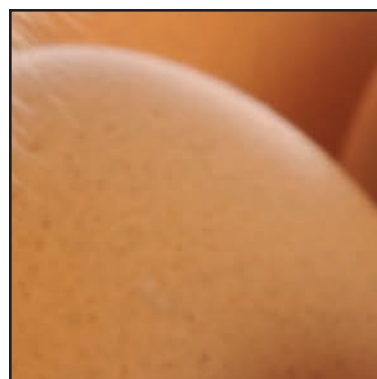
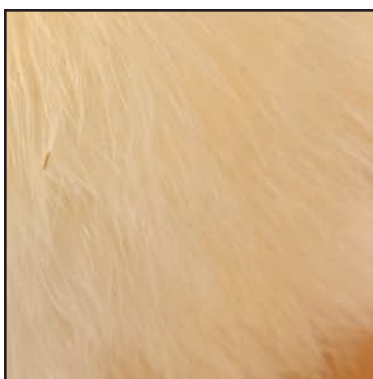
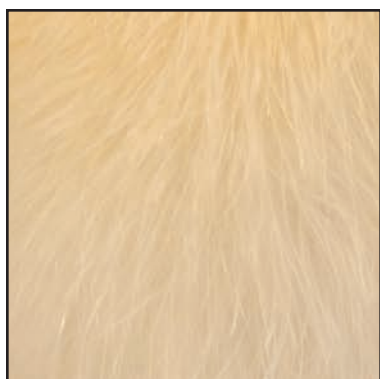
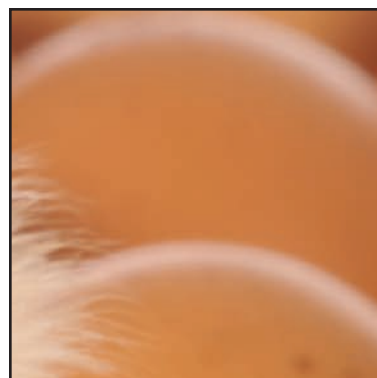
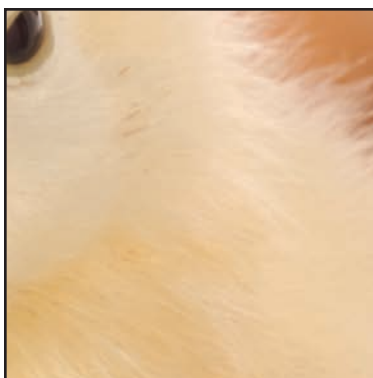
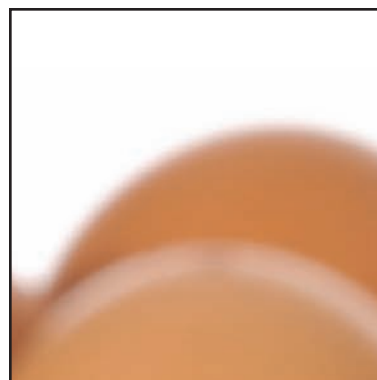
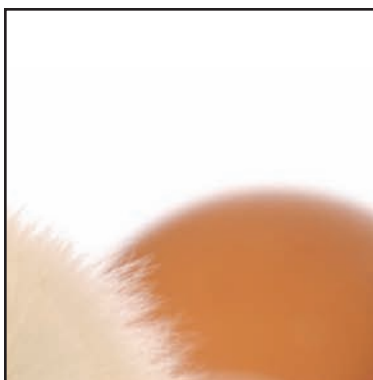




Canadian Hatching Egg Producers

2009 ANNUAL REPORT



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Chairman's Message

Canadian Hatching Egg Producers



Another year has come and gone – a year like many others with plenty of work and determination to strongly and vigorously defend our interests in order to preserve the benefits we struggle so hard to maintain.

As in other years, 2009 did not escape its batch of problems even if the negotiators in Geneva were unable to move the trade negotiations forward. Our organisation continued to monitor the negotiations in Geneva and elsewhere, in cooperation with the other members of the SM5, to ensure that we can continue with our Supply Management system. I would like to take this

opportunity to thank the Federal Government for maintaining the strong position in Geneva so that, when all is said and done, Canadian producers will be able to continue farming in Canada.

The question of compensation for mandatory reportable diseases has kept us rather busy. We continue to support the Saskatchewan producer in his challenge against the Canadian Food Inspection Agency, to demonstrate that the amount that he received following a case of Avian Influenza in 2007 was inadequate.

In 2009, the Production Management Committee was created and tasked with making recommendations to the Board of Directors on animal health and welfare, the On-Farm Food Safety Assurance Program, and any other issue relating to production. All provinces are represented on this committee. It is expected that this committee will increase in importance over the next few years, given the number of issues to be dealt with in this regard.

Another file we have been working on for a number of years is the Federal-Provincial Agreement. We have settled this agreement with the producers. A number of points were discussed last July and a final document is in the hands of all signatories. There is work which must be completed in the provinces with producers and the signatories to understand the new agreement. I encourage all members of our agency to work with their respective governments in order to have the official signing of this agreement completed as soon as possible. I wish you good luck in your work.

In summary, your representatives at the Agency are working hard to maintain and improve the organisation not only for the short-term, but also through the medium and long-term so that our agency will be well positioned for the future. As for me, I am in my third year as Chairman of the Canadian Hatching Egg Producers. It always gives me great pleasure to represent the producers, in whatever forums are offered to me. I represent you with the same pride that you feel every day in producing and improving your on-farm performance.

Keep up the good production!

Gyslain Loyer
Chair



General Manager's Report

Canadian Hatching Egg Producers



2009 was a year of transition for the Canadian Hatching Egg Producers (CHEP) on a number of different fronts including: chicken production during the year was down almost 10 million kilograms or 1.0% below the production levels in 2008, reducing the requirement for broiler hatching eggs in Canada; compensation under the *Health of Animals Act* (HAA) continued to pose major concerns to the broiler hatching egg industry, which resulted in additional resources and expenditures focusing on this issue; and changes in CHEP staff during the year.

