



Canadian Hatching Egg Producers

25th ANNUAL REPORT

2011

Canadian Hatching Egg Producers

21 Florence Street

Ottawa, Ontario

K2P 0W6

Tel: (613) 232-3023

Fax: (613) 232-5241

Email: info@chep-poic.ca

Web Site: <http://www.chep-poic.ca>



Table of Contents

Canadian Hatching Egg Producers

Chairman's Message.....	1
General Manager's Report.....	2
CHEP Board of Directors	4
CHEP Mission Statement	4
Canadian Hatching Egg Market Review / Provincial Hatching Egg Production	5
Canadian Broiler Hatching Egg Producers' Association	10
Production Management Committee Report	12
Advisory Committee Report	14
Finance Committee Report	16
Research Committee Report.....	17
CHEP Alternates	18
Provincial Managers.....	18
CHEP Staff	18
CHEP Financial Statements December 31, 2011	



Chairman's Message

Canadian Hatching Egg Producers

Fellow Canadian Broiler Hatching Egg Farmers:

Yes, it's already been a year since I have taken over the duties as CHEP Chair. During the year, your Board of Directors has been very busy and focused on the goals laid out in the CHEP Strategic Plan from May 2011. As Chair, I am pleased with the accomplishments your Board has achieved in the past year, and as we move forward into 2012, the momentum continues. Let's review and look forward.

Our number one goal has been and will continue to be, the addition of Alberta and Saskatchewan as full member provinces to CHEP. The plan originally was to complete a new Federal Provincial Agreement (FPA), however, over the year, our focus shifted to altering the present FPA to allow these two provinces to sign onto the existing FPA. The alterations will also include changes to allow for one more CHF Director, and for the Chair of CHEP to become a neutral position at the Board table. Moving forward, a new FPA will remain a focus. Adding additional members from Atlantic Canada will also be a priority.

Animal care guidelines, bio-security and food safety protocols, *Health of Animal Act* compensation, and antimicrobial drug use will be part of our membership's day to day operations. The Board of Directors created a Production Management Committee (PMC) to make certain that solutions to issues will be farmer and farm friendly. My thanks in advance go to the members that will be involved in the surveys that will be taking place in 2012.

The World Trade Organization (WTO) has been very active in the past years, but is expected to stall for a period of time as a result of not reaching a deal in 2011 and international elections taking place over the next few years. Other bilateral and multilateral trade agreements continue to be negotiated by the Canadian government and CHEP will maintain its involvement to ensure supply management's viability.

The challenges to supply management remain and it is our responsibility to address them. We have the current Government's support for supply management and for that we are very grateful. We must ensure the rest of Canada is aware of the benefits of supply management. Efforts are now afoot to demonstrate these benefits as a national agency, and we ask you, as individual farmers, to do your part. Your part includes promoting the benefits of supply management to fellow Canadians as well as respecting the intent of supply management.

Please join the Board of Directors and myself in thanking Giuseppe, Nicole, Viki, Tim and Joy, your CHEP staff, for doing a stellar job of staying on top of the issues and dealing with them in a very professional manner.

Jack Greydanus
CHEP Chair



Jack Greydanus
Chair



General Manager's Report

Canadian Hatching Egg Producers

In October 1983, the Canadian Broiler Hatching Egg Producers Association (CBHEPA) submitted a proposal to the National Farm Products Marketing Council to establish a national marketing plan with full supply management powers. In 1984, Council recommended that such an agency be formed and on December 22, 1986, the Canadian Broiler Hatching Egg Marketing Agency (CBHEMA, now known as CHEP) was proclaimed a national agency. Initially comprised of three member provinces, Ontario, Quebec and Manitoba, the membership grew to five members, adding Alberta in 1987 and British Columbia in 1989.

The Canadian Hatching Egg Producers (CHEP) celebrated their 25th Anniversary in 2011. CHEP represents 242 broiler hatching egg producers spanning from British Columbia to Quebec that produce more than 91% of Canadian hatching egg production. In 2011, almost 657 million broiler hatching eggs were produced in Canada – that's an increase of almost 72% from when CHEP was created 25 years ago! CHEP's mission is to 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.

