, has been beefed up to account for the biosecurity lessons learned as a result of the BC incident. We have worked with the government on national avian biosecurity protocols, developed a pre-emptive culling protocol to limit the spread of a disease to a very small area and are participating in a survey to determine the prevalence of AI in Canada.

CBHEMA has taken its role in AI prevention very seriously and has worked diligently to prevent or mitigate the disease in the future but there is one key element in the whole scheme that has fallen short of our expectations: the compensation paid under the *Health of Animals Act*.

We have been in discussions with officials from the Canadian Food Inspection Agency and Agriculture and Agri-food Canada for the better part of 2 years in an effort to obtain the right compensation values for our producers, all without success. Throughout these meetings, we have tried to convey the message that adequate compensation is the primary tool for the early detection and control of diseases as producers are on the front line of this defense. Officials have refused to include a portion of the fixed costs that should be included in the fair market value

of broiler breeders. Instead, they have indicated that they are looking at existing government programs and possible gaps in these programs to determine how these costs could be covered.

As an industry, we have been very frustrated with how the government has handled compensation. We have done, and continue to be prepared to do, our part to enhance AI preparedness in Canada. However the government must have the same commitment and support the people who are on the front lines of this battle - the producers.

Sincerely,

A handwritten signature in black ink, appearing to read 'Errol Halkai', with a stylized, cursive script.

Errol Halkai
General Manager, CBHEMA

CBHEMA BOARD OF DIRECTORS IN 2006

From left to right: Gyslain Loyer, Vice-Chair, Quebec; Jack Greydanus, Ontario; Ed De Jong, Chair, British Columbia; Leonard Klassen, Manitoba; Tom Fleming, Governor-In-Council



CBHEMA VISION STATEMENT

“To provide the Canadian chicken industry with hatching eggs that meet or exceed expectations for safety, quality, animal husbandry and environmental stewardship. A commitment to provide hatching eggs that meet the need of the Canadian market place while ensuring fair returns to its members and support stable, consistent and profitable growth for all stakeholders.”

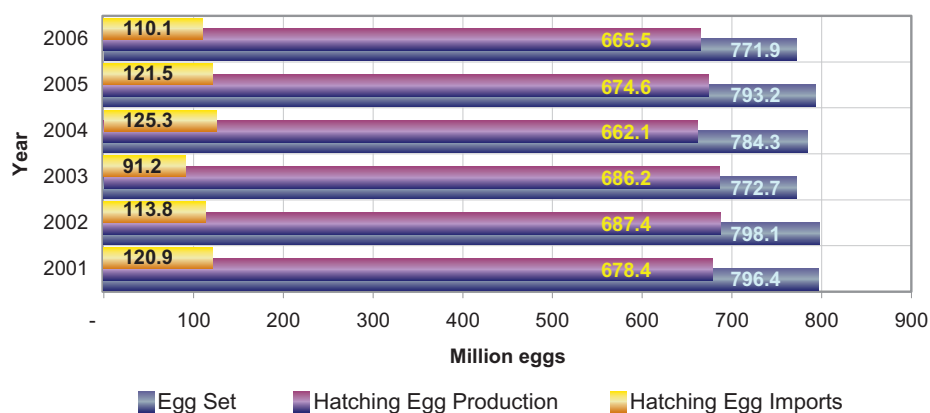
2006 MARKET IN REVIEW

CANADIAN HATCHING EGG MARKET

The hatching egg industry dealt with a certain amount of market volatility in 2006 as the Canadian chicken industry struggled to lower excess supplies in the face of persistently tight demand. In 2006, chicken production reached 966 Mkg, a 0.8% decrease relative to the previous year, while the number of birds slaughtered fell by 1.3%. Both of these factors in the chicken market set the stage for lower demand for hatching eggs in Canada.

In 2006, Canadian hatcheries set a total of 771.9 million eggs, down 2.7% from 2005. Domestic hatching egg production reached 665.5 million eggs in 2006, a 1.3% drop from 2005, while imports of hatching eggs declined even further, decreasing by 9.4% to 110.1 million eggs. In contrast, broiler chick imports grew by 9% in 2006, reaching a total of 14 million chicks. The decline in domestic demand for hatching eggs was partially offset by the export of 3.67 million eggs, a 22% increase over the previous year. Overall, hatching egg production represented 99.4% of CBHEMA's 2006 final allocation of 669.7 million eggs.