Membership

As part of CHEP's overall goal, one of our biggest objectives is to increase our membership as an Agency. Currently, CHEP has four member provinces (British Columbia, Manitoba, Ontario and Quebec), as well as two provinces, Alberta and Saskatchewan, who have signed agreements with CHEP. These agreements allow them to be included in all national agency business and to fully participate in the national supply management system for broiler hatching eggs. This includes quota allocation distributed by the national agency and the benefits surrounding CHEP's regulations, policies and programs, such as on-farm food safety and animal health programs. The final step is for all signatories in the six provinces, the Federal Minister of Agriculture and Agri-Food Canada (AAFC) and CHEP to sign a new Federal Provincial Agreement (FPA), which will create a more solid Agency. CHEP will also continue to pursue membership opportunities with both Nova Scotia and New Brunswick who remain the only other two provinces with broiler hatching egg production in Canada.

CHEP Directors and the FPA subcommittee met on a number of occasions over the last few years to draft a new FPA for the broiler hatching egg industry in Canada. In 2009, the last outstanding issue concerning the change in directorship provisions contained in CHEP's Proclamation was resolved to the satisfaction of all parties. As such, CHEP will work diligently with all its signatories to have our FPA completed by the end of next year. When completed, CHEP will have six signatory provinces spanning from British Columbia to Quebec and encompassing over 92% of Canadian broiler hatching egg production. The new FPA will also allow the industry representatives, the Canadian Hatchery Federation (CHF), to name two Directors to the CHEP Board – one from the East of the Manitoba/Ontario border and the second from the West – bringing the number of CHEP Board of Directors to a total of eight.

Allocation System

In our ongoing effort to improve the allocation system, CHEP developed a working group, which included CHEP staff, provincial board managers and a CHF representative, to explore different options. CHEP staff provided an in-depth analysis that led to thorough discussions on a number of different issues. Following these sessions, CHEP Directors agreed with the working group's recommendation that CHEP utilize Chicken Farmers of Canada (CFC) data in their discussions, since it is audited, reliable and consistent with what is used by the chicken industry in Canada.

Avian Influenza (AI) Surveillance

CHEP continued to participate in the Canadian Notifiable Avian Influenza Surveillance System (CanNAISS) program in collaboration with the Canadian Food Inspection Agency (CFIA) for a second year. In 2009, forty-three broiler breeder farms were selected and tested as part of the pre-slaughter component. A total of 311 results across all sectors were authorized during the year and all were negative. It is expected that this will become an ongoing program.

CHEP was also active in working with the CFIA to develop the hatchery supply flock (HSF) component of CanNAISS, which focuses specifically on broiler, layer and turkey breeders. Sampling under this component is expected to commence in early 2010. CHEP continues to express concerns with the amount of compensation available for broiler breeder flocks when they are required to be depopulated by CFIA under the HAA.

Compensation

Throughout the year, CHEP continued to express immense concern with the compensation levels under the HAA as it relates to broiler breeders. In 2009, CHEP continued its support of the Saskatchewan producer who is attempting to overturn the low level of government compensation payments received from AAFC when AI was found on his farm in 2007. The HAA does not recognize the real value of broiler breeder birds and therefore will not allow a producer to recover their costs.

This producer's compensation appeal is expected to be heard by the federal court. We are hopeful that the arguments raised in this case will result in a change to his compensation payment from AAFC, which should also bring a thorough review of both the value of broiler breeders under the HAA, as well as the formula used by AAFC when calculating compensation based on the age of the birds.

In CHEP's analysis, the government's current suite of business risk management programs have substantive shortfalls, which results in these programs offering very little benefit for supply management producers.

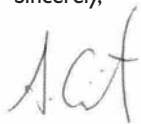
WTO

The World Trade Organization's (WTO) on again-off again negotiations continued to be very high on the priority list for CHEP as well as for supply management in general. The WTO failed to reach an agreement on modalities again in 2009; however, the question remains as to whether or not there will be a renewed effort to reach an agreement in 2010. Canada's balanced trade position, which is supported by supply management, has not changed and states: no increases in market access and no cuts to over-quota tariffs. CHEP will maintain our effort with the Canadian Government to defend and promote its balanced trade position at the WTO.

It is with great pleasure that I accepted and began employment as CHEP's General Manager on November 13, 2009. I look forward to working with the broiler hatching egg producers, CHEP staff, and the poultry industry as a whole to continue building relationships, strengthen our financial position and help our industry move forward together in the future.

On behalf of the CHEP Board of Directors, I would like to thank the CHEP staff for their dedication and effort over this year. This is a well deserved thank you as your hard work and commitment to CHEP is greatly appreciated.

Sincerely,



Giuseppe Caminiti
General Manager, CHEP



CHEP Board of Directors in 2009

Canadian Hatching Egg Producers



From left to right: Chris den Hertog, British Columbia; Dean Penner, Manitoba; Gyslain Loyer, Chair, Quebec; Jack Greydanus, Vice Chair, Ontario; Kevin Tiemstra, Alberta; Tom Fleming, CHF Representative; Missing: Roy White, Saskatchewan



CHEP Mission Statement

Continue to grow a profitable broiler hatching egg industry in Canada in order to ensure a strong, efficient and competitive industry and a dependable supply of quality broiler hatching eggs to the Canadian chicken industry.

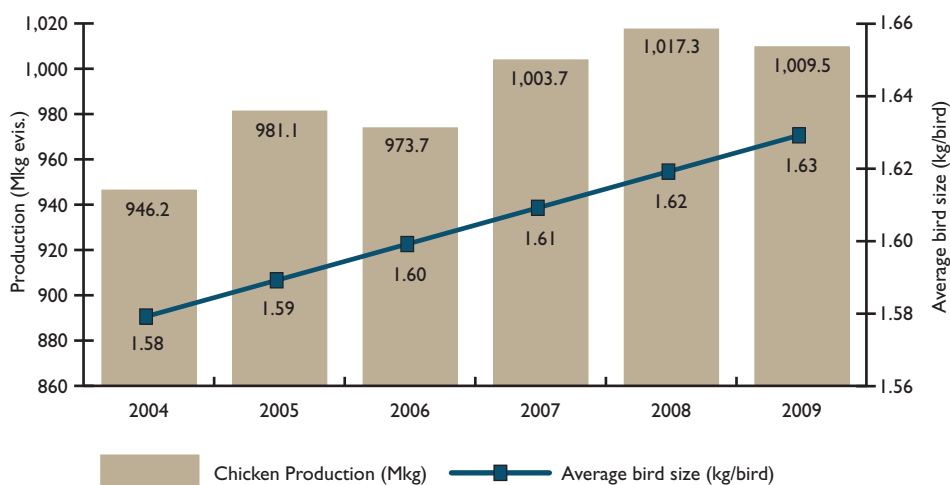


Canadian Hatching Egg Market Review

In 2009, the hatching egg industry experienced declines in virtually all areas of production in response to tightened chicken production allocations arising from a prolonged economic recession which began in the fall of 2008. In response to declining market conditions, CHEP's final allocations were reduced in July to acknowledge the lower production of chicken anticipated for the latter part of the year.