In developing a new Federal Provincial Agreement (FPA), CHEP's top priority is for Alberta and Saskatchewan to join CHEP as signatory members. With this in mind, following the CHEP meeting in November 2011, CHEP worked with the Farm Products Council of Canada to develop an alternate approach to bring these two provinces into the FPA, in its current form, on an expedited basis. We strive to have Saskatchewan and Alberta sign the FPA and formally announce their admission as full members of CHEP in 2012.

The World Trade Organization (WTO) entered the tenth year of Doha Round negotiations this year – 2011 was their “window of opportunity” to see if a deal could be reached before the inevitable halt in talks as a result of several national elections scheduled to take place throughout the world in the next few years. The goal was to have revised texts by Easter, finalized modalities by July, and completed texts by the end of the year. The talks collapsed before Easter and the goal to re-engage the talks was never achieved.

On another note, John Adank replaced David Walker as the new chair of the WTO Doha Round agriculture negotiations. Mr. Adank, like his predecessors David Walker, Crawford Falconer and Tim Groser, was previously New Zealand's Ambassador to the WTO.

In 2011, Canadian and European Union officials continued their work to achieve a Comprehensive Economic and Trade Agreement (CETA). Four meetings were held during the year with an expectation to reach a final agreement early in 2012. The Canadian government's support for supply management remains unequivocal; however, supply management has yet to be officially removed from the negotiating table.

The Canadian government was monitoring activity at the Trans-Pacific Partnership (TPP), but had no formal plans to join the talks with the nine countries (Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore, the United States and Vietnam) that were progressing to reach a multilateral trade agreement. On November 13th, during the Asia-Pacific Economic Cooperation (APEC) Leaders' Summit, Canadian Prime Minister Stephen Harper officially announced Canada's interest in joining the TPP negotiations. Mexico and Japan also stated their interest in participating. There has been speculation that Canada could not participate in the TPP due in part to Canada's agricultural policy, specifically on its supply management system. The Canadian government continues to maintain its “no increases in market access and no cuts to over-quota tariffs (or 0-0)” position on supply management and has reiterated that it would not enter into any bilateral or multilateral trade talks without full protection for Canada's supply managed industries.



Giuseppe Caminiti
General Manager

General Manager's Report

Canada continues to engage in bilateral agreements around the globe. In 2011, Canada was involved in negotiations with a number of countries including Morocco, India, Columbia, Honduras, and Ukraine. CHEP will continue monitoring and working with the Canadian Government to defend and promote Canada's balanced trade position at the WTO and within bilateral and multilateral trade agreements.

There has been mounting public criticism against supply management in Canada. Much of this criticism stems from a common misperception that the Canadian government's refusal to negotiate any concessions from Canada's dairy, poultry and egg sectors has prevented it from advancing in its multilateral trade talks. Once again, the federal government has continuously maintained its strong and unwavering support for supply management in Canada. We will continue to ensure that the benefits of supply management are understood by all.

CHEP continues its work with CFIA to develop a broiler breeder compensation model that would be best suited for the broiler hatching egg producers when a flock is ordered depopulated by CFIA under the *Health of Animals Act*. The government's suite of Business Risk Management (BRM) programs offers inadequate coverage for broiler hatching egg producers.

With regards to animal testing, broiler hatching egg producers' breeder flocks are tested just prior to the end of lay under the Canadian Notifiable Avian Influenza Surveillance System (CanNAISS). This ongoing program tested approximately 145 broiler breeder farms during the year – all results were negative for NAI. CanNAISS is a joint government, industry, and Canadian poultry farmers initiative to prevent, detect and eliminate the presence of H5 and H7 subtypes of NAI in Canada's domestic poultry flocks.

CHEP actively participated with the chicken supply chain on initiatives related to antimicrobial use (AMU). This will continue to be a significant topic for our sector as there is growing interest in the origins and mechanisms of antimicrobial resistance (AMR), particularly as it relates to human health.

