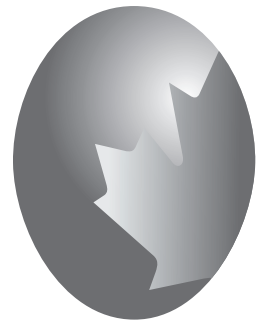


**Canadian Hatching Egg Producers  
2010 ANNUAL REPORT**



**Canadian Hatching Egg Producers**

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Canadian Hatching Egg Producers

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## Chairman's Message

Canadian Hatching Egg Producers

Like the years before it, 2010 brought countless matters for the Canadian Hatching Egg Producers (CHEP). This was my fourth and final year as Chair of CHEP. It is with some sadness and also excitement that I leave the role as Chair of this wonderful organization to pass it along to another who will graciously move CHEP forward to overcome challenges and continue strengthening CHEP as an organization.

As many of you may be aware, I have decided to turn this page in my life as Chair of CHEP and pass along the gavel. 2010 brought with it more responsibility at home with my family, a new and exciting role as mayor of my home town and the rebuilding of my broiler breeder barn as a result of a fire. I will continue in my role as Quebec Director, contributing and supporting not only the Chair in their new role, but also, as always, CHEP.

In my years as Chair of CHEP, the issues and discussions surrounding setting the right target for allocation, trade, Tariff Rate Quota (TRQ), the Federal Provincial Agreement (FPA) and compensation have all highlighted my term. These issues will always be of top priority to CHEP as an organization as well to each individual producer across this country. CHEP has also been successful in signing contracts with Alberta and Saskatchewan allowing them to fully participate in the national supply management system for broiler hatching eggs and chicks as CHEP moves to sign a new FPA. Discussions with New Brunswick and Nova Scotia to become CHEP members have also been initiated.

I would like to take this opportunity to thank all Directors past and present for their support and hard work during my tenure as Chair. Also, a word of gratitude to alternates, provincial board managers and CHEP staff for their dedication to the industry, and all industry and government representatives who we continue to work with to support and maintain the broiler hatching egg industry in Canada as well as the entire supply management system.

Last, but certainly not least, I would like to thank each and every broiler hatching egg producer in Canada for your support and encouragement to help guide and move our broiler hatching egg industry forward to new, improved and exciting levels.

Gyslain Loyer  
Chair



Gyslain Loyer  
Chair



## General Manager's Report

Canadian Hatching Egg Producers

Canadian Hatching Egg Producers (CHEP) faced a myriad of issues in 2010 with the Federal Provincial Agreement, compensation, flock performance and Avian Influenza in Manitoba taking center stage. The renewal of the Federal Provincial Agreement remains a top priority and is critical for CHEP as an organization. We continue to work together as a team to deal with and move forward the issues that arise, and in so doing have made CHEP stronger both financially and as an organization.

### Federal Provincial Agreement

CHEP continued to work towards completing an amended Federal Provincial Agreement (FPA) in 2010. In doing so, CHEP's objective to expand membership will increase the current number of member provinces from four (British Columbia, Manitoba, Ontario and Quebec) to six – adding Alberta and Saskatchewan to the fold, who currently have signed agreements with CHEP. These agreements allow them to be included in all national agency business and fully participate in the national supply management system for broiler hatching eggs and chicks.

Although our goal to finalize the FPA in 2010 was not accomplished, we continue to strive towards its completion as soon as possible so that CHEP will have a solid framework in place with representatives spanning from British Columbia to Quebec representing more than 90% of Canadian hatching egg production. A new agreement will also allow the Canadian Hatchery Federation (CHF) to name a second Director to the CHEP Board, bringing the total number of CHEP Directors to eight.

In 2010, CHEP engaged in some communication with New Brunswick and Nova Scotia with hopes that they will become member provinces of CHEP in the future. They are the only remaining provinces that produce broiler hatching eggs in Canada and who are not currently members or under contract with CHEP.

### CHEP Strategic Plan

At the CHEP Board meeting in November, Directors approved a 5-year Strategic Plan that will help guide CHEP in the future. This plan includes the following six key result areas: system performance, government support, framework relationships/memberships, product safety and quality, public communications and animal care.

### Market Conditions

CHEP continues to strive to establish accurate allocations that will ensure the appropriate amount of product is being produced by Canadian broiler hatching egg producers to meet chicken demand in Canada. 2010 was a difficult year for producers as broiler hatching egg production in Canada decreased by 2.0% as a result of flock performance, lower hatchability rates and the continued trend towards larger bird sizes, along with some extraordinary losses experienced during the year. This resulted in less than expected levels of domestic production, which led to supplemental import permits being issued. CHEP held a number of discussions surrounding the domestic production levels in 2010 with the expectation that provinces would re-evaluate their allocations to ensure that their targets will be met in 2011 and beyond.

On another note, CHEP and CHF met throughout the year to discuss and revamp the supplemental import process. A joint letter outlining recommendations was submitted, approved and implemented by the Department of Foreign Affairs and International Trade in 2010, which has improved this process.



Giuseppe Caminiti  
General Manager, CHEP

### **AI in Manitoba**

On November 24, 2010, the CFIA confirmed notifiable Avian Influenza (NAI) in a commercial turkey breeder operation in the rural municipality of Rockwood, Manitoba. This was later confirmed to be low pathogenic H5N2 avian influenza.

Subsequent actions included: depopulation of the index farm and a turkey hatchery, notification of OIE and key trading partners, and quarantine of five premises, including the index farm and the hatchery that was linked to the index premises. To date no other premises have tested positive.

On December 23, 2010, the quarantine on the hatchery was lifted. Cleaning & disinfection (C & D) under CFIA supervision continued on the index farm and is expected to be completed by the end of January 2011, after which time a 21-day waiting period for releasing the quarantine would commence. As per OIE guidelines, restrictions are expected to be lifted 90 days after cleaning & disinfection has been completed and test results are negative for NAI. Compensation will be provided to the affected producer under the *Health of Animals Act*. CFIA was on the ground in Manitoba to determine the compensation for the affected producer.