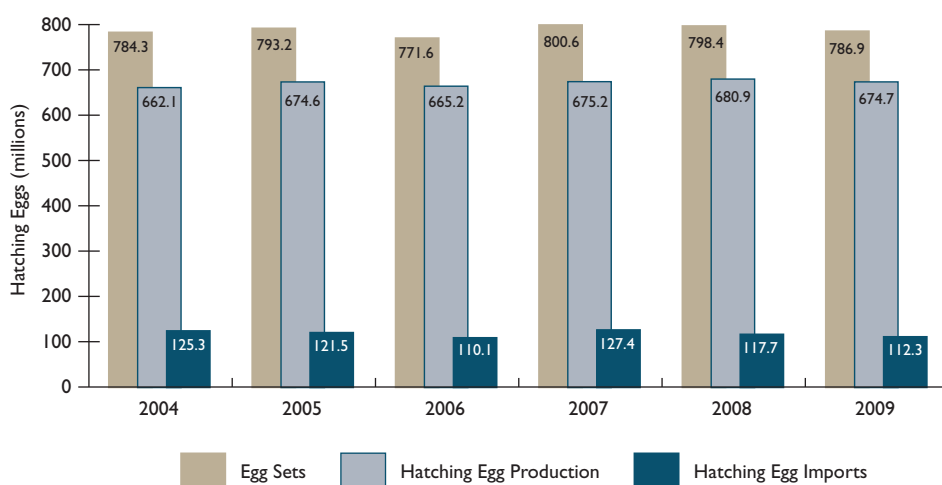
Canadian chicken meat production in 2009 reached 1,009.5 Mkg (eviscerated), a decrease of 0.8% from the 1,017.3 Mkg produced in 2008, while the number of birds slaughtered decreased by 1.0%. While CHEP had initially estimated that chicken production in 2009 would reach 1,040 Mkg (in March 2008), it reassessed the market conditions and established its final allocations for 2009 based on a chicken production level of 1,010 Mkg, which was only 1 Mkg above actual production for the year.

Canadian Chicken Production (2004-2009)



Canadian hatcheries set a total of 786.9 million broiler hatching eggs in 2009, a decrease of 1.4% from 2008 and 1.7% below total egg sets in 2007. Domestic hatching egg production (excluding hatching egg imports but including hatching egg exports) reached 674.7 million eggs in 2009, a decrease of 0.9% from 2008 and 0.1% below total production in 2007. In response to softening demand for hatching eggs amidst falling chicken production allocations and lower import availability, hatching egg imports declined by 4.5% from 2008, totaling 112.3 million eggs imported throughout the year. The number of broiler chicks imported in 2009 fell by 7.3% from 2008, totaling 18.7 million chicks for the year. The number of hatching eggs exported fell to fewer than 60,000 in 2009, down from 156,000 in 2008 and 2 million in 2007.

Overall, Canadian hatching egg production reached 99.2% of CHEP's 2009 final allocation of 680.3 million eggs. CHEP's member provinces' combined production reached 97.6% of their cumulative share of the 2009 final allocation.

Canadian Broiler Hatching Egg Statistics (2004-2009)

Despite reduced production for both hatching eggs and chicken in 2009, CHEP received one request for supplementary imports in late October. Although a third of this request was filled with domestic product offered by another hatchery within the same province, the remaining two thirds (30,000 dozen eggs) was approved as supplemental imports which entered into Canada in late November.

Table I – 2009 Supplemental Imports

	Supplemental Import Requests	Domestic Product Sourced ¹	Approved Supplemental Imports ²	Actual Supplemental Imports
dozens – broiler hatching eggs				
Province				
B.C.	0	0	0	0
Alberta	0	0	0	0
Saskatchewan	0	0	0	0
Manitoba	0	0	0	0
Ontario	0	0	0	0
Québec	45,000	15,000	30,000	30,000
Total	45,000	15,000	30,000	30,000

¹ Includes only domestic product (broiler hatching eggs)

² Approved by the EICB

Sources: CHEP, EICB

2009 Provincial Hatching Egg Production

Overall, the production of hatching eggs (excluding imports but including exports of hatching eggs) in Canada fell by 1.0% from 2008 in response to tightened chicken production throughout the year. Most provinces registered declines in production, with the largest decrease reported in Alberta (-7.4%), followed by Manitoba (-4.5%), B.C. (-4.4%) and Quebec (-1.3%). In contrast, Ontario saw a slight increase in its hatching egg production (0.3%), while Saskatchewan registered a massive increase (21.4%).

Alberta experienced better hatchability (+2.5%), higher total imports (+79.0%) and rising average bird size (+1.3%) which led to lower hatching egg production in 2009. Similarly, Manitoba saw higher hatchability rates (+2.0%) with more total imports (+36%), however its decline in hatching egg production was partially offset by a shrinking average bird size (-1%). B.C.'s production decline was largely explained by a 5.9% increase in total imports combined with a large drop in chicken production (-2.8%) along with a smaller average bird size (-0.8%). In Quebec, a modest increase in hatchability (0.1%) with fewer total imports (-0.1%) and falling chicken production (-0.2%) contributed to a small decrease in yearly hatching egg production, while in Ontario, a 15.2% drop in total imports coupled with rising hatchability (1.4%) and a slight reduction in chicken production (0.3%) with larger average bird size (0.6%) contributed to a slight increase in overall production for the year. In Saskatchewan, the surge in production was mainly driven by a massive reduction in total imports (-49.7%) accompanied by the continued trend of producing smaller broilers (-2.5%) for the marketplace.