There were a host of additional ongoing and new activities in 2011 including CHEP's research funding, CHEQ™ (on-farm food safety program) and progress on the broiler breeder welfare program. This year, there was 100% implementation of CHEQ™ in member provinces. These issues along with several others are highlighted throughout the annual report.

On behalf of the Chair and Board of Directors and all broiler hatching egg producers across the country, a gratitude of appreciation goes out to all CHEP staff – Nicole Duval, Tim Nikita, Viki Sikur and Joy Edstron for their dedication and work throughout the year. Further, congratulations to Jack Greydanus, CHEP Chair, for his devotion to supporting and defending broiler hatching egg producers in his first year as Chair.



Giuseppe Caminiti
General Manager



CHEP Board of Directors

Canadian Hatching Egg Producers



From left to right:

Dean Penner, Manitoba

Calvin Breukelman, Vice Chair, British Columbia

Jack Greydanus, Chair, Ontario

Gyslain Loyer, Quebec

Hendrik Van Steenberghe, Saskatchewan

Kevin Tiemstra, Alberta

Ernie Silveri, CHF Representative

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.



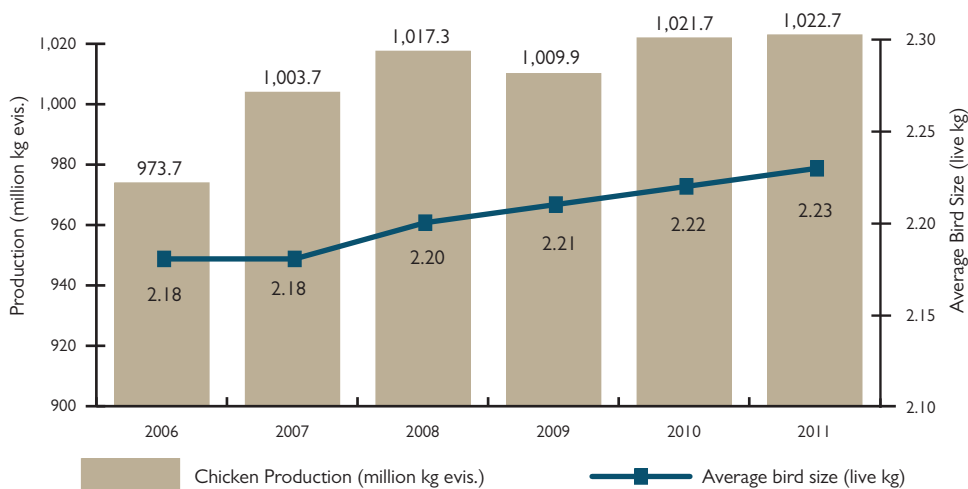
Canadian Hatching Egg Market Review

Canadian Hatching Egg Producers

In 2011, the Canadian hatching egg industry experienced a slight decline in total domestic production as producers were looking to meet allocations which were largely unchanged from 2010, despite a reduction in the estimated chicken production in 2011. While the average live weight of broilers marketed in Canada grew to a level of 2.23 kg per bird in 2011, the forecasted chicken production fell from 1,024 million kilograms (eviscerated) in 2010 to 1,021 million kilograms in 2011.

Chicken production in Canada totaled 1,022.7 million kilograms in 2011, an increase of 1.0 million kilograms or 0.1% from the 1,021.7 million kilograms produced in 2010, while the number of birds slaughtered decreased by 0.5%. CHEP's initial 2011 allocations (March 2010) were established based on an estimated chicken production level of 1,030 million kilograms, however this estimate was revised upwards in July 2010 (1,037 million kilograms) and again in November 2010 (1,039 million kilograms), and remained at this level when the 2011 allocations were revised in March 2011. However, in response to mounting pressure to reduce production as a result of slowing consumer demand as the lingering effects of the global economic slowdown continued to persist, CHEP's Board of Directors agreed to establish the final 2011 allocations on the basis of a chicken production target of 1,021 million kilograms, approximately 1 million kilogram below actual chicken production in the previous year. While domestic hatching egg production in Canada did not reach final allocations during the year, chicken production has exceeded the final estimated target by less than 2 million kilograms.