**Canadian Broiler Hatching Egg Statistics
2001-2006**



With respect to hatching egg and chick import quota utilization, International Trade Canada (ITC) issued import permits equivalent to 112 million hatching eggs in 2006, representing a tariff rate quota (TRQ) fill rate of 97.2%. In addition, ITC issued import permits for an additional 14 million chicks in 2006. Thus, the overall TRQ fill rate in Canada for 2006 equalled 92.4%, up 5.5% from 2005.

2006 Provincial Production

Overall, the production of hatching eggs in Canada contracted by 1.3% from 2005. The only provinces to register increases in production were British Columbia (13.9%) and Manitoba (2.2%). The increased British Columbia production was primarily due to the low levels of production in 2005 as that province continued its recovery from the AI outbreak of the previous year. In fact, the province recorded its lowest ever level of hatching egg production in January 2005, after which time it gradually increased its output levels and reached full production capacity by the middle of 2005.

¹ Total import permits issued by ITC include eggs or chicks which may not be suitable for incubation or placement and eggs imported at the end of 2006 but set in incubators in 2007.

Table 1 Provincial Production from 2003 to 2006 (million eggs)

Year	B.C.	Alta.	Sask.	Man.	Ont.	Que.	Maritimes	Canada
2006	103.6	70.8	24.4	32.5	196.5	179.7	58.0	665.5
2005	89.3	75.3	25.4	31.8	207.5	187.5	57.8	674.6
2004	65.9	76.3	22.5	31.2	221.2	185.8	59.1	662.1
2003	110.7	73.5	25.1	28.9	208.2	184.8	55.0	686.2
% Change								
06/05	+13.9	-6.4	-4.0	+2.2	-5.6	-4.4	+0.3	-1.3
05/04	+26.2	-1.4	+11.3	+2.0	-6.6	+0.9	-2.3	+1.9
04/03	-68.0	+3.7	-11.5	+7.2	+5.9	+0.6	+7.5	-3.6

Production figures includes hatching egg exports

During 2005, other provinces increased their hatching egg production to help supply the BC market. However, as BC production capacity recovered, hatching egg production in other provinces fell back to more normal levels. As a result, 2006 production levels in most provinces declined with respect to 2005 outputs. For example, production in Ontario and Quebec fell by 5.6% and 4.4%, respectively. As well as being no longer required to supplement the BC market, other factors led to the decline in these provinces' production in 2006. In Ontario, these included lower chicken production (1.3%), an increase in the average weight of marketed broilers (0.7%), and an increase in hatchability (1.9%). Meanwhile, an increase in hatchability (0.6%) and a 6.6% increase in imports contributed to Quebec's decline in hatching egg production in 2006.

Table 2 Selected Factors Impacting Hatching Egg Production

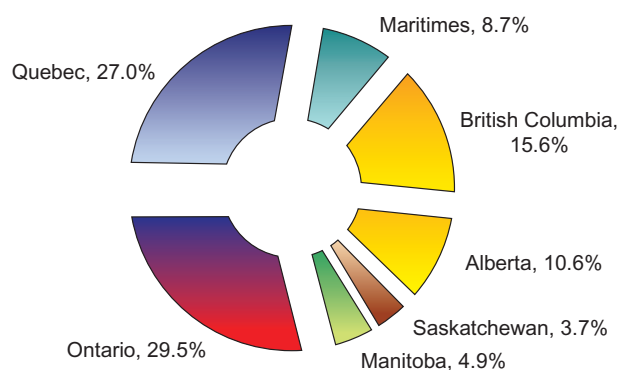
	B.C.	Alta.	Sask.	Man.	Ont.	Que.	Maritimes	Canada
Hatchability (%)	81.2	80.4	78.8	79.8	84.1	82.0	81.1	82.0
% change 06/05	+1.1	+0.9	+3.4	-1.8	+1.9	+0.6	0.0	+1.0
Total Imports (million eggs)	21.5	4.9	7.2	5.7	38.8	48.1	1.7	128.1
% change 06/05	-30.6	+2.6	+16.2	-3.1	+1.4	+6.6	-2.1	-1.2
Chicken Production (mkg.)	146.4	84.8	36.8	40.4	319.7	262.6	75.7	966.3
% change 06/05	-5.2	-0.7	+20.9	0.0	-1.3	0.0	-1.4	-1.0
Avg. wt. of Broilers (kg. evisc.)	1.54	1.61	1.60	1.43	1.66	1.64	1.50	1.61
% change 06/05	+1.4	-1.0	+13.2	+1.4	+0.7	-1.3	-0.5	+0.5
Chicken Production Market Share (%)	15.7	8.7	3.8	4.7	32.0	26.7	8.4	100.0
% change 06/05	-0.9	+0.1	+0.3	0.0	-0.2	+0.7	0.0	0.0