Table 2 – Provincial Hatching Egg Production^{1,2}

(million eggs)

Year	B.C.	Alta.	Sask.	Man.	Ont.	Que.	Atl.	Canada
2009	100.9	68.2	29.0	31.6	199.0	182.2	61.2	672.1
2008	105.5	73.7	23.9	33.1	198.5	186.7	59.5	678.8
2007	105.4	74.4	23.3	32.3	199.0	180.7	60.1	675.2
2006	103.6	70.8	24.4	32.5	196.2	179.3	58.4	665.2
% Change								
09/08	(4.4)	(7.4)	21.4	(4.5)	0.3	(1.3)	2.9	(1.0)
08/07	0.1	(1.0)	2.6	2.5	(0.3)	3.3	(1.0)	0.8
07/06	1.7	5.2	(4.6)	(0.8)	1.4	0.8	3.0	1.5

¹ Production excludes hatching egg imports and chick exports

² Unaudited provincial production figures are displayed

Sources: CHEP, AAFC

Overall, the reduction of hatching egg production in 2009 is a reflection of scaled down chicken production allocations throughout the year in response to the economic recession. Furthermore, the national hatchability rate rose to 82.0%, up 0.9% from 2008, while the average weight of broilers marketed in Canada rose by 0.2% to 1.63 kg per bird (eviscerated). Cuts to the chicken production allocations also reduced the need for hatching egg and chick imports, which fell by a combined 5.0% in 2009.

Table 3 – Selected Factors Impacting Hatching Egg Production (2009)

	B.C.	Alta.	Sask.	Man.	Ont.	Que.	Atl.	Canada
Hatchability								
(%)	81.7	79.6	79.8	80.3	83.6	81.9	82.7	82.0
% change 09/08	(0.0)	2.5	(0.1)	2.0	1.4	0.1	2.3	0.9
Total Imports¹								
(000 eggs)	24,417	8,167	5,488	9,452	40,777	45,567	2,140	136,008
% change 09/08	5.9	79.0	(49.7)	36.0	(15.2)	(0.1)	(46.8)	(5.0)
Chicken Production								
(Mkg evis.)	153.0	88.8	37.8	42.4	329.0	279.9	78.7	1,009.5
% change 09/08	(2.8)	0.1	(2.3)	(0.1)	(0.3)	(0.2)	(1.3)	(0.8)
Avg. weight of Broilers								
(kg evis.)	1.57	1.67	1.49	1.45	1.67	1.67	1.56	1.63
% change 09/08	(0.8)	1.3	(2.5)	(1.0)	0.6	0.1	1.5	0.2
Chicken Production								
Market Share (%)	15.2	8.8	3.7	4.2	32.6	27.7	7.8	100.0
% change 09/08	(2.0)	0.9	(1.5)	0.6	0.4	0.6	(0.5)	–

Sources: Hatchability – CHEP; Imports – AAFC; Chicken Production – CFC

¹ Unaudited data used to calculate hatchability and total imports**2009 Farm Cash Receipts and Prices Paid to Producers per Province**

In 2009, total farm cash receipts earned by hatching egg producers rose by 2.3% to a total of \$238.6 million. The modest increase in 2009 was due primarily to lower production figures in response to falling chicken production throughout the year, despite a general increase in the prices paid to producers during the year. The average producer price increase was modest in 2009, owing to stabilized feed and energy costs relative to previous years.

Table 4 – 2009 Farm Cash Receipts and Producer Prices in Member Provinces

	Farm Cash Receipts (2009)¹		Hatching Egg Producer Prices	
	\$ 000	% change 09/08	¢ per saleable chick (2009 average)	% change 09/08
British Columbia	40,017	(0.5)	49.38	3.1
Alberta	25,400	(4.4)	46.31	2.3
Saskatchewan	10,873	25.8	46.59	3.1
Manitoba	11,361	(1.6)	44.75	1.9
Ontario	67,048	3.5	41.90	2.3
Quebec	62,969	1.8	42.50	2.2
Canada	238,550	2.3	44.85	2.5

¹ Unaudited data used to calculate Farm Cash Receipts

Source: CHEP, Provincial Commissions



2008 Provincial Hatching Egg Production

The 2008 final assessment for over and under production was presented by CHEP staff during its summer meeting in July. Based on the data outlined in Table 5, CHEP's member provinces encountered production levels which finished as follows: British Columbia (96.84%), Saskatchewan (82.49%), Manitoba (100.96%), Ontario (93.45%) and Québec (99.48%).

B.C.'s 2008 production level represented a decrease from the 99.42% utilization rate it encountered in 2007. In 2008, B.C. set nearly 2.4 million fewer eggs than in 2007, a decline of 1.8%, following a 2.8% year-to-year increase in its allocation. Despite a 9.0% reduction in hatching egg imports in 2008 and the arrival of 612,000 eggs through supplemental imports, a 1.5% increase in hatchability and fewer egg sets contributed to the reduction in B.C.'s overall production for the year.

While its service contract officially took effect on April 13, 2008, Saskatchewan's final 2008 production totaled 82.49% of its final allocation. Despite a 3.2% increase in eggs set in 2008, the low utilization rate is largely explained by heavier than normal imports (increase of 29% over 2007) needed to compensate for lost productive capacity in the early part of the year following an AI incident in the fall of 2007.

Manitoba achieved full utilization of its 2008 allocation, finishing at 100.96%, which is within the acceptable 101% range for the year. This is an improvement from the 97.86% final utilization rate achieved in 2007 (including quota leased in 2007), and is largely due to a 1.9% increase in egg sets in 2008, combined with a 2.5% reduction in hatching egg imports compared to 2007. Furthermore, a 2.7% drop in hatchability helped the province maintain its production in line with allocations.

In Ontario, the 2008 utilization rate of 93.45% is below the 96.26% rate achieved in 2007 (including quota leased to Manitoba), and is largely due to a 0.5% decrease in egg sets in 2008, despite fewer imports (-1.6%) compared to 2007, lower hatchability (-1.4%), and an increase in its 2008 allocation (2.5% above 2007).

Quebec achieved near-full utilization of its 2008 allocation, finishing at 99.48%, up from the 97.39% it achieved in 2007. Despite a slight reduction in egg sets (-0.2%), Quebec imported fewer hatching eggs (-15.9%) despite the arrival of 588,000 eggs through supplemental imports. Further contributing to higher utilization in 2008 is a reduction in hatchability (-0.7%) as well as a 49% reduction in the number of hatching eggs received from New Brunswick via orderly marketing contract after fire destroyed one of the breeder operations in New Brunswick in January 2008.

In 2008, there was no overproduction recorded, therefore no penalties were assessed.