Canadian Chicken Production (2006-2011)



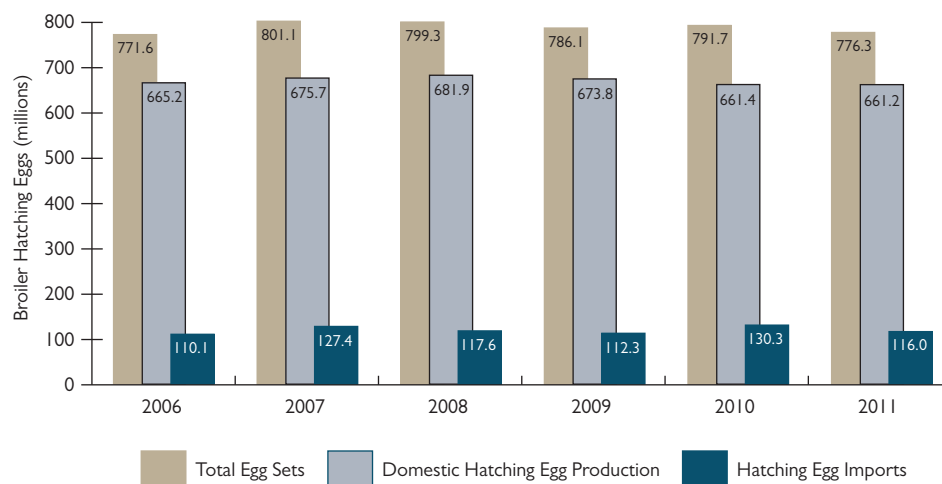
Sources: Chicken Farmers of Canada (chicken production); CHEP (average bird size)

In 2011, Canadian hatcheries set a total of 776.3 million broiler hatching eggs, a decrease 1.9% from 2010 and 1.2% below 2009. Domestic hatching egg production totaled 661.2 million eggs in 2011, relatively unchanged from 2010 and 1.9% below total production in 2009. While domestic hatching egg production was below allocation, hatching egg imports were down significantly totaling 116.0 million eggs, a decrease of 11.0% from the previous year. The number of broiler chicks imported also decreased by 0.3%, totaling 18.9 million chicks. The number of hatching eggs exported increased almost 0.8 million eggs in 2011, up from 0.06 million eggs in both 2010 and 2009.

Canadian Hatching Egg Market Review

By and large, Canadian hatching egg production repeated its performance from 2010, reaching 97.8% of CHEP's 2011 final allocation of 675.8 million hatching eggs. Among CHEP's signatory and contract member provinces, combined production reached 96.9% of their share of the 2011 final allocations.

Canadian Broiler Hatching Egg Statistics (2006-2011)



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

All requests for supplemental imports were successfully filled with the exception of two requests totaling 151,730 dozen broiler hatching eggs (or 1.82 million eggs) for delivery during the final week of the year.

Table 1 – 2011 Supplemental Imports

Province	Supplemental Import Permits	
	Hatching Eggs	Chicks
British Columbia	0	0
Alberta	0	0
Saskatchewan	0	0
Manitoba	0	0
Ontario	380,760	0
Québec	1,440,000	0
Atlantic	0	0
CANADA	1,820,760	0

Sources: CHEP, DFAIT

Provincial Hatching Egg Production

Overall, the domestic production of hatching eggs in Canada fell by 0.2% or 1.1 million eggs from 2010. Despite early expectations of growth in chicken production, as reflected in CHEP's initial targets, domestic hatching egg production did not reach the levels set through CHEP's final 2011 allocation, which was based on the premise of zero growth in chicken production. While 2011 allocations remained relatively unchanged from 2010, 15.3 million fewer eggs and 14.3 million fewer egg imports were set in hatcheries, which led to an overall balance in production compared to the previous year. Hatchability in Canada improved by 0.4% to reach a level of 82.2% for the year. Most provinces reported declines in production from the previous year, including Alberta (-4.1%), Manitoba (-3.7%) and Ontario (-1.8%). In contrast, Quebec (3.7%) and the Atlantic region (0.1%) reported increases over 2010.