Other provinces facing declining production were Alberta and Saskatchewan, which lowered their 2006 hatching egg production levels by 6.0% and 3.8% respectively.

On the other hand, production increased in Manitoba by 2.2% in 2006 in response to a 1.8% drop in hatchability. The Maritime provinces also registered a slight increase of 0.3% in hatching egg production in 2006.

British Columbia, Manitoba and the Maritimes increased their market share of Canadian hatching egg production in 2006. British Columbia climbed by 2.3% to 15.6%, thereby regaining the market share it lost due to the AI outbreak. Manitoba's share rose 0.2%, while the Maritimes inched up 0.1%. Ontario's market share fell by 1.2% to 29.5%, and Quebec's market share declined by 0.8% to 27%, while Alberta and Saskatchewan lost 0.5% and 0.1% market share, respectively.

Provincial Market Shares of Hatching Egg Production 2006



2006 Farm Cash Receipts and Prices Paid to Producers per Province

In 2006, the total farm cash receipts earned by hatching egg producers rose marginally by 0.4% from \$188.2 million in 2005 to \$188.9 million. Reflecting the return to full production capacity, farm cash receipts in BC rose 13.3% in 2006. The increase in the farm cash receipts in other provinces was due primarily to an increase in the average annual price paid to hatching egg producers, which increased from 35.23¢ to 35.90¢ per saleable chick. The higher hatching egg price was driven by higher feed costs in Ontario and Quebec.

Table 3 Farm Cash Receipt and Producer Prices in Selected Provinces 2006

	Farm Cash Receipts		Hatching Egg Producer Prices	
	\$000	% change 06/05	¢/saleable chick	% change 06/05
B.C.	30,266	+13.3	36.88	-3.5
Man.	9,902	+2.3	38.50	0.0
Ont.	54,041	-2.6	34.78	+2.8
Que.	49,831	-0.4	34.99	+3.7
Canada	188,930	+0.4	35.90	+1.9

Source: CBHEMA

Total import permits issued by ITC include eggs or chicks which may not be suitable for incubation or placement and eggs imported at the end of 2006 but set in incubators in 2007.

2005 OVER AND UNDER PRODUCTION ASSESSMENTS

The final assessment for over and under production for 2005 was presented by CBHEMA staff during the summer meeting held in Niagara Falls, Ontario. In British Columbia, the rebuilding of the breeding stocks culled during the avian influenza outbreak of 2004 stretched well into 2005. In fact, hatching egg production from breeder chicks placed in 2004 did not begin until early 2005, and only in July 2005 did British Columbia regain its full production capacity. As a result, British Columbia only produced 78.3% of its 2005 quota; this was the second consecutive year of underproduction in that province. Normally this would have triggered an underproduction penalty, but given the extraordinary circumstances involved, CBHEMA directors agreed to waive any underproduction penalties that BC may have incurred.

In regards to over-marketings, CBHEMA's regulations stipulate that provinces will be penalized for any production in excess of 101% of their allocation. Nevertheless, provinces are periodically offered the opportunity to lease quota amongst themselves in order to correct any imbalance in provincial allocations that may have occurred during the year.

Because of the low production levels in 2005, British Colombia offered 10 million eggs for lease. To offset its over-marketings, Quebec leased 147,355 eggs, which lowered its quota utilisation to the 101% threshold. As a result of these transactions, no province was assessed an overproduction penalty.