Table 5 – 2008 LDA Production and Allocations by Province

Province	Production (eggs) ¹	Final Allocations (eggs) ²	% utilization	Quota Leased (eggs)	Final % utilization
British Columbia	105,529,279	108,969,994	96.84%	0	96.84%
Saskatchewan³	24,241,817	29,387,539	82.49%	0	82.49%
Manitoba	33,066,071	32,750,389	100.96%	0	100.96%
Ontario	198,473,402	212,376,049	93.45%	0	93.45%
Québec	184,006,990	184,972,763	99.48%	0	99.48%

¹ LDA Production excludes hatching egg imports and broiler chick exports

² 2008 Final Allocations established on July 5, 2008

³ Saskatchewan's Service Contract with CHEP became effective on April 13, 2008

Source: CHEP



Report of the Canadian Broiler Hatching Egg Producers Association (CBHEPA)



My first year as chair of the association has been a rewarding experience. After being involved at the provincial level for many years, the challenge of being involved on the national hatching egg producer association is an exciting one for me. I recognize the amount of time in management that hatching egg producers must dedicate to be profitable and provide an excellent quality progeny. It is important to continue looking for ways to be more productive and efficient on our farms and is one of the ways in which the association looks to serve its producers.

I would like to take this time to highlight the wonderful programs offered to all producers and their families. The CBHEPA Student Programs are wonderful tools for continuing education and success in our industry. These programs include the Student Exchange, the Young Farmers and the ever popular Broiler Breeder Scholarship. Many participants have expressed their appreciation for their involvement in the programs in prior years.

Jacob Hamidu of the University of Alberta was the recipient of the 2009 CBHEPA Broiler Breeder Scholarship for his research on: *"Effects of Egg Storage on Broiler Breeder Blastodermal Cell Viability"*. Jacob will be presenting his findings at the Canadian Hatching Egg Producer's (CHEP) Annual Meeting in Ottawa on March 24, 2010. You can also view his analysis on CHEP's website at www.chep-poic.ca.

The CHEP summer meeting was held in Churchill, Manitoba in July 2009. Congratulations to Jake and Lisa Rempel of Flowing Well Breeders Inc. as being the recipients of the CBHEPA 2008 Producer of the Year Award.

Once again the CBHEPA drawing contest is a favourite amongst producers' families. Nine drawings were selected during the CHEP summer meeting. These amazing drawings were featured on Christmas cards distributed by CHEP and the provincial offices during the holiday season. Even the Prime Minister of Canada receives one of our special collections. A sample of these drawings can be found at the end of my report.

I would like to thank the Association members for their work and support.

Sincerely,

Calvin Breukelman
Chair, CBHEPA



Jake and Lisa Rempel
Flowing Well Breeders Inc. of Arborg, Manitoba



2009 Broiler Breeder Scholarship Recipient
Jacob Hamidu from the University of Alberta



Report of the Canadian Broiler Hatching Egg Producers Association (CBHEPA)

The winners of the 2009 CBHEPA Drawing Contest



Thaya Neels, 4 yrs
British Columbia



Ashley Ijtsman, 5 yrs
Alberta



Jared Neels, 6 yrs
British Columbia



Robbie Van Rooyen, 5 yrs
Ontario



Olivia Kunze, 9 yrs
British Columbia



Nicole Van Rooyen, 8 yrs
Ontario



Victoria Van Rooyen, 9 yrs
Ontario



Austin Dueck, 11 yrs
Manitoba



Renata Janzen, 13 yrs
Manitoba



Report of the Production Management Committee

Canadian Hatching Egg Producers



As the first chair of this new committee for CHEP, I am pleased to report on what was a very busy and productive year for our group. The Production Management Committee consists of a representative from each member province and was formed to discuss issues such as the CHEQ™ program, animal health, animal welfare and national emergency management.

Since there has been a substantive increase in activities, the CHEP board felt it was necessary to create a committee to devote time to these issues facing our sector. In order to do this, we dedicate one day prior to our CHEP board meetings to review the CHEQ™ producer manual and system, the draft broiler breeder animal care program, and a national avian biosecurity standard developed with the CFIA. Producers can expect to see updates from their provincial boards and on CHEP's website www.chep-poic.ca on these issues.



Updating the Producer Manual

Our national, CFIA-reviewed program must be regularly updated to ensure it complies with current regulations and industry practices. One of our main jobs was to finalize the 2009 changes to Canadian Hatching Egg Quality (CHEQ™). This is the second official round of changes since the program completed CFIA technical review in 2004. After CHEP requested and received feedback from the provinces, the committee discussed how to incorporate these improvements into the program.

These recommended changes were approved by the CHEP board in November 2009, and will also require approval by the CFIA. Producers can expect to see these updates prior to July 2010, when these changes will be implemented.

Defining a National System

We continue to work toward our goal of having the CHEQ™ system (including the producer manual and how it is implemented across the country) officially recognized by the CFIA. As part of official recognition, we are reviewing a draft management manual that takes into consideration all aspects of the program including training, certification, program maintenance, auditing and auditing frequency.

One of the major benefits of having a national management system is consistency – so a producer implementing CHEQ™ in one part of the country will be following the same principles as a producer in another part of the country. The challenge is making sure we have a system that is credible and rigorous, yet works for members and satisfies the requirements of the CFIA.

Developing a Broiler Breeder Welfare Program

We are also working on a draft national welfare program for broiler breeders. CHEP feels it is important that this is developed by producers, for producers, in order to ensure we have a program that addresses animal welfare, and works on our farms.

Much of this work will continue into 2010, so expect to see updates on these initiatives in the future. If you have feedback, contact your provincial office or CHEP.

Sincerely,

Dean Penner
Chair, Production Management Committee



Report of the Advisory Committee

Canadian Hatching Egg Producers



The Advisory Committee met three times in 2009 to discuss factors shaping market conditions and to review the 2009 and 2010 chicken demands. The chicken industry entered the year in the midst of an economic recession. Market indicators available were demonstrating an uncertain impact on future consumer demand therefore adjustments were being made to reduce the chicken production allocations to start the year.

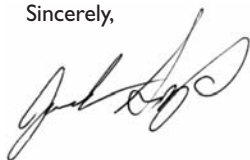
At our March meeting, the Advisory Committee discussed trends which dampened future chicken production, including: the offsetting of EMI wholesale price increases by growth in live producer costs; the subsequent margin squeeze felt by processors; expected cuts in chicken production allocations throughout the year; the sustained price gap of chicken above pork and beef prices; and the expectation of falling per capita consumption of chicken in both Canada and the United States in 2009 and 2010. Nevertheless, the Committee remained optimistic that the Canadian economy may begin to rebound as quickly as the later part of 2009, paving the way for stronger consumer demand by the end of the year. With this in mind, the Committee maintained its previous projection (from November 2008) for chicken production in 2009 at 1,019 Mkg. In setting its initial projection for 2010, the Committee set its sights on a modest rebound in consumer demand, and set its projection on an estimated chicken demand of 1,029 Mkg, equivalent to 1% growth in chicken production above the 1,019 Mkg projected for 2009.