### **Compensation under the *Health of Animals Act***

CHEP, along with the other national poultry Agencies, have worked diligently throughout the year with CFIA to develop acceptable maximums under the *Health of Animals Act* and models that would be used to calculate a producer's compensation level. CFIA is expected to provide the Minister of Agriculture and Agri-Food with recommendations for maximums in early 2011 with the anticipation that this process would conclude in March 2011. Although the maximum value for broiler breeder birds is expected to be increased, the proposed model used to calculate a producer's compensation level under the *Health of Animals Act* is still of great concern to CHEP. The government's current suite of Business Risk Management (BRM) programs continues to offer very little benefit for supply management producers.

### **WTO and Bilateral Agreements**

The World Trade Organization (WTO) will always be a major focus for CHEP as well as all supply management commodities. Although 2010 was a fairly quiet year, 2011 has become known as 'a window of opportunity' to conclude the Doha round. There is an expectation that a great deal of political pressure will be placed on the WTO members to finalize a deal in 2011.

2011 is thought to be a critical year for negotiations as several national elections throughout the world are scheduled in the next few years. As a result, it is anticipated that if the 2011 target is not achieved, the next chance of concluding the round would not be until 2014.

Canada's trade position that is supported by the supply management agencies remains unchanged and indicates "no increases in market access and no cuts to over-quota tariffs." CHEP will continue to monitor and be involved in discussions with the Canadian Government to defend and promote this balanced trade position.

CHEP will also continue to monitor and work with the Canadian Government as it engages in bilateral agreements, such as the Canada-EU Comprehensive Economic and Trade Agreement (CETA), as well as bilateral trade negotiations with Turkey, Mexico, Costa Rica, India, etc., along with the Trans-Pacific Partnership (TPP) discussions, to ensure that Canadian negotiators continue to defend and promote Canada's balanced trade position at the WTO and within bilateral and multilateral trade agreements.

## General Manager's Report

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The CHEP staff continues to work on behalf of all broiler hatching egg producers. I would like to extend my sincere thank you to CHEP's staff, Nicole Duval, Tim Nikita, Viki Sikur and Joy Edstron for your collaboration and support, as well as to the Board of Directors for their guidance throughout the year. In addition, a sincere gratitude goes out to Gyslain Loyer, CHEP's Chair of four years, for his contribution to CHEP who will be moving on to engage in new challenges and opportunities.

Sincerely,



Giuseppe Caminiti  
General Manager





## **CHEP Board of Directors**

Canadian Hatching Egg Producers



*From left to right: Ernie Silveri, CHF Representative; Roy White, Saskatchewan; Calvin Breukelman, British Columbia; Gyslain Loyer, Chair, Quebec; Jack Greydanus, Vice Chair, Ontario; Kevin Tiemstra, Alberta; Dean Penner, Manitoba*

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### **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.*



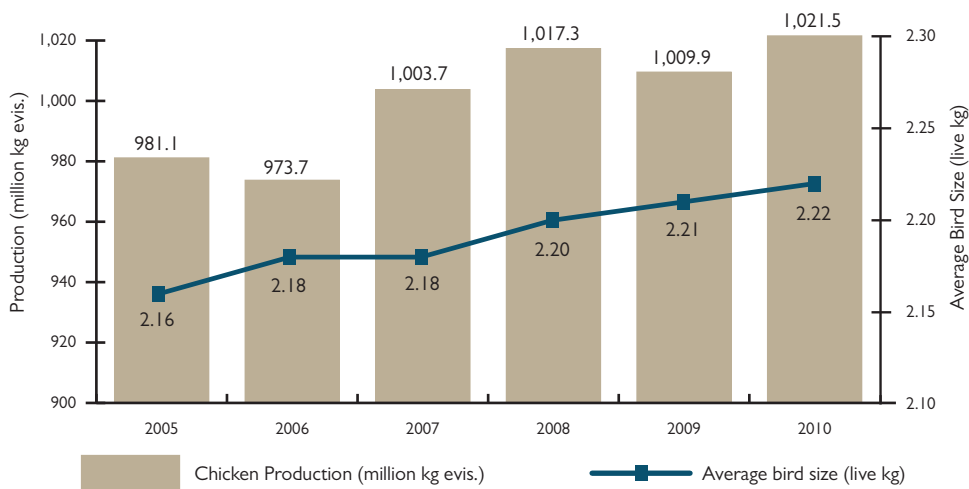
# Canadian Hatching Egg Market Review

Canadian Hatching Egg Producers

In 2010, the Canadian hatching egg industry experienced declines in production as producers struggled to meet the demand in chicken production that grew 1.2%. In response to improving market conditions throughout the year, CHEP's 2010 final allocations increased in July to deal with greater chicken production expected in the latter part of the year.

Canadian chicken meat production totaled 1,021.5 million kilograms (eviscerated), an increase of 11.6 million kilograms or 1.2% from the 1,009.9 million kilograms produced in 2009. The number of birds slaughtered also increased by 0.7%. CHEP's initial 2010 allocations (March 2009) were established on the basis of an estimated chicken production level of 1,029 million kilograms, however this estimate was lowered as of July 2009 to a target of 1,020 million kilograms as the effects of the economic recession continued to be felt throughout 2009 and in early 2010. In July 2010, Directors agreed to increase the final 2010 estimated chicken demand target to 1,024 million kilograms allowing room for hatching egg production to better respond to rebounding demand after a year of contraction in 2009. Although domestic hatching egg production in Canada did not reach final allocations, total chicken production also fell short of expectations, finishing approximately 3.5 million kilograms below the expected target of 1,024 million kilograms.