Table 1 2005 Production and Allocations by Provinces

Province	Production (000 kgs)	Allocation (000 kgs)	Utilization %	Quota Leased (000 kgs)	Final % Utilization
B.C.	89,497	114,256	78.3	-147	78.4
Man.	32,412	32,955	98.4		98.4
Ont.	207,473	208,397	99.6		99.6
Que.	183,519	184,557	101.1	+147	101.0

Source: CBHEMA

REPORT OF THE CANADIAN BROILER HATCHING EGG PRODUCERS ASSOCIATION (CBHEPA)

The CBHEPA had a successful year with its student programs. With the addition of a new drawing contest, 2006 was very creative and colourful!

The 2006 CBHEPA Young Farmers Program participant was Tracy Ouellet from LaBroquerie, Manitoba. Tracy visited the Ross facilities in Huntsville, Alabama. She truly enjoyed the hospitality and the knowledge she gained during her tour. In her own words “*it was one of the best trips of my life*”.

The recipient for the 2006 Broiler Breeder Research Program was Erica Holme from Edmonton, Alberta for her project entitled “*The relationship between female feather cover, mating frequency and male-to-female aggression in Broiler Breeders*”. She will be presenting her analysis at the CBHEMA 2007 Annual General Meeting. You can find her report on CBHEMA's website at www.cbhema.com

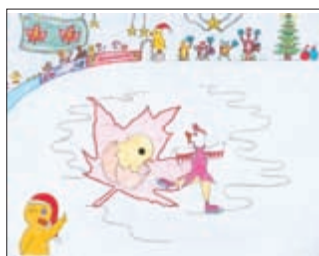
Last but not least CBHEPA's first drawing contest was a test run but proved to be very successful. It drew much attention from our producers' very talented children, grandchildren and relatives. Five drawings were selected during the CBHEPA's summer meeting in Niagara Falls. The winners: Sophie den Hertog, Jessica Froese, Philippe Laperle, Carolane Dumont and Melanie Phaneuf. The selected drawings graced the cover of CBHEMA's 2006 Christmas cards. CBHEPA is planning to launch the 2007 drawing contest in early spring.



Sophie den Hertog, Chilliwack, BC



Jessica Froese, Abbotsford, BC



Philippe Laperle, St-Ours, Quebec



Carolane Dumont, Wickham, Quebec



Mélanie Phaneuf, St-Liboire, Quebec

Ed and Linda Mosterd of Shakespeare, Ontario were selected CBHEPA's Producers of the Year for 2006. They were presented this award during CBHEMA's Summer Meeting held in Niagara Falls, Ontario.



Ed and Linda Mosterd

I would like to thank my Committee Members for their work and support.

Sincerely,

A handwritten signature in black ink, appearing to read 'Chris den Hertog'.

Chris den Hertog
Chair, CBHEPA

REPORT OF THE ADVISORY COMMITTEE

The Advisory Committee met three times in 2006 to discuss factors shaping market conditions and to review the 2006 and 2007 chicken demands.

The chicken industry entered 2006 facing a relatively sluggish demand as a result of strong retail prices and exceptionally high energy prices which constrained consumer spending. Despite the outbreak of AI in 2004, survey results indicated that consumers remained confident in the safety of Canadian chicken and avian influenza was not expected to adversely impact demand for chicken in Canada in the near future.

However, AI outbreaks in different regions around the world lowered global demand, especially in Europe, and resulted in countries shutting their borders to imported poultry, which limited export opportunities for Canadian chicken. As a result these factors, CBHEMA's Advisory Committee expected chicken production for 2006 to reach 976.1 Mkg, virtually identical to 2005 production levels.

At its March meeting, the Advisory Committee warned that market conditions were deteriorating as a result of chronically high storage stock due to excess domestic production incurred in the latter part of 2005 and in early 2006, cheap imports from Brazil and the United States and a glut of chicken products on world markets. The Committee members maintained their projections for the 2006 chicken demand at 976 Mkg, and forecasted a slight improvement for 2007 to 983 Mkg.