By the July meeting, the Committee agreed that chicken production in 2009 would fall short of the record level of 1,017 Mkg produced in 2008, as chicken production allocations covering the remainder of the year were set below or roughly equal to production levels from the previous year. Of continued concern to Committee members was the impact of the economic recession on consumer spending habits and the extent to which they are down trading their meat purchases. As well, the re-emergence of rising feed and fuel costs heading into the second half of 2009 and into early 2010, along with anticipated pressure from rising production costs would further stress processor margins as a result of rising live chicken prices expected in late 2009 and early 2010. Ultimately, the Committee projected that the final 2009 chicken production level would equal 1,010 Mkg, a decrease of 0.7% from total production in 2008. In its first review of the 2010 chicken demand, the Committee agreed that economic indicators should improve by the start of the year, and remained cautious by recommending a target of 1,020 Mkg, an increase of 1.0% above the final projected level of production for 2009.

In November, the Committee recognized that market conditions were beginning to show signs of optimism heading into 2010. The Committee reported that the Canadian chicken market was holding up much better than in the U.S. during the recession: per capita consumption of chicken meat in both Canada and the U.S. was now expected to rebound in 2010; wholesale and producer prices for chicken in Canada were steadily improving; and processor margins in Canada were quickly approaching satisfactory levels. Furthermore, real GDP growth was expected in Canada by early 2010, along with rising consumer confidence and disposable income, all of which translating into stronger meat demand in 2010 with a more rapid expansion later in the year. For the 2010 projected chicken production level, Committee members agreed that year-to-year growth in the neighbourhood of 1.0% was still feasible given the optimism drawn from the improved market conditions and assumed population growth. As such, the Advisory Committee decided to maintain its previous recommendation for the projected 2010 chicken production level at 1,020 Mkg, unchanged from the previous target set back in July.

During this year of inevitable production declines, the decisions taken by the Committee were made on the basis of ensuring that the needs of the Canadian chicken market are met, with a priority to achieving the best possible results for the Canadian hatching egg industry.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jack Greydanus', written in a cursive style.

Jack Greydanus
Chair, Advisory Committee



Finance Committee Report

Canadian Hatching Egg Producers



In 2009, the Finance Committee met prior to the three scheduled CHEP Board of Directors meetings in March, July and November. At each meeting, the committee reviews CHEP's financial situation and how they compare to the budget and previous years' results for the same timeframes. They also examine CHEP's financial policies as required.

At the conclusion of 2009, revenues equalled \$1.6 million, while expenditures totalled \$1.7 million, resulting in a deficiency of revenues over expenditures of \$0.1 million. Although revenue rose by almost \$0.3 million compared to the previous year as a result of an increase in the national levy and the addition of hatching egg production revenues from Alberta, expenditures also rose by almost \$0.3 million on account of a number of different factors including: CHEP's occupation of the new offices purchased for the entire year; efforts to ensure that hatching egg producers receive fair government compensation under the *Health of Animals Act*; and change in CHEP management staff.

In November, the Finance Committee presented a budget for 2010 that included a projected surplus of \$20,000 for the year. 2010 revenues are estimated to increase by \$57,000 due to an increase in hatching egg production, while expenditures are expected to decrease by \$66,000 as a result of 'exceptional' one-time line item expenditures that were experienced in 2009 for the change in management staff and within professional fees expenditures.

The Research Fund, created in 2001, continued to be funded by an amount set aside of 0.1 cents per hatching egg to an annual maximum of \$60,000. Authorized research expenditures were charged to this fund.

In March 2009, at the Agency's Annual General meeting, the firm of Raymond Chabot Grant Thornton was re-appointed to perform the 2009 year-end audit.

Sincerely,

Tom Fleming
Chair, Finance Committee



Report of the Research Committee

Canadian Hatching Egg Producers



As your Research Committee chair, I am pleased to report on our activities in 2009. Our mandate is to discuss national and international research initiatives of importance to our sector, recommend CHEP research priorities based on member feedback, and work in partnership as national supporting members with the Canadian Poultry Research Council (CPRC).

CHEP's 2009 research priorities are:

- Food safety
- Environment
- Dark-meat utilization
- Control of Salmonella in broiler breeders through vaccination
- Production-based research

CPRC

2009 Focus – Food Safety & Quality; Poultry Health and Welfare

Following changes to federal funding for research and the announcement of *Growing Forward*, CPRC moved quickly to take advantage of the financial opportunity offered through Agriculture and Agri-Food Canada's (AAFC) Canadian Agri-Science Clusters Initiative through the development of a poultry cluster application relating to this year's focus research areas.

The highlights on the cluster application include:

CPRC funds:	\$509,000 over 3 years (approximate)
Total funds from all sources:	\$3.03 million over 3 years
Number of projects:	9
Number of institutions:	8
Areas of study:	<ul style="list-style-type: none">• Understanding enteric bacterial diseases (e.g. Salmonella, Clostridia)• Understanding avian influenza• Improving bird welfare

As you can see, CPRC continues to significantly leverage industry funds for poultry research.

In addition to the cluster application, the CPRC, through its members, continues to support Canadian poultry research programs and people in the areas of food safety and poultry health, welfare, avian gut microbiology, the environment and commodity-specific projects, as well as funding for post-graduate students interested in studying poultry.

Finally, the CPRC is working to increase coordination among the strong provincial research networks in place, as well as improve the communication of valuable research findings to you as producers and major supporters of the CPRC (www.cp-rc.ca).

Sincerely,

A handwritten signature in black ink, reading "Cheryl Firby". The signature is written in a cursive, flowing style.