### Canadian Chicken Production (2005-2010)



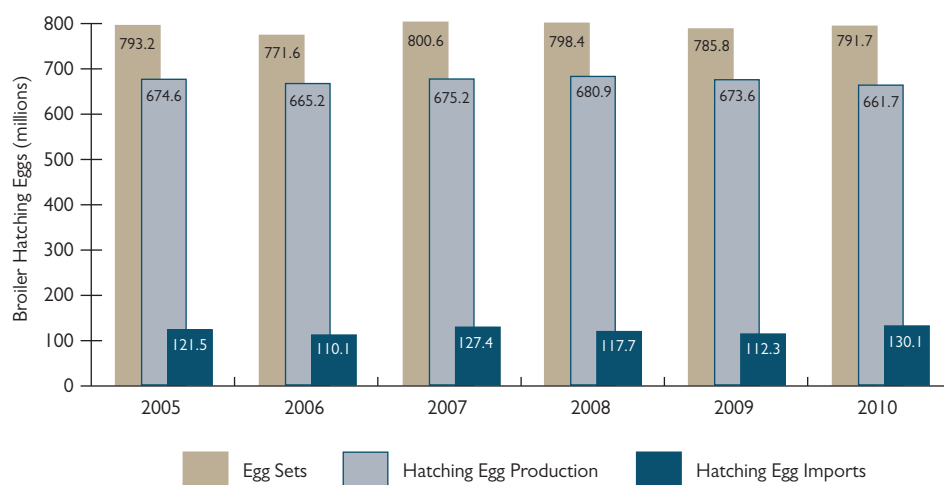
Source: Chicken Farmers of Canada (CFC)

Canadian hatcheries set a total of 791.7 million broiler hatching eggs during the year, an increase of 0.7% from 2009 and 0.8% below total egg sets in 2008. Domestic hatching egg production totaled 661.7 million eggs, a decrease of 1.7% from 2009 and 2.8% below total production in 2008. As domestic hatching egg production remained below prorata throughout the year, hatching egg imports increased by 15.8% from 2009, totaling 130.1 million eggs imported throughout the year. The number of broiler chicks imported in 2010 increased by 3.0% from 2009, totaling 19.2 million chicks for the year.

Overall, Canadian hatching egg production reached 97.9% of CHEP's 2010 final allocation of 675.7 million hatching eggs. For CHEP's member provinces, production reached 96.8% of the 2010 final allocation.

## Canadian Hatching Egg Market Review

### Canadian Broiler Hatching Egg Statistics (2005-2010)



Source: Canadian Hatching Egg Producers (CHEP), Agriculture and Agri-Food Canada (AAFC)

As a result of underproduction in 2010, CHEP began receiving requests from hatcheries seeking supplementary imports through the sourcing system beginning in late August 2010. By the end of the year, approved supplemental imports totaled more than 16.7 million hatching eggs and 125,600 broiler chicks. Of these, approximately 14.4 million hatching eggs and 107,000 broiler chicks entered into Canada by the end of the year.

### Table I – 2010 Supplemental Imports

Province	Approved Supplemental Imports <sup>1</sup>		Actual Supplemental Imports Into Canada <sup>2</sup>	
	Hatching Eggs	Chicks	Hatching Eggs	Chicks
British Columbia	6,048,000	0	4,237,560	0
Alberta	259,200	0	205,200	0
Saskatchewan	0	0	0	0
Manitoba	616,320	0	465,120	0
Ontario	1,480,320	125,600	1,393,920	106,891
Québec	7,791,120	0	7,574,232	0
Atlantic	540,000	0	540,000	0
<b>Total</b>	<b>16,734,960</b>	<b>125,600</b>	<b>14,416,032</b>	<b>106,891</b>

Sources: CHEP, EICB

<sup>1,2</sup> Confirmed by the EICB

## 2010 Provincial Hatching Egg Production

Overall, the domestic production of hatching eggs in Canada fell by 2.0% or 13.4 million eggs from 2009. Despite a return to growth in the chicken production and a continuous rise in the average size of broilers produced in Canada in 2010, domestic hatching egg production struggled to reach the targets set through CHEP's final 2010 allocation. Most provinces reported declines in production in 2010 from the previous year, including Saskatchewan (-6.9%), Quebec (-3.5%) and B.C. (-3.0%). In contrast, Ontario saw a slight increase in its hatching egg production (0.1%), along with Alberta (1.0%) whose production improved over 2009.

In Saskatchewan, the large decrease in domestic hatching egg production can be largely attributed to improved hatchability (+0.9%), a 39% surge in year-over-year imports, and a 2.5% increase in the average live weight of broilers produced in that province in 2010. In Quebec, the decline in domestic hatching egg production is due primarily to losses in production due to fire, in addition to a 16% surge in year-over-year imports, despite declining market share in chicken production and a reduction in average bird size. For B.C., reduced domestic production is partially due to an 8.1% increase in year-over-year imports along with the largest drop in market share of chicken production (-1.3%) in Canada, coupled with a 1.4% increase in average bird size in 2010. In Manitoba, a 0.6% decrease in hatchability, with a modest increase in year-over-year imports (+2.7%) and falling market share (-1.0%) of chicken production contributed to a small decrease in yearly domestic hatching egg production. For Alberta, increased domestic hatching egg production in 2010 was reported as falling hatchability (-0.7%) was coupled with a 4.2% increase in chicken production and 3% expansion in market share of chicken production, despite a 24.5% increase in combined hatching egg and chick imports. In Ontario, a 1.1% increase in chicken production with no change in overall market share and a 0.4% increase in average bird size were met with modest changes in hatchability and year-over-year imports.

**Table 2 – Provincial Hatching Egg Production** (000 hatching eggs)

Year	B.C.	Alta.	Sask.	Man.	Ont.	Que.	Atl.	Canada
2010	97,838	68,105	26,779	31,402	199,190	175,910	58,476	657,700
2009	100,899	67,411	28,778	31,593	199,007	182,216	61,174	671,078
2008	105,529	73,686	23,923	33,066	198,473	184,648	59,439	678,765
2007	105,388	74,425	23,323	32,262	199,017	176,477	60,065	670,957
<b>% Change</b>								
10/09	(3.0)	1.0	(6.9)	(0.6)	0.1	(3.5)	(4.4)	(2.0)
09/08	(4.4)	(8.5)	20.3	(4.5)	0.3	(1.3)	2.9	(1.1)
08/07	0.1	(1.0)	2.6	2.5	(0.3)	4.6	(1.0)	1.2

Sources: CHEP, AAFC

## Canadian Hatching Egg Market Review

Altogether, the national hatchability rate fell slightly to 81.8%, down 0.3% from 2009, while the average live weight of broilers marketed in Canada rose by 0.5% to 2.22 kilograms live per bird. An increase to chicken production allocations in 2010 led to an increased demand for hatching eggs. Due to domestic hatching egg production shortages encountered throughout the year, hatching egg and chick imports and supplemental imports were required to meet demand.