In British Columbia, domestic hatching egg production fell by 0.1% in 2011, finishing the year at 95.6% of its allocation, with 3.0% fewer eggs set during the year and a 7.3% reduction in total imports. Hatchability improved to 82.5% and chicken production increased by 0.8%. In Alberta, domestic hatching egg production (92.0% of allocation) fell by 4.1% as a result of a 21.9% increase in total imports and a 1.2% drop in chicken production. Egg sets and hatchability remained largely unchanged from 2010. Saskatchewan's domestic hatching egg production (89.4% of allocation) remained unchanged, while a 9.3% drop in total imports and a 0.9% fall in hatchability contributed to a 2.6% reduction in egg sets and a chicken production reduction of 0.6%. Meanwhile, domestic hatching egg production in Manitoba fell by 3.7%, as total imports increased 9.9% and egg sets declined 1.6%. Production equaled 92.1% of allocation. In Ontario, domestic hatching egg production (94.6% of allocation) decreased by 1.8% from 2010, while egg sets and total imports fell by 1.9% and 4.1% respectively, as hatchability and chicken production were largely unchanged from last year. Domestic hatching egg production in Quebec (101.6% of allocation) increased 3.7% from 2010, as egg sets and total imports dropped by 2.7% and 24.0% respectively, and hatchability improved by 0.8% and chicken production fell by 0.5%.

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

Year	B.C.	Alta.	Sask.	Man.	Ont.	Que.	Atl.	Canada
2011	97,778	65,298	26,607	30,238	195,635	182,386	58,333	656,274
2010	97,896	68,104	26,665	31,402	199,190	175,912	58,275	657,444
2009	100,899	67,411	28,778	31,679	199,007	182,216	61,175	671,165
2008	105,529	73,686	24,242	33,066	198,473	184,007	59,439	678,442
% Change								
11/10	(0.1)	(4.1)	(0.2)	(3.7)	(1.8)	3.7	0.1	(0.2)
10/09	(3.0)	1.0	(7.3)	(0.9)	0.1	(3.5)	(4.7)	(2.0)
09/08	(4.4)	(8.5)	18.7	(4.2)	0.3	(1.0)	2.9	(1.1)

Sources: CHEP, AAFC

The national hatchability rate rose slightly to reach 82.2%, up 0.4% from 2010, with British Columbia and Manitoba recording increases of 1.5% above 2010 levels. The average live weight of broilers rose by 0.6% to 2.23 kg live per bird, with average live weights rising by 1.3% in Ontario and Quebec in 2011.

Table 3 – Selected Factors Impacting Hatching Egg Production (2011)

	B.C.	Alta.	Sask.	Man.	Ont.	Que.	Atl.	Canada
Hatchability								
2011 (%)	82.5	78.9	80.5	81.0	83.2	82.8	81.4	82.2
% change 11/10	1.5	(0.2)	(0.9)	1.5	0.0	0.8	(0.6)	0.4
Total (Combined) Imports								
(000 eggs equiv.)	24,449	12,247	6,912	10,662	41,908	40,286	3,451	139,914
% change 11/10	(7.3)	21.9	(9.3)	9.9	(4.1)	(24.0)	(16.9)	(9.5)
Chicken Production								
(000 kg evis.)	154,004	91,851	39,596	42,287	334,591	279,905	80,448	1,022,682
% change 11/10	0.8	(1.2)	(0.6)	(0.4)	0.6	(0.5)	0.7	0.1
Chicken Production								
Market Share (%)	15.1	9.0	3.9	4.1	32.7	27.4	7.9	100.0
% change 11/10	0.7	(1.3)	(0.7)	(0.5)	0.5	(0.6)	0.6	–
Avg. live weight of broilers								
(kg live/bird)	2.16	2.27	2.07	1.97	2.30	2.28	2.15	2.23
% change 11/10	0.0	(0.1)	(0.3)	(0.6)	1.3	1.3	(1.4)	0.6

Sources: CHEP (Hatchability) AAFC (Imports) CFC (Chicken Production)

Farm Cash Receipts and Producer Prices per Province

Total farm cash receipts for broiler hatching egg producers grew by 12.1% to \$260 million, up from \$232 million earned in 2010, and up 9.1% from the \$238 million earned in 2009. This increase is largely due to increases in feed prices and other increases in costs experienced by producers.