The summer meeting held in Niagara Falls saw the Committee members re-affirm their position that the chicken demand for 2006 was not expanding. However, the Committee also noted that chicken market conditions were on a path to recovery as both domestic supply and storage stock tightened up. Still, the Committee believed that it would require the remainder of 2006 and much of 2007 for equilibrium to return to the Canadian market. As a result, the Committee lowered their forecasts for chicken production in 2006 and 2007 to 972 Mkg for each year.

By its November meeting, market conditions finally took a turn in the right direction as frozen inventories slid below 30 Mkg and wholesale prices recovered, thereby setting the stage for 2007 to begin on sound footing.

The initial hatching egg allocation for 2007, set during the March meeting, was based on a projected chicken production level of 983 Mkg. During subsequent meetings in July and November, the Advisory Committee revised its chicken production forecast down to 972 Mkg, and then up to 980 mkg. respectively. While conservative, the Committee's outlook for the 2007 chicken demand remains firm and positive.

Sincerely,



Jack Greydanus

Chair, Advisory Committee



FINANCE COMMITTEE REPORT

The Finance Committee met on three occasions throughout 2006 to review CBHEMA's financial situation and budgets as well as update the Agency's financial policies as required.

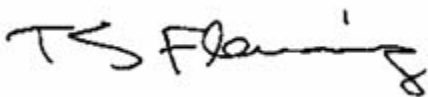
The Finance Committee presented a balanced budget for 2006 which required no increases in the national levy. The Committee projected revenues and expenditures to both equal \$1.3M. Revenues were expected to increase by \$67,000 from 2005 due to increased hatching egg production while expenses were estimated to rise by \$150,000 due to a directors' strategic planning retreat planned for early in 2006 and CBHEMA's increased involvement with a food safety strategy.

I am pleased to report that actual expenditures in 2006 did not rise from 2005 levels due in large part to the CBHEMA directors' continued efforts in reducing meeting and travel costs during the year as well as CBHEMA's efforts in obtaining significant funding from the federal government for its food safety program. As a result, CBHEMA ended the year with a surplus of \$108,000.

In November, the Finance Committee presented a budget for 2007 which projected no change in revenues and expenditures.

In addition to overseeing the Agency's finances, the Finance Committee also recommended two changes to CBHEMA's financial policies in 2006. The first dealt with a recommendation to simplify and standardize the Agency's travel rates and the second was to correct for an oversight in the financial policies regarding the reimbursement of CBHEMA representative on industry committees. Both these recommendations were accepted by CBHEMA's board of directors.

Sincerely,



Tom Fleming
Chair, Finance Committee



REPORT OF THE RESEARCH COMMITTEE

Our Research Priorities

This year, CBHEMA's research priorities included production-based research, environmental research, dark-meat utilization, food safety, and the control of Salmonella through vaccination. These areas all have potential to significantly improve the economic and quality aspects of broiler hatching egg production.

The Canadian Poultry Research Council (CPRC)

It was a busy year for the CPRC with several directors' meetings, review of applications for two new research programs and two major workshops hosted by the CPRC and Agriculture and Agri-Food Canada (AAFC).

In June 2006, the CPRC and AAFC hosted a workshop entitled "Poultry Welfare Research in Canada". It was agreed that much remains to be done in areas such as humane euthanasia, poultry transportation and behavior and that these efforts should be coordinated through a 'virtual centre' of poultry welfare research, championed by a Canadian poultry welfare and behavior specialist. There was also additional focus on putting research results into practice on Canadian farms.

In September, the Food Safety and Poultry Health workshop was held to present the status of the AviMicroNet program. Participants also had an opportunity to discuss challenges, opportunities and priorities with respect to food safety and poultry health.

Following the workshops, calls for applications were sent out for food safety and poultry health, and welfare. Several applications were received for each program and were reviewed by the Scientific Advisory Committee as well the directors of the CPRC. These new programs are in addition to the AviMicroNet and environmental research programs already in progress. With these four programs underway, the CPRC, through its member agencies, will have contributed over \$600,000 by the end of 2006. These funds will, in turn, be leveraged by other funding sources such as the Natural Science and Engineering Research Council (NSERC) which will result in a total of over \$2.5 million going toward poultry research in Canada.