**Table 3 – Selected Factors Impacting Hatching Egg Production (2010)**

	B.C.	Alta.	Sask.	Man.	Ont.	Que.	Atl.	Canada
<b>Hatchability</b>								
2010 (%)	81.3	79.0	81.2	79.8	83.2	82.1	82.0	81.8
% change 10/09	(0.5)	(0.7)	0.9	(0.6)	(0.5)	0.3	(0.8)	(0.3)
<b>Total Imports</b>								
(000 eggs)	26,370	10,111	7,620	9,703	43,689	52,825	4,154	154,473
% change 10/09	8.1	24.5	38.9	2.7	7.1	15.9	94.1	13.6
<b>Chicken Production</b>								
(million kg evis.)	152.7	92.8	39.9	42.5	332.6	281.1	79.9	1,021.5
% change 10/09	(0.1)	4.2	5.4	0.1	1.1	0.4	1.4	1.2
<b>Chicken Production</b>								
Market Share (%)	14.9	9.1	3.9	4.2	32.6	27.5	7.8	100.0
% change 10/09	(1.3)	3.0	4.2	(1.0)	0.0	(0.7)	0.2	–
<b>Avg. live weight of broilers</b>								
(kg live/bird)	2.16	2.27	2.08	1.98	2.27	2.25	2.18	2.22
% change 10/09	1.4	0.0	2.5	0.0	0.4	(0.4)	1.9	0.5

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

### 2010 Farm Cash Receipts and Prices Paid to Producers per Province

Farm cash receipts for hatching egg producers totaled \$232.0 million, down 2.6% or \$6.2 million from 2009. The decrease in 2010 was due primarily to a 2% drop in domestic hatching egg production throughout Canada. The average prices paid to hatching egg producers (per saleable chick) saw modest declines in 2010 owing to lower input costs of production experienced in the early months of the year.

**Table 4 – 2010 Farm Cash Receipts and Producer Prices in Member Provinces**

	Farm Cash Receipts		Hatching Egg Producer Prices	
	2010 \$ 000	% change 10/09	¢ per saleable chick 2010 average	% change 10/09
<b>British Columbia</b>	38,950	(2.7)	49.63	0.5
<b>Alberta</b>	25,233	0.7	46.21	(0.3)
<b>Saskatchewan</b>	9,959	(7.6)	46.38	(0.5)
<b>Manitoba</b>	11,300	(0.6)	44.88	0.1
<b>Ontario</b>	66,212	(1.3)	41.26	(1.6)
<b>Québec</b>	60,676	(3.7)	42.06	(1.2)
<b>Canada</b>	<b>232,046</b>	<b>(2.6)</b>	<b>45.07</b>	<b>(0.4)</b>

Source: CHEP (FCR), Provincial Commissions (prices)



## 2009 Over and Under Production Situation

Canadian Hatching Egg Producers

The final assessment for over and under production for 2009 was presented during CHEP's summer meeting in July. Based on the data outlined in Table 5, CHEP's member provinces largely encountered production levels which were below their respective final allocations.

In B.C., total utilization of final allocations was 94.84%, a decrease from the 96.84% utilization rate it recorded in 2008. In 2009, B.C. set nearly 5.5 million fewer eggs than in 2008, a decline of 4.3%, following a 2.4% drop in its allocation from 2008. Also, hatching egg imports in 2009 were down 3.9% from 2008, while hatchability remained virtually unchanged at 81.7%.

Alberta rejoined CHEP by signing into a service agreement which took effect on January 1, 2009. In its first full year, Alberta's final production in 2009 achieved a level of 97.17% of its final allocation. Alberta hatcheries set nearly 2.6 million fewer eggs in 2009 relative to 2008, as hatchability improved by 2.5% to a rate of 79.6% in 2009. Hatching egg imports increased by nearly 3.6 million eggs during the same timeframe, while the average bird size grew to 2.27 kilograms per live bird produced in 2009.

## 2009 Over and Under Production Situation

In Saskatchewan, substantial progress was achieved in 2009 as its final production reached a level of 97.88% of its final allocation, up significantly from a utilization rate of 82.5% in 2008. Despite a decrease in egg sets of nearly 0.7 million eggs or 2.1% in 2009, Saskatchewan's domestic hatching egg production improved through a reduction in hatching egg imports of 5.4 million eggs or 49.7% while the average size of birds produced in 2009 (2.03 kilograms live) decreased by 2.4%. Furthermore, hatchability improved in 2009, reaching a level of 80.4% in 2009, up from 79.9% in 2008.

After achieving full utilization of its 2008 allocation, Manitoba's final production in 2009 reached a level of 95.75% from its final allocation. While egg sets increased by nearly 1.4 million eggs or 3.6% in 2009, hatching egg imports climbed by 2.8 million eggs or 46.2% during the same timeframe, while hatchability improved by nearly 2% to reach a level of 80.3%, up from 78.8% in 2008. The average size of birds produced in Manitoba remained virtually unchanged at 1.98 kilograms per live bird produced in 2009.

In Ontario, final production in 2009 finished at 95.15% of its final allocation, an improvement from the 93.45% it achieved in 2008. Total eggs set in 2009 decreased by 4.1 million eggs or 1.8% from 2008, while hatching egg imports decreased by nearly 4.7 million eggs or 14.2%, during the same timeframe. Hatchability in Ontario was the highest in Canada in 2009 at a rate of 83.6%, up from 82.5% in 2008, while the average size of birds produced in 2009 was 2.26 kilograms per live bird produced, up from 2.24 kilograms in 2008.

Quebec was the only member province to achieve full utilization (100.63%) of its 2009 final allocation, finishing within the permitted 1% sleeve of production above allocation. Hatcheries set nearly 2.8 million or 1.2% more eggs in 2009, while hatching imports increased by 0.9 million eggs or 2.3% during the same timeframe. Both hatchability (81.9%) and the average size of birds produced in Quebec (2.26 kilograms live) remained virtually unchanged in 2009 from levels observed in 2008.

Since none of CHEP's member provinces encountered overproduction in 2009, no penalties were assessed.