Table 4 – 2011 Farm Cash Receipts and Producer Prices

	Farm Cash Receipts (2011)		Hatching Egg Producer Prices	
	\$ 000	% change 11/10	¢ per saleable chick (2011 average)	% change 11/10
British Columbia	42,691	9.5	54.18	9.2
Alberta	26,865	6.5	51.07	10.5
Saskatchewan	10,891	9.8	50.83	9.6
Manitoba	12,401	9.7	50.79	13.2
Ontario	72,973	10.2	46.24	11.5
Québec	71,764	18.3	47.63	13.2
CANADA	259,989	12.1	49.77	11.4

Source: CHEP (Farm Cash Receipts) Provincial Commissions (Prices)

Economic Impact of Canada's Poultry & Egg Industries

The four national poultry agencies (SM-4) commissioned a joint study to determine the overall economic impact and total contributions generated by the orderly marketing systems for broiler hatching eggs, turkey, chicken and table eggs. Results reported for broiler hatching eggs estimated direct farm sales at \$230 million in 2011, which resulted in an overall contribution of \$286 million to Canada's Gross Domestic Product (GDP). When combined, the SM-4 industries added almost \$9.3 billion to GDP in 2011, with net farm sales of \$3.2 billion, while supporting more than 33,000 on-farm jobs and 86,000 jobs economy-wide and also contributing more than \$1.8 billion in government revenues.

2010 Final Production Report

The final assessment for 2010 production was presented at the CHEP meeting in July. Based on the data outlined in Table 5, Domestic broiler hatching egg production in Canada reached 97.29% of total allocations and all CHEP signatory and service contract member provinces production levels were within their respective allocations for the year.

Table 5 – 2010 LDA Production and Allocations by Province

Province	Domestic Production (eggs)	2010 Final Allocations (eggs)	% utilization	Quota Leased (eggs)	Final % utilization
British Columbia	97,896,445	102,690,332	95.33%	0	95.33%
Alberta	68,104,253	68,964,321	98.75%	0	98.75%
Saskatchewan	26,664,899	29,876,878	89.25%	0	89.25%
Manitoba	31,402,098	32,693,628	96.05%	0	96.05%
Ontario	199,189,600	208,094,498	95.72%	0	95.72%
Québec	175,911,747	180,502,184	97.46%	0	97.46%
CANADA	657,444,470	675,764,285	97.29%	0	97.29%

Source: CHEP



Canadian Broiler Hatching Egg Producers' Association

In 2002, the Canadian Hatching Egg Producers' Association (CBHEPA) reinstated the student programs. Since then, these initiatives have been greatly appreciated by the student community, and, we believe, will benefit our industry in the future.

To date the **Young Farmers Program** has provided financial assistance to five young producers looking to acquire or broaden their knowledge of the hatching egg industry in other countries.

The **Student Exchange Program** was initiated to help Canadians gain a better understanding of the challenges and opportunities available to the hatching egg industry. It has allowed two high school students of Manitoba and Quebec broiler hatching egg producers to experience a new environment.

The **Broiler Breeder Research Grant** has been an amazing success in providing support to 10 students to pursue short term studies in fields related to our industry.

CBHEPA 2010 Producer of the Year

Berniko and Jantea Van der Velde were presented with the 2010 Producer of the Year Award at the Canadian Hatching Egg Producers summer meeting in July 2011 in beautiful Canmore, Alberta. The Van der Velde's are from Thorhild, Alberta.



Brian Bilkes, Chair CBHEPA, Jantea and Berniko Van der Velde

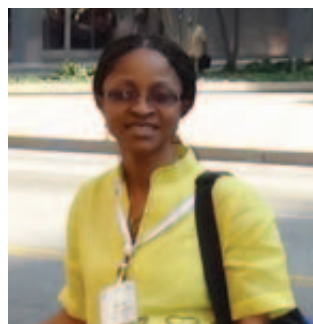


Berniko Van der Velde

The 2011 Broiler Breeder Research Grant was awarded to Edith Tanjong MBA from the University of Alberta for her project entitled: *"Broiler Breeder Composition Restriction: Can feed manipulations turn breeders to better mothers?"* Edith's research will be posted on CHEP's website.