Finally, the CPRC will be looking ahead to the next five to ten years by holding a strategic planning session early in 2007.

On-Farm Food Safety and CHEQ™

In 2006, the Research Committee's mandate was expanded to include food safety and the Canadian Hatching Egg Quality (CHEQ™) Program. The Committee's role will be to provide recommendations on the ongoing implementation and development of the program management system for CHEQ™. This year saw increased uptake of the CHEQ™ Program across Canada, with many provinces expecting to have all their producers certified by the end of 2006. CBHEMA is nearing completion and implementation of the program management system, which is the final step to getting CHEQ™ officially recognized by the CFIA. This has been achieved by working in partnership with Agriculture and Agri-Food Canada's Canadian Food Safety and Quality Program (CFSQP). I look forward to seeing continued uptake as the CHEQ™ program matures and becomes a part of the producers' day-to-day production practices.

Sincerely,



Chris den Hertog
Chair, Research Committee



CBHEMA ALTERNATES



From left to right: Mario Phaneuf, Quebec; Bernie Friesen, Manitoba
Chris den Hertog, British Columbia; absent: Reg Cliche, Ontario

PROVINCIAL MANAGERS



From left to right: Bob Guy, Ontario; Dave Cherniwchan, British Columbia;
Wayne Hiltz, Manitoba; Pierre Belleau, Quebec

CBHEMA STAFF



From left to right: Joy Edstron, Bookkeeper; Errol Halkai, General Manager; Victoria Sikur, Food Safety Officer; Nicole Duval, Executive Assistant; absent: Michel Dubreuil, Economist

FINANCIAL STATEMENTS
For
CANADIAN BROILER HATCHING EGG MARKETING AGENCY
For year ended
DECEMBER 31, 2006

CANADIAN BROILER HATCHING EGG MARKETING AGENCY
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DECEMBER 31, 2006

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Welch & Company LLP
Lévesque Marchand, Chartered Accountants

AUDITORS' REPORT

The Minister of Agriculture and Agri-Food
Government of Canada

The National Farm Products Council

The Members

CANADIAN BROILER HATCHING EGG MARKETING AGENCY

We have audited the statement of financial position of the Canadian Broiler Hatching Egg Marketing Agency as at December 31, 2006 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In common with many agricultural products marketing agencies, the Agency derives revenue from levies charged to producers based on their marketings, the completeness of which is not susceptible of satisfactory audit verification. Due to the structure of the broiler hatching egg producers' levy, our verification of these revenues was limited to the amounts recorded in the accounts of the Agency and we were not able to determine whether any adjustments might be necessary to levy revenues, net revenue (expense), assets and net assets.

In our opinion, except for the effects of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of levy revenues referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Canadian Broiler Hatching Egg Marketing Agency as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Welch & Company LLP

CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

Ottawa, Ontario
February 8, 2007.

CANADIAN BROILER HATCHING EGG MARKETING AGENCY
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2006

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 406	\$ 100,406
Short-term investments - note 4	873,788	627,176
Accounts receivable:		
Levies	236,150	266,203
Other	29,202	53,377
Prepaid expenses	<u>11,415</u>	<u>9,218</u>
	<u>1,150,961</u>	<u>1,056,380</u>
PROPERTY AND EQUIPMENT - note 5		
Equipment and leasehold improvements	137,398	137,670
Less accumulated amortization	<u>124,346</u>	<u>121,217</u>
	<u>13,052</u>	<u>16,453</u>
	<u>\$ 1,164,013</u>	<u>\$ 1,072,833</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 77,533	\$ 105,506
Deferred contributions - note 7	<u>62,878</u>	<u>62,301</u>
	<u>140,411</u>	<u>167,807</u>
NET ASSETS		
Invested in property and equipment	13,052	16,453
Internally restricted for research purposes	28,750	35,768
Internally restricted for severance contingency	155,933	142,232
Unrestricted	<u>825,867</u>	<u>710,573</u>
	<u>1,023,602</u>	<u>905,026</u>
	<u>\$ 1,164,013</u>	<u>\$ 1,072,833</u>