**Table 5 – 2009 LDA Production and Allocations by Province**

Province	Production (eggs)	Final Allocations (eggs)	% utilization	Quota Leased (eggs)	Final % utilization
<b>British Columbia</b>	100,899,298	106,391,009	94.84%	0	94.84%
<b>Alberta</b>	67,410,878	69,375,508	97.17%	0	97.17%
<b>Saskatchewan</b>	28,777,738	29,400,912	97.88%	0	97.88%
<b>Manitoba</b>	31,679,323	33,084,087	95.75%	0	95.75%
<b>Ontario</b>	199,007,184	209,150,455	95.15%	0	95.15%
<b>Québec</b>	182,215,848	181,076,916	100.63%	0	100.63%

Source: CHEP



## Canadian Broiler Hatching Egg Producers' Association

Recently appointed as B.C.'s Alternate to CHEP, I was pleased to be named chair of the CBHEPA and represent Canadian hatching egg producers at the CHEP Summer meeting in Gananoque, Ontario last July. I look forward to becoming more involved at the national level of our industry.

After a few meetings, I recognized the wonderful programs offered to all producers and their families. The CBHEPA Students Programs is an amazing outlet for continued education and success for our industry's future.

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 these programs.

The Student Exchange has been at a standstill for a few years indicating that producers' children are too young to participate. There was no Broiler Breeder Scholarship awarded in 2010 as the applications received were repetitive of past research projects. Members are hoping to have a better variety of choices in 2011. With that said we did have a very enthusiastic Young Farmer from Alberta that appreciated his experience visiting the Aviagen facility in Huntsville, Alabama in the United States. We look forward to posting his report on the CHEP website.

One program that remains very popular and has been growing every year is the drawing contest. 2010 was the most impressive with the amount of entries received. The selected drawings are available following my report. As you know these drawings become the Christmas Cards of the national office and are sent to recipients across Canada including the Prime Minister.

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

Sincerely,

Brian Bilkes  
Chair, CBHEPA



### *Membership:*

- ▶ Brian Bilkes, Chair,  
British Columbia
- ▶ Cheryl Firby, Ontario
- ▶ Kevin Enns, Manitoba
- ▶ Robert Massé, Quebec
- ▶ JoAnn Nanninga, Alberta
- ▶ Hendrik Van Steenberg,  
Saskatchewan





# Canadian Broiler Hatching Egg Producers' Association

## The winners of the 2010 CBHEPA Drawing Contest



Jayden Ijtsma, 4 yrs  
Alberta



Thaya Neels, 5 yrs  
British Columbia



Angeline Rempel, 6 yrs  
Manitoba



Ashley Ijtsma, 6 yrs  
Alberta



Madilyn Notenbomer, 7 yrs  
Alberta



Jared Neels, 7 yrs  
British Columbia



Ben Sinnige, 7 yrs  
Ontario



Graham Tiemstra, 9 yrs  
Alberta



Eddie Veenhof, 9 yrs  
Ontario



Caleb Notenbomer, 10 yrs  
Alberta



Olivia Kunze, 10 yrs  
British Columbia



Jayden Tiemstra, 11 yrs  
Alberta



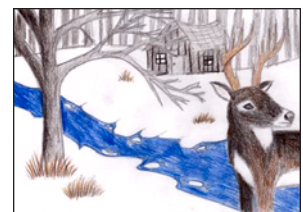
Richard Kunze, 12 yrs  
British Columbia



Tianna Notenbomer, 12 yrs  
Alberta



Sarah Rostad, 13 yrs  
Alberta



Sara Veenhof, 13 yrs  
Ontario



Janine Tiemstra, 13 yrs  
Alberta



Renata Janzen, 14 yrs  
Manitoba



Monica Kunze, 14 yrs  
British Columbia



Hannah Tiemstra, 14 yrs  
Alberta



# Production Management Committee Report

Canadian Hatching Egg Producers

I am pleased to report on the 2010 activities of our committee, whose job it is to discuss technical issues that affect our producers. On-farm food safety and animal welfare continued to be priorities. Biosecurity and spent fowl handling were also important topics.

Given increasing consumer awareness about agriculture, and demands on our industry for sustainability, acceptable production practices and being able to “say what we do, do what we say and prove it”, I expect these will continue to be extremely relevant issues for all producers in the future.

## CHEQ and Food Safety

Our on-farm food safety program, Canadian Hatching Egg Quality (CHEQ™) was updated, and revised pages were printed for existing producer manuals. This is a regular process designed to ensure CHEQ™ is current with existing regulations and industry practices, and also involves a review by the Canadian Food Inspection Agency (CFIA).

We continued to progress on a draft national management system for CHEQ™, including defining a minimum audit frequency, training requirements for CHEQ™ auditors, and the process by which producers are certified under the program. Our committee will continue to work on important system components such as documenting CHEP’s allocation of resources to CHEQ™, and finalizing the ongoing process for maintaining the program.

Our goal is to have CHEQ™ implemented consistently across the country, and officially recognized by the CFIA. All this has, and will continue to be done in consultation with provincial boards.

### Animal Welfare

Animal welfare continues to be a top priority for our industry. We are working on a draft broiler breeder welfare program in consultation with provincial boards. This will need to be tested to ensure it works on the farm and approved by the CHEP board. It is important that the program continues to be developed by producers, for producers.

This has been more activity related to welfare, and this has the certain potential to affect producers. To this end, our committee has discussed the need to update the *Recommended Code of Practice for Chicken, Turkeys and Breeders from Hatchery to Processing Plant*, as well as develop industry protocols for handling and catching birds. These are important documents which complement our own program and ensure it is credible and rigorous.

### Poultry Health

In addition to the National Avian On-Farm Biosecurity Standard (developed through the CFIA Avian Biosecurity Advisory Council (ABAC)), we continued to be involved in the development of a national standard for the service sector.

We also continue to work closely with the CFIA regarding the regulations for approved hatchery supply flocks, which will define requirements for broiler breeder flocks in Canada. Our goal is an end result that is acceptable both from the industry and the regulatory perspectives.