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

Brian Bilkes
Chair, CBHEPA



Edith Tanjong MBA



Membership:

- ▶ Brian Bilkes, Chair, British Columbia
- ▶ Josh Lubach, Alberta
- ▶ Jeff Regier, Saskatchewan
- ▶ Kevin Enns, Manitoba
- ▶ Cheryl Firby, Ontario
- ▶ Robert Massé, Quebec



Canadian Broiler Hatching Egg Producers' Association

The 2011 CBHEPA Drawing Contest Winner



Since 2008, the Canadian Broiler Hatching Egg Producers' Association holds an annual drawing contest for producers' families. The drawings received become the face of the national office Canadian Broiler Hatching Egg Producers Christmas cards. This year the Association members selected a special winner to have their drawing sent to the Prime Minister of Canada, the Honourable Stephen Harper. Pictured here is our 2011 winner, Annette Bilkes, 6 years old from Chilliwack, British Columbia.

The 2011 CBHEPA Drawing Contest Participants



Claire Bilkes, 3 yrs
British Columbia



Jayden Ijtsma, 5 yrs
Alberta



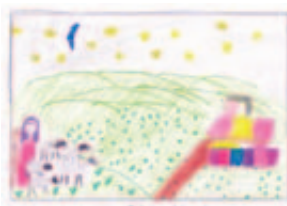
Thaya Neels, 6 yrs
British Columbia



Ashley Ijtsma, 7 yrs
Alberta



John Bilkes, 9 yrs
British Columbia



Hannah Neels, 10 yrs
British Columbia



Jane Bilkes, 11 yrs
British Columbia



Production Management Committee Report

Canadian Hatching Egg Producers

I am pleased to report on the work of CHEP's Production Management Committee over the past year. We are tasked with providing recommendations regarding on-farm issues, such as food safety, animal welfare, biosecurity, and emergency management.

CHEQ and Food Safety

First and foremost, I am proud to report that the CHEQ™ program has reached 100% implementation in CHEP member provinces in 2011. This demonstrates broiler hatching egg producers' commitment to food safety, and we aim to continuously improve the program in the future.

We are nearing completion of the draft CHEQ™ management manual, which describes the system under which CHEQ™ operates across the country and is required for official recognition by the CFIA. This includes scheduling of audits, on-farm food safety auditor training, as well as updates to the program and continued senior level commitment. The next step for the management manual is to undergo a gap analysis by the CFIA, which ensures that the program fulfills federal government requirements on paper. This is followed by an implementation assessment, which ensures the system is implemented as written.

I would like to make mention all the people who ensure our program works effectively, including our provincial delivery agents, coaches, veterinarians, industry and academic experts, and auditors. In particular, we note the passing of Graham Marriott in December 2011. Graham was responsible for auditing broiler hatching egg farms in Alberta, and brought a wealth of experience, knowledge and auditing expertise to our industry. He will be sorely missed.

Animal Welfare

2011 was a banner year for welfare-related activities. CHEP, along with CFC, TFC and CPEPC initiated a review of the Recommended Code of Practice for the Care and Handling of Farm Animals: Chickens, Turkeys and Breeders from Hatchery to Processing Plant. This process is managed by the National Farm Animal Care Council (NFACC), and provides a consistent way of updating industry codes using current scientific research and industry practices. An orientation meeting was held in the fall of 2011 to introduce code development committee and science committee members, and to determine priority welfare issues (PWIs). The process is expected to take approximately 2 years to complete and is currently funded through Agriculture and Agri-Food Canada. Our hope is this continues to be the case in the future as the codes play a key role in helping demonstrate producers' commitment to maintaining a high standard of animal welfare.

On-Farm Policies

In general, I have noticed a move toward increased monitoring, measuring and reporting of on-farm practices. As you know, "you can't improve what you can't measure", and the public is increasingly interested in how we make improvements with respect to food safety, animal welfare, environmental stewardship, and more.