Approved on behalf of the Board:

.....Director

.....Director

(See accompanying notes)

CANADIAN BROILER HATCHING EGG MARKETING AGENCY
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2006

	<u>2006</u>	<u>2005</u>
Revenue		
Administrative levies	\$ 1,209,252	\$ 1,211,521
Research levies	30,000	17,500
Interest	<u>24,604</u>	<u>15,005</u>
	<u>1,263,856</u>	<u>1,244,026</u>
Expense		
Advertising	2,989	3,112
Amortization	6,038	9,538
Data verification	51,363	59,956
Directors' fees and participants' expenses	250,856	191,474
Fees	26,542	26,497
SM5 Geneva representative	14,404	21,377
WTO - coordinator	8,420	6,329
Interest and bank charges	935	811
Interpretation	45,732	32,092
Student programs	4,231	5,537
Trade Media and government training	6,356	67,590
Meetings	34,993	18,205
Office	23,420	21,872
On-Farm Food Safety Project	13,482	1,571
Postage, telephone and facsimile	12,394	9,149
Professional fees:		
Legal	59,081	32,401
Audit	8,910	8,750
Other	16,673	13,886
Rent	24,304	22,346
Research	37,500	25,993
Salaries and benefits	368,210	359,799
Staff expenses	38,405	19,455
Studies	-	1,000
Translation	35,760	33,235
Web-site and server	5,179	7,582
International trade activities	<u>49,103</u>	<u>135,405</u>
	<u>1,145,280</u>	<u>1,134,962</u>
Net revenue	<u>\$ 118,576</u>	<u>\$ 109,064</u>

(voir notes ci-jointes)

CANADIAN BROILER HATCHING EGG MARKETING AGENCY
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2006

	<u>2006</u>					<u>2005</u>
	<u>Invested in property and equipment</u>	<u>Internally restricted for research purposes</u>	<u>Internally restricted for severance contingency</u>	<u>Unrestricted</u>	<u>Total</u>	<u>Total</u>
Balance, beginning of year	\$ 16,453	\$ 35,768	\$ 142,232	\$ 710,573	\$ 905,026	\$ 795,962
Net revenue (expense)	(6,038)	(7,018)	-	131,632	118,576	109,064
Investment in property and equipment	2,637	-	-	(2,637)	-	-
Internally imposed restrictions - note 6	<u>-</u>	<u>-</u>	<u>13,701</u>	<u>(13,701)</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 13,052</u>	<u>\$ 28,750</u>	<u>\$ 155,933</u>	<u>\$ 825,867</u>	<u>\$1,023,602</u>	<u>\$ 905,026</u>

(See accompanying notes)

CANADIAN BROILER HATCHING EGG MARKETING AGENCY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2006

	<u>2006</u>	<u>2005</u>
CASH PROVIDED (USED)		
Operations	\$ 149,249	\$ 148,622
Investing activities	(2,637)	(4,329)
Financing activities	<u>-</u>	<u>(5,459)</u>
INCREASE IN CASH AND SHORT-TERM INVESTMENTS	146,612	138,834
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	<u>727,582</u>	<u>588,748</u>
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	<u>\$ 874,194</u>	<u>\$ 727,582</u>
<hr/>		
Operations		
Received from members and others	\$ 1,294,017	\$ 1,231,560
Received interest	28,921	12,102
Paid to suppliers and employees	<u>(1,173,689)</u>	<u>(1,095,040)</u>
	<u>\$ 149,249</u>	<u>\$ 148,622</u>
Investing activities		
Paid for property and equipment	<u>\$ (2,637)</u>	<u>\$ (4,329)</u>
Financing activities		
Increase (decrease) in bank indebtedness	<u>\$ -</u>	<u>\$ (5,459)</u>

(voir notes ci-jointes)

CANADIAN BROILER HATCHING EGG MARKETING AGENCY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2006

1. ORGANIZATION AND PURPOSE

The Agency is a statutory corporation created under the Farm Products Agencies Act.

The mission of the Agency is to establish a comprehensive broiler hatching egg marketing program for Canada in order to ensure a strong, efficient and competitive production and marketing industry for broiler hatching eggs in Canada and a dependable supply of the product to the chicken industry.