#### Membership:

- ▶ Dean Penner, Chair, Manitoba
- ▶ Calvin Breukelman, British Columbia
- ▶ Jack Greydanus, Ontario
- ▶ Gyslain Loyer, Quebec
- ▶ Kevin Tiemstra, Alberta
- ▶ Hendrik Van Steenberg, Saskatchewan

## Production Management Committee Report

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I'd like to close by saying that the work of this committee is key, not in telling farmers how to farm, but in developing tools that help us demonstrate all the great work we are already doing and how we plan to improve in the future to those outside our industry. If you have feedback, contact your provincial office or CHEP.

Sincerely,

A handwritten signature in black ink, appearing to read 'Dean Penner', with a long, sweeping horizontal stroke extending to the right.

Dean Penner  
Chair, Production Management Committee



## Advisory Committee Report

Canadian Hatching Egg Producers

The Advisory Committee met three times in 2010 to discuss factors shaping market conditions and to review the 2010 and 2011 chicken demands. The chicken industry entered the New Year following the first year of reduced chicken production since 2006, and after a prolonged economic recession which began in the fall of 2008. Market indicators pointed to a rebound in chicken production although much uncertainty remained with regards to the impact the slow economic recovery had on future consumer demand. Of major concern to Committee members was the issue of balancing the future needs of the Canadian chicken marketplace with adequate hatching egg production allocations, and offering to producers the necessary signals in advance of breeder placements for the year ahead.

During our March meeting, the Advisory Committee discussed trends for a chicken industry continuing to face a mixed outlook as the economy was beginning to pull itself out of economic recession. Discussion points included: stabilizing job losses coupled with forecasted increases in consumer spending, year-to-date chicken production at 1% above the previous year, relatively low storage stocks, stability with EMI wholesale prices, feed prices and processor margins since 2009, per capita chicken consumption which continues to remain flat after six years without growth, and population growth forecasts of 0.8% in 2010. Nevertheless, the Committee remained optimistic that growth of 1% in chicken production for 2010 was reasonable given the market indicators discussed and assumed population growth for the year. As such, the Advisory Committee recommended that CHEP consider a revised estimated chicken demand for 2010 of 1,020 million kilograms, unchanged from the target set in November 2009. For 2011, the Committee members agreed to remain cautious in terms of setting its initial growth forecast for the year as the level of consumer demand remained uncertain over the long run, recommending that CHEP consider an initial estimated chicken demand for 2011 of 1,030 million kilograms, which represents growth of 1.0% above its recommendation for 2010.

During July's summer meeting, the Committee members agreed that market conditions were strengthening, yet future chicken demand remained difficult to forecast due to the effects of lagging per capita consumption mixed with shifting consumer preferences towards darker meat cuts. Committee members discussed trends including: lagging chicken imports, continuous stability with storage stocks, EMI wholesale prices, feed prices as well as live producer prices, hatching egg production below prorata with above-prorata imports of hatching eggs and chicks, and population growth forecasted to reach 1.2% in 2011. For 2010, the Committee recommended that projected final production in 2010 would depend on the CFC's pending allocation for Period A-101, and recommended to CHEP that the final 2010 chicken demand be 1,022 million kilograms plus any amount that CFC would choose to allocate over base in Period A-101 during its meeting the following week. CHEP Directors agreed on 1,024 million kilograms as a final chicken demand for 2010. This volume represents an increase of 1.4% over 2009. In its first review of the 2011 chicken demand, the Committee agreed that focus should be placed primarily on population growth in 2011, putting forth a recommendation of 1.2% growth above the production target for 2010. Directors agreed on a revised chicken demand target of 1,037 million kilograms for 2011, which represents growth of 1.3% over the 1,024 million kilograms targeted in 2010.



### Membership:

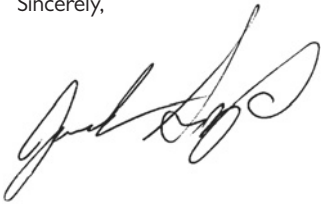
- ▶ Jack Greydanus, Chair
- ▶ Brian Bilkes, CBHEPA
- ▶ Robert DeValk, FPPAC
- ▶ Sean McCabe, EICB
- ▶ Nicolas Paillat, CPEPC
- ▶ Jan Rus, CFC
- ▶ Ernie Silveri, CHF
- ▶ Steve Welsh, AAFC

## Advisory Committee Report

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In November, the Committee recognized that the time was right to send a stronger signal to hatching egg producers that 2011 would see a return to strong growth in chicken production, as more favourable economic factors including improved consumer spending and lower unemployment were encouraging for the industry. The Committee reported that rising prices in the competitive meat sectors would fare well for chicken demand, however rising feed prices due to adverse weather in Western regions could offset any price advantages. With growing bird sizes, chicken production is expected to exceed allocations in 2010, while shortages in hatching egg production to date have led to over-prorata imports of hatching eggs and chicks, in addition to supplemental imports. For the 2010 projected chicken production level, Committee members agreed to establish 1,020 million kilograms as a base prior to revising the estimated chicken demand for 2011. After a few targets were discussed, the Advisory Committee decided on a recommendation to CHEP of 1,036 million kilograms for the 2011 chicken demand target, down from 1,037 million kilograms established in July. Following a discussion on the need to maintain a strong level of production in 2011, Directors agreed to establish a revised 2011 chicken demand target of 1,039 million kilograms, which represents growth of 1.5% above the final 2010 target of 1,024 million kilograms set in July.

Sincerely,



Jack Greydanus  
Chair, Advisory Committee



## Finance Committee Report

Canadian Hatching Egg Producers

In 2010, the Finance Committee met on three separate occasions (March, July and November) and also via conference call. At each meeting, the committee reviewed CHEP's financial situation and also examined CHEP's financial policies as required.

At the conclusion of 2010, revenues equalled \$1.7 million and expenditures totalled \$1.4 million, which resulted in a surplus of \$0.3 million. Although member provinces' hatching egg production decreased by 2% in 2010, revenue increased by \$61,000 compared to the previous year, which was a result of two penalties totalling \$42,000 and a national levy rate increase from 2009, which was in effect for the entire 2010 year. As a result of two consecutive deficit years in 2008 and 2009 and the depletion of reserves, CHEP directors and new management made several decisions during the year that resulted in 2010 expenditures decreasing by \$0.3 million compared to the previous year. Savings were driven by fewer face-to-face meetings, increased attention to value-for-money decisions, timing of discretionary expenditures, and a reduction in trade activities.