Cheryl Firby
Chair, Research Committee

CHEP ALTERNATES



From left to right: Calvin Breukelman, British Columbia; Robert Massé, Quebec; JoAnn Nanninga, Alberta; Cheryl Firby, Ontario; Kevin Enns, Manitoba; Hendrik Van Steenberg, Saskatchewan

PROVINCIAL MANAGERS



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

CHEP STAFF

Canadian Hatching Egg Producers



From left to right: Tim Nikita, Economist; Joy Edstron, Bookkeeper; Giuseppe Caminiti, General Manager; Victoria Sikur, Food Safety Officer; Kathleen Thompson, Animal Health Officer; Nicole Duval, Office Administrator



Canadian Hatching Egg Producers
Financial Statements
December 31, 2009

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**Raymond Chabot
Grant Thornton**

Auditors' Report

Raymond Chabot Grant Thornton LLP

2505 St-Laurent Blvd.
Ottawa, Ontario K1H 1E4

Telephone: 613-236-2211

Fax: 613-236-6104

www.rcgt.com

To the Minister of Agriculture and Agri-Food, Government of Canada, the Farm Products Council of Canada, and the members of the Canadian Hatching Egg Producers

We have audited the statement of financial position of the Canadian Hatching Egg Producers for the year ended December 31, 2009 and the statements of revenues and expenditures, 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 revenue, deficiency of revenue over expenditure, 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 Hatching Egg Producers as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Raymond Chabot Grant Thornton LLP

Chartered Accountants,
Licensed Public Accountants

Ottawa, Canada
February 3, 2010

Canadian Hatching Egg Producers

Revenue and Expenditure

Year ended December 31, 2009

	<u>2009</u>	<u>2008</u>
	\$	\$
Revenues		
Levies	1,601,558	1,310,363
Interest	<u>1,895</u>	<u>17,801</u>
	<u>1,603,453</u>	<u>1,328,164</u>
Expenditures		
Amortization of capital assets	25,876	15,697
Building occupancy expenses	37,531	35,269
Directors' fees and participants' expenses	302,628	232,951
Interest on long-term debt	14,272	5,145
Meetings	39,084	22,351
Membership fees	27,915	27,401
Office and administrative expenses	81,259	60,917
Professional fees	218,327	173,461
Research	50,000	77,646
Salaries and benefits	678,744	462,098
Staff expenses	36,181	56,001
Student programs	4,628	1,709
Trade expenses	96,207	158,872
Translation and interpretation	<u>93,670</u>	<u>90,142</u>
	<u>1,706,322</u>	<u>1,419,660</u>
Deficiency of revenues over expenditures	<u>(102,869)</u>	<u>(91,496)</u>

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

Canadian Hatching Egg Producers

Changes in Net Assets

Year ended December 31, 2009

	2009			2008
	Internally restricted for research purposes	Internally restricted for severance contingency	Unrestricted	Total
	\$	\$	\$	\$
Net assets - beginning	21,104	195,833	823,906	1,040,843
Deficiency of revenues over expenditures			(102,869)	(102,869)
Internally imposed restrictions (Note 8)	10,000	(134,910)	124,910	
Net assets - ending	31,104	60,923	845,947	937,974

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

Canadian Hatching Egg Producers

Cash Flows

Year ended December 31, 2009

	<u>2009</u>	<u>2008</u>
	\$	\$
OPERATING ACTIVITIES		
Deficiency of revenues over expenditures	(102,869)	(91,496)
Non cash items:		
Amortization of capital assets	25,876	15,697
Changes in working capital items		
Accounts receivable	24,593	(23,864)
Prepaid expenses	21,743	(34,250)
Accounts payable and accrued liabilities	(59)	8,330
Deferred contributions	(37,749)	(23,457)
Cash flows from operating activities	(68,465)	(149,040)
INVESTING ACTIVITIES		
Acquisition of investments	(735,652)	(467,941)
Disposal of investments	818,593	
Acquisition of capital assets	(10,358)	(301,485)
Disposal of capital assets	2,004	914,919
Cash flows from investing activities	74,587	145,493
FINANCING ACTIVITIES		
Payment on long-term debt and cash flows from financing activities	(7,291)	(6,923)
Net decrease in cash	(1,169)	(10,470)
Cash, beginning of year	4,368	14,838
Cash, end of year	3,199	4,368

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

Canadian Hatching Egg Producers

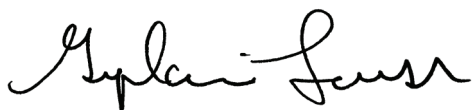
Financial Position

December 31, 2009

	2009	2008
	\$	\$
ASSETS		
Current assets		
Cash	3,199	4,368
Short-term investments (Note 4)	385,000	467,941
Accounts receivable	315,570	340,163
Prepaid expenses	18,810	40,553
	<u>722,579</u>	853,025
Capital assets (Note 5)	719,519	737,041
	<u>1,442,098</u>	<u>1,590,066</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	151,545	151,604
Deferred contributions (Note 6)		37,749
Current portion of long-term debt	7,716	7,291
	<u>159,261</u>	196,644
Long-term debt (Note 7)	344,863	352,579
	<u>504,124</u>	<u>549,223</u>
NET ASSETS		
Internally restricted for research purposes	31,104	21,104
Internally restricted for severance contingency	60,923	195,833
Unrestricted	845,947	823,906
	<u>937,974</u>	1,040,843
	<u>1,442,098</u>	<u>1,590,066</u>

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

On behalf of the Board,



Gyslaine Loyer, Chair



Jack Greydanus, Vice Chair

Canadian Hatching Egg Producers

Notes to Financial Statements

December 31, 2009

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

The Agency is a statutory Agency 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 Hatching Egg Producers is a non-profit organization within the meaning of the Income Tax Act and is exempt from income taxes.

2 - CHANGES IN ACCOUNTING POLICIES

On January 1, 2009, in accordance with the applicable transitional provisions, the Agency applied the new recommendations of the 4400 series of the *Canadian Institute of Chartered Accountants* (CICA) Handbook, dealing with not-for-profit organizations. The new recommendations are effective for fiscal years beginning on or after January 1, 2009. The main changes affect the following, in particular:

- Inclusion of not-for-profit organizations within the scope of sections 1540, "Cash Flow Statements", and 1751, "Interim Financial Statements";
- Elimination of the requirement to treat net assets invested in capital assets as a separate component of net assets;
- Amendments to clarify that revenues and expenses must be recognized and presented on a gross basis when the not-for-profit organization is acting as a principal in the transactions in question;
- Inclusion of additional guidance with respect to the appropriate use of the scope exemption in Section 4430, "Capital Assets Held by Not-for-profit Organizations", for smaller entities.