The Canadian Broiler Hatching Egg Marketing Agency is a non-profit organization within the meaning of the Income Tax Act (Canada) and is exempt from income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with Canadian generally accepted accounting principles.

Accounting estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Revenue recognition

The Agency receives levies based on the number of hatching eggs marketed in intra-provincial, inter-provincial and export trade. Levies are recorded as revenue in the period earned.

The Agency follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Other sources of revenue are recorded using the accrual basis of accounting.

Investments

Investments are stated at cost except for those cases where a decline in value is considered to be permanent in which case the investment is written down to market value.

Property and equipment and related amortization

Property and equipment are recorded at cost.

Property and equipment are amortized by the straight-line method over their estimated useful lives, as follows:

Office furniture and equipment	10 years
Electronic equipment	3 years
Leasehold improvements	term of lease

CANADIAN BROILER HATCHING EGG MARKETING AGENCY

NOTES TO FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED DECEMBER 31, 2006

3. FINANCIAL INSTRUMENTS

The Agency's financial instruments consist of cash, short-term investments, accounts receivable and accounts payable. It is management's opinion that the Agency is not exposed to significant interest, currency or credit risks arising from these financial instruments.

The fair values of the financial instruments approximate their market values due to their short term nature.

4. SHORT-TERM INVESTMENTS

Short-term investments are as follows:

	<u>2006</u>	<u>2005</u>
Royal Bank cashable guaranteed investment certificates	\$ 873,788	\$ 627,176

5. PROPERTY AND EQUIPMENT

Property and equipment consist of:

	<u>2006</u>		<u>2005</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
Office furniture and equipment	\$ 40,724	\$ 36,110	\$ 41,574	\$ 35,863
Electronic equipment	94,458	86,020	93,880	83,138
Leasehold improvements	<u>2,216</u>	<u>2,216</u>	<u>2,216</u>	<u>2,216</u>
	<u>\$ 137,398</u>	<u>\$ 124,346</u>	<u>\$ 137,670</u>	<u>\$ 121,217</u>

6. INTERNALLY IMPOSED RESTRICTIONS

The Board of Directors have internally restricted \$13,701 in 2006 (2005 - \$28,367) towards severance contingency.

7. DEFERRED CONTRIBUTIONS

Deferred contributions represent restricted funding received in excess of related expenses incurred. Changes in the deferred contributions balance are as follows:

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 62,301	\$ -
Contributions received in year	-	62,301
Interest earned in year	1,827	-
Expenses incurred	<u>(1,250)</u>	<u>-</u>
Balance, end of year	<u>\$ 62,878</u>	<u>\$ 62,301</u>

The deferred contributions balance represents the Agency's share of funds distributed with respect to the Vitamins Class Action Lawsuit. In accordance with the terms of distribution the funds are to be expended towards "Food Safety and Flock Health in Canadian Broiler Breeder Production".

CANADIAN BROILER HATCHING EGG MARKETING AGENCY
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2006

8. COMMITMENTS

Lease agreement

The Agency, Canadian Federation of Agriculture, Dairy Farmers of Canada and Canadian Pork Council are jointly and severally committed to an operating lease for office premises. The total lease obligation, exclusive of operating costs is \$75,204 annually to maturity of lease on December 31, 2007. The agency's share of rental costs is based upon its share of space occupied which is currently 9.97%. The agency's current share of operating costs approximates \$15,000 annually.

In addition, the agency has a singular commitment by way of a sub-lease for office premises. The sub-lease obligation, exclusive of operating costs, is \$450 per month to maturity of sub-lease on December 31, 2007.

Research

The Agency has residual financial commitments for the following research projects:

Laval University - Improvement of broiler breeder male fertility	\$ 7,500
University of Alberta - Effects of dietary selenium source on the fertility and hatchability of broiler eggs	3,581
University of Alberta - Reduction in yolk sac nutrient utilization is related to clubbed down syndrome in broiler breeder offspring	15,000
University of Alberta - Genotypic, growth and photostimulatory interaction effects on reproductive and metabolic efficiency in female broiler breeders	<u>2,669</u>
	<u>\$ 28,750</u>