The Finance Committee presented a budget for 2011 that included a projected deficit of \$23,000 for the year. 2011 revenues are estimated to increase by \$0.1 million, which is attributable to an increase in the national levy, while expenditures are expected to increase by \$0.4 million as a result of several factors including: a change in the Executive Committee composition, the location of meetings, professional requirements, and the timing of specific expenditures that were to occur in 2010 but have been rescheduled for 2011 relating to food safety and building repairs.

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 allocated to this fund. At the end of 2009, the fund had residual funds for two research projects administered by CHEP in the amount of \$11,000 that were successfully completed in 2010.

At the Agency's Annual General meeting in March 2010, the firm of Raymond Chabot Grant Thornton was re-appointed to perform the 2010 year-end audit.

Sincerely,

Calvin Breukelman  
Chair, Finance Committee



### Membership:

- ▶ Calvin Breukelman, Chair, British Columbia
- ▶ Dean Penner, Manitoba
- ▶ Kevin Tiemstra, Alberta
- ▶ Roy White, Saskatchewan
- ▶ Ernie Silveri, CHF Representative



## Research Committee Report

Canadian Hatching Egg Producers

2010 has been an exciting year for research, and science continues to show us interesting ways to move our industry ahead. Our Research Committee has been monitoring innovative broiler breeder initiatives, both in Canada and internationally. Perhaps the most exciting thing I'd like to mention is a planned broiler breeder project that will look at precision feeding of broiler breeders. The project is based at the University of Alberta and is set to start next year. Improving the way we feed our birds could mean both welfare and economic benefits.

### CHEP 2010 research priorities

We reviewed our research priority areas from each region and made the following recommendations:

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

These priorities are also communicated to the Canadian Poultry Research Council (CPRC).

### CPRC – Putting industry research funds to work

It has also been a busy year at CPRC. **Avian gut microbiology** and **environmental research** were the themes of the 2010 call for proposals. Out of 27 letters of intent submitted, seven projects were selected for a total of almost \$350,000 from CPRC, and approximately \$2.1 million in funding across all sources – a great example of making the most of industry dollars.

One proposal looks at controlling poultry respiratory viral infection (such as avian influenza) through stimulation of the immune system. Other proposals include alternatives to antimicrobials through vaccination and prebiotics, and evaluation of phosphorus utilization in birds, which is important for reducing feed costs and environmental impacts of poultry manure.

### Federal support of poultry research

Another piece of good news is the CPRC's successfully obtaining \$1.8 million in federal funds to support the Poultry Cluster research initiative over the next three years. Industry support of the cluster totals over \$759,000. Research will focus on strategies to enhance poultry health and welfare, new production practices, and innovative products including new vaccines to protect birds and people from diseases such as clostridia, salmonella, and avian influenza. These are all areas that will allow us to continue to provide nutritious and safe poultry products.

The Poultry Cluster initiative is delivered through the Growing Forward framework under the Agri-Innovations program, a \$158 million five-year program that supports industry-led science and technology projects.

The CPRC continues its efforts 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](http://www.cp-rc.ca)).

Sincerely,

Cheryl Firby  
Chair, Research Committee



#### Membership:

- ▶ Cheryl Firby, Chair, Ontario
- ▶ Brian Bilkes, British Columbia
- ▶ Kevin Enns, Manitoba
- ▶ Robert Massé, Quebec
- ▶ JoAnn Nanninga, Alberta
- ▶ Hendrik Van Steenberg, Saskatchewan

## CHEP Alternates



Front row from left to right: Cheryl Firby, Ontario; JoAnn Nanninga, Alberta; Brian Bilkes, British Columbia;  
Back row from left to right: Kevin Enns, Manitoba; Hendrik Van Steenberg, Saskatchewan; Robert Massé, Quebec;



## Provincial Managers



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



## CHEP Staff



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





**Canadian Hatching Egg Producers**  
**Financial Statements**  
**December 31, 2010**

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Notes to Financial Statements	8 - 11



# Raymond Chabot Grant Thornton

## Independent Auditor's 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](http://www.rcgt.com)

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

We have audited the accompanying financial statements of Canadian Hatching Egg Producers, which comprise the balance sheet as at December 31, 2010 and the statements of revenues and expenditures, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canadian Hatching Egg Producers as at December 31, 2010 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 15, 2011

## Canadian Hatching Egg Producers Revenues and Expenditures

Year ended December 31, 2010

	<u>2010</u>	<u>2009</u>
	\$	\$
<b>Revenues</b>		
Levies	1,660,200	1,601,558
Interest	<u>4,195</u>	<u>1,895</u>
	<u>1,664,395</u>	<u>1,603,453</u>
<b>Expenditures</b>		
Amortization of capital assets	47,134	25,876
Building occupancy expenses	34,846	37,531
Directors' fees and participants' expenses	284,594	302,628
Interest on long-term debt	13,818	14,272
Meetings	23,335	39,084
Membership fees	29,980	27,915
Office and administrative expenses	79,962	81,259
Professional fees	111,810	218,327
Research	71,081	50,000
Salaries and benefits	512,115	678,744
Staff expenses	43,057	36,181
Student programs	2,263	4,628
Trade expenses	45,000	96,207
Translation and interpretation	<u>80,457</u>	<u>93,670</u>
	<u>1,379,452</u>	<u>1,706,322</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>284,943</u>	<u>(102,869)</u>

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

## Canadian Hatching Egg Producers Changes in Net Assets

Year ended December 31, 2010

	<b>2010</b>			2009	
	Internally restricted for research purposes	Internally restricted for severance contingency	Unrestricted	Total	Total
	\$	\$	\$	\$	\$
Net assets - beginning	31,104	60,923	845,947	937,974	1,040,843
Excess (deficiency) of revenues over expenditures			284,943	284,943	(102,869)
Internally imposed restrictions (Note 6)	<u>(11,081)</u>	<u>35,131</u>	<u>(24,050)</u>		
Net assets - ending	<u>20,023</u>	<u>96,054</u>	<u>1,106,840</u>	<u>1,222,917</u>	<u>937,974</u>