The CICA also published new Section 4470, "Disclosure of Allocated Expenses by Not-for-profit Organizations", which establishes disclosure standards for the not-for-profit organization that classifies its expenses by function and allocates expenses to a number of functions to which the expenses relate.

As a result of adopting these new requirements, the Agency no longer presents net assets invested in capital assets as a separate component of net assets.

3 - ACCOUNTING POLICIES

Basis of presentation

The financial statements are prepared using the historical cost method, except for certain financial instruments that are recognized at fair value. No information on fair value is presented when the carrying amount corresponds to a reasonable approximation of the fair value.

Canadian Hatching Egg Producers

Notes to Financial Statements

December 31, 2009

3 - ACCOUNTING POLICIES (Continued)

Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates are based on management's best knowledge of current events and actions that the Agency may undertake in the future. Actual results may differ from these estimates.

Financial instruments

The Agency has chosen to apply the recommendations of Section 3861, "Financial Instruments – Disclosure and Presentation", of the Canadian Institute of Chartered Accountants' Handbook with respect to the presentation and disclosure of financial instruments.

Financial assets and liabilities are classified, measured and recognized as follows.

Held-for-trading financial assets

Cash is classified as a held-for-trading financial asset and is measured at fair value.

Available-for-sale financial assets

Short-term investments are classified as available for sale financial assets and are measured at their fair value.

Unrealized gains or losses relating to available-for-sale financial assets where investment income is not externally restricted are recognized in the statement of changes in net assets until these gains or losses are realized or a decline in value of the financial asset is other than temporary. When investments are sold or sustain a decline in value that is other than temporary, the related accumulated gains or losses, which are presented in the statement of changes in net assets, are then reclassified in the statement of revenues and expenditures under net investment income.

Loans and receivables and other financial liabilities

Accounts receivable are classified as loans and receivables. They are measured at amortized cost, which is generally the initially recognized amount, less any allowance for doubtful accounts. Accounts payable, accrued liabilities and the long-term debt are classified as other financial liabilities. They are valued at amortized cost using the effective interest method.

Revenue recognition

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

Canadian Hatching Egg Producers

Notes to Financial Statements

December 31, 2009

3 - ACCOUNTING POLICIES (Continued)

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.

Capital assets

Capital assets are recorded at cost and are amortized over their estimated useful lives according to the straight-line method at the following annual rates:

	Rates
Building	2.5%
Office furniture and equipment	10%
Electronic equipment	33%

4 - SHORT-TERM INVESTMENTS

	2009	2008
	\$	\$
Guaranteed investment certificates, bearing variable interest rates linked to the prime rate, maturing at various dates in 2010	385,000	467,941

5 - CAPITAL ASSETS

	2009		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	54,135		54,135
Building	645,921	21,534	624,387
Office furniture and equipment	52,030	20,440	31,590
Electronic equipment	58,315	48,908	9,407
	810,401	90,882	719,519
	2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	54,135		54,135
Building	646,349	5,386	640,963
Office furniture and equipment	50,662	16,556	34,106
Electronic equipment	55,757	47,920	7,837
	806,903	69,862	737,041

Canadian Hatching Egg Producers

Notes to Financial Statements

December 31, 2009

6 - DEFERRED CONTRIBUTIONS

Deferred contributions represent restricted funding received in excess of related expenses incurred.

	<u>2009</u>	<u>2008</u>
	\$	\$
Balance, beginning of year	37,749	61,206
Interest earned in the year	96	1,375
Expenses incurred	<u>(37,845)</u>	<u>(24,832)</u>
Balance, end of year	<u>-</u>	<u>37,749</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". During the year, all remaining funds were disbursed.

7 - LONG-TERM DEBT

	<u>2009</u>	<u>2008</u>
	\$	\$
Long-term debt maturing November 30, 2017, with an interest rate of 5.68%, monthly payments of \$2,296, secured by the building	352,579	359,870
Less: current portion	<u>7,716</u>	<u>7,291</u>
	<u>344,863</u>	<u>352,579</u>

Instalments on the long-term debt for the next 5 years are \$27,544 from 2010 to 2014.

8 - INTERNALLY IMPOSED RESTRICTIONS

During 2009, the Board of Directors internally restricted \$10,000 (2008 - \$23) for research purposes, and \$134,910 of the reserve for severance contingency was used.

9 - COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

Canadian Hatching Egg Producers

Notes to Financial Statements

December 31, 2009

10 - COMMITMENTS

The Agency has entered into agreements expiring December 2010 and August 2012 which call for payments of \$19,500 for the rental of office equipment and information technology support. Minimum payments for the next four years are \$12,000 in 2010, \$4,000 in 2011, and \$3,000 in 2012.

Research

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

Laval University - Improvement of broiler breeder male fertility	<u>\$</u> 7,500
University of Alberta - Effects of dietary selenium source on the fertility and hatchability of broiler eggs	<u>3,581</u>
	<u><u>11,081</u></u>

11 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES, AND FINANCIAL RISKS

Financial risk management objectives and policies

The Agency is exposed to various financial risks resulting from both its operating and investing activities. The Agency's management manages financial risks.

The Agency does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

Financial risks

The Agency's main financial risk exposure and its financial risk management policies are as follows.

Interest rate risk

The Agency has contracted short-term investments bearing a floating rate of interest. These financial instruments expose the Agency to risk in the event market interest rates fluctuate.

The Agency's other financial assets and liabilities do not comprise any interest rate risk since they either bear interest at fixed rates or do not bear interest.

Credit risk

The financial instruments that potentially expose the Agency to credit risk are accounts receivable. To mitigate this risk, the Agency obtains a letter of credit from each province.

Concentration risk

The Agency holds all of its cash and investments in one financial institution.

Canadian Hatching Egg Producers

Notes to Financial Statements

December 31, 2009

12 - CAPITAL MANAGEMENT

The Agency's objectives when managing capital are:

- To safeguard the Agency's ability to continue as a going concern;
- To meet its financial obligations.

The Agency manages its capital mainly by internally restricting a portion of net assets to cover designated activities such as research, and to provide capital for potential future adverse situations, such as a severance contingency. Moreover, an important part of its capital management consists in collecting levies from various sources while at the same time controlling expenditures to closely match revenues.

In order to maintain or to adjust its capital structure, the Agency may have to modify its forecast expenses for the realization of certain of its activities.

The Agency is not subject to any externally imposed capital requirements.