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

## Canadian Hatching Egg Producers Cash Flows

Year ended December 31, 2010

	<u>2010</u>	<u>2009</u>
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Excess (deficiency) of revenues over expenses	284,943	(102,869)
Non cash items:		
Amortization of capital assets	47,134	25,876
Changes in working capital items		
Accounts receivable	28,499	24,593
Prepaid expenses	6,705	21,743
Accounts payable and accrued liabilities	(19,832)	(59)
Deferred contributions		(37,749)
Cash flows from operating activities	<u>347,449</u>	<u>(68,465)</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of investments	(2,460,322)	(735,652)
Disposal of investments	2,157,205	818,593
Acquisition of capital assets	(7,401)	(10,358)
Disposal of capital assets		2,004
Cash flows from investing activities	<u>(310,518)</u>	<u>74,587</u>
<b>FINANCING ACTIVITIES</b>		
Payment on long-term debt and cash flows from financing activities	<u>(7,706)</u>	<u>(7,291)</u>
<b>Net increase (decrease) in cash</b>	<b>29,225</b>	<b>(1,169)</b>
Cash, beginning of year	<u>3,199</u>	<u>4,368</u>
Cash, end of year	<u>32,424</u>	<u>3,199</u>

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

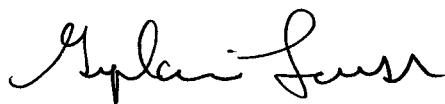
## Canadian Hatching Egg Producers Financial Position

December 31, 2010

	<u>2010</u>	<u>2009</u>
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash	32,424	3,199
Short-term investments (Note 3)	688,117	385,000
Accounts receivable	287,070	315,570
Prepaid expenses	12,106	18,810
	<u>1,019,717</u>	<u>722,579</u>
Capital assets (Note 4)	679,786	719,519
	<u>1,699,503</u>	<u>1,442,098</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	131,713	151,545
Current portion of long-term debt	8,166	7,716
	<u>139,879</u>	<u>159,261</u>
Long-term debt (Note 5)	336,707	344,863
	<u>476,586</u>	<u>504,124</u>
<b>NET ASSETS</b>		
Internally restricted for research purposes	20,023	31,104
Internally restricted for severance contingency	96,054	60,923
Unrestricted	1,106,840	845,947
	<u>1,222,917</u>	<u>937,974</u>
	<u>1,699,503</u>	<u>1,442,098</u>

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

On behalf of the Board,



Gyslain Loyer, Chair



Jack Greydanus, Vice Chair

# Canadian Hatching Egg Producers

## Notes to Financial Statements

December 31, 2010

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### **1 - GOVERNING STATUTES AND NATURE OF OPERATIONS**

Canadian Hatching Egg Producers ("CHEP") is a statutory corporation created under the Farm Products Agencies Act.

The mission of CHEP is to establish a comprehensive broiler hatching egg marketing program 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.

CHEP is a non-profit organization within the meaning of the Income Tax Act and is exempt from income taxes.

### **2 - 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.

#### **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 CHEP may undertake in the future. Actual results may differ from these estimates.

#### **Financial instruments**

CHEP 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.



# Canadian Hatching Egg Producers

## Notes to Financial Statements

December 31, 2010

### 2 - ACCOUNTING POLICIES (Continued)

#### *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

CHEP 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.

CHEP 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:

	<u>Rates</u>
Building	2.5%
Office furniture and equipment	20%
Electronic equipment	33%

During the current year CHEP changed its amortization rate of office furniture and equipment to 20% from 10% which was used in the prior year. The rate was changed in order to more accurately reflect the estimated useful lives of the assets. The change in rate has had no significant effect on these financial statements.

### 3 - SHORT-TERM INVESTMENTS

	<u>2010</u>	<u>2009</u>
	\$	\$
Guaranteed investment certificates, bearing interest rates between 1.3% and 1.4%, maturing at various dates in 2011.	<u>688,117</u>	<u>385,000</u>

# Canadian Hatching Egg Producers

## Notes to Financial Statements

December 31, 2010

### 4 - CAPITAL ASSETS

	2010		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	54,135		54,135
Building	649,269	37,766	611,503
Office furniture and equipment	37,977	29,047	8,930
Electronic equipment	58,511	53,293	5,218
	<u>799,892</u>	<u>120,106</u>	<u>679,786</u>
	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
	<u>810,401</u>	<u>90,882</u>	<u>719,519</u>

### 5 - LONG-TERM DEBT

	2010	2009
	\$	\$
Long-term debt maturing November 30, 2017, with an interest rate of 5.68%, monthly payments of \$2,296, secured by the building (a)	344,873	352,579
Less: current portion	<u>8,166</u>	<u>7,716</u>
	<u>336,707</u>	<u>344,863</u>

Instalments on the long-term debt for the next 5 years are \$27,544 from 2011 to 2015.

(a) All owners of the building are jointly and severally liable for the total amount outstanding of the loan should an owner default on payment.

### 6 - INTERNALLY IMPOSED RESTRICTIONS

During 2010, the Board of Directors internally restricted \$35,131 (2009 - used \$134,910) for severance contingency, and \$11,081 of the reserve for research purposes was used (2009 - \$10,000 was restricted).

# Canadian Hatching Egg Producers

## Notes to Financial Statements

December 31, 2010

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### **7 - COMMITMENTS**

CHEP has entered into agreements expiring in 2012 which call for payments of \$15,500 for the rental of office equipment and information technology support. Minimum payments for the next 2 years are \$12,400 in 2011, and \$3,100 in 2012.

### **8 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES, AND FINANCIAL RISKS**

#### **Financial risk management objectives and policies**

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

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

#### **Financial risks**

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

##### *Interest rate risk*

CHEP has contracted short-term investments bearing interest at a fixed rate. CHEP is therefore not exposed to the risk of changes in fair value resulting from interest rate fluctuations.

CHEP'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 CHEP to credit risk are accounts receivable. To mitigate this risk, CHEP obtains a letter of credit from each province.

##### *Concentration risk*

Credit risk related to cash is considered negligible since this instrument is held in a reputable financial institution.

### **9 - CAPITAL MANAGEMENT**

CHEP's objectives when managing capital are:

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

CHEP 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, CHEP may have to modify its forecast expenses for the realization of certain of its activities.

CHEP is not subject to any externally imposed capital requirements.