CHEP anticipates working with industry and government on a federal government policy for approved hatchery supply flocks that will define national requirements for broiler breeder flocks in Canada. Of prime importance will be ensuring this policy works for producers, and does not duplicate existing requirements, such as testing for avian influenza under CanNAISS. This will certainly be a topic to watch in 2012.



Membership:

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

Biosecurity

CHEP participated in the development process for the national service sector biosecurity standard through the CFIA's Office of Animal Biosecurity. This builds on the completion of the producer biosecurity standard. The purpose of this work is to ensure consistent implementation of a national standard in the service sector.

As always, if you have questions or feedback on any of these important producer issues, contact your provincial office or CHEP.

Sincerely,

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

Dean Penner
Chair, Production Management Committee



Advisory Committee Report

Canadian Hatching Egg Producers

The Advisory Committee met in March, July and November of 2011 to discuss the factors shaping market conditions and review the 2011 and 2012 chicken requirements. The chicken industry entered the year with an expectation of restored growth in demand, with chicken production in 2010 reaching a level of 1,021.6 million kilograms (eviscerated) following weaker production in 2009 (1,009.9 million kilograms) on the heels of a prolonged economic recession which began in the fall of 2008. Market indicators in early 2011 pointed to growth of more than 1.5% in chicken production, although many uncertainties existed surrounding the future effects of: rising feed prices and other costs of production, hatchability issues, domestic hatching egg production, and consumer demand for chicken. Of major concern was the need to strike a balance between the future needs of the Canadian chicken marketplace and the adequate supply of broiler hatching eggs, while offering producers the necessary signals in advance of breeder placements for the year ahead.

In March, the chicken industry trends assessing the level of growth expected in 2011 and 2012 were discussed. Highlights of the discussion included: hatching egg production and hatchability levels that were below 2010 levels; hatching egg imports, which were 25% higher than 2010 and 35% above prorata; year-to-date chicken production up 0.8% with future allocations expected to increase; the continuous rise of feed and fuel costs and its effects on producer prices; wholesale prices; improving economic conditions for Canadian consumers; high retail prices for competitive meats including beef and pork; and the emergence of growing levels of spent fowl meat. Nevertheless, the Committee remained optimistic that growth of more than 1.5% in chicken production for 2011 was reasonable, and recommended that CHEP consider a chicken production target for 2011 of 1,039 million kilograms, which is 1.7% higher than the production in 2010. For 2012, the Committee agreed that the initial growth forecast should be in line with projected population growth, and recommended a 2012 target of 1,052 million kilograms, which represents 1.3% above 1,039 million kilograms. During the CHEP Board of Directors meeting, these volumes were approved as the 2011 and 2012 chicken production targets.

In July, members agreed that market conditions had shifted considerably since March, with the prospects of escalating costs coming to fruition, while the impact of shifting consumer demand became a growing impediment in setting a proper target for 2011 chicken production. Discussion included: rising feed prices which led to a 17% increase in producer prices; stability in wholesale prices and tightening processor margins; hatching egg production levels below prorata with lower hatchability rates; hatching egg imports up 18% from last year and 30% above prorata; year-to-date chicken production up 1.1%, with expectations that allocations for the remainder of the year will be cut; lagging economic growth in Canada, with forecasted projections revised downwards for 2011 and 2012; improving consumer spending and unemployment figures favourable to consumer demand; and higher expected prices for competing meats as supplies for pork and beef tighten. It was recognized that chicken production in 2011 would need to be revised downwards, in light of the growing consensus that chicken allocations in the remainder of the year would be cut in response to shifting market conditions. As a result, the Committee recommended a 2011 chicken production target of 1,021 million kilograms, which represents flat growth from the actual level of production from 2010, and a reduction of 18 million kilograms from the previous level set in March. In its first review of the 2012 chicken demand, it was agreed that focus should be placed primarily on population growth, putting forth a recommendation of 1,032 million kilograms, which represents growth of 1.1% over 1,021 million kilograms. The CHEP Board of Directors approved the recommendations for both 2011 and 2012.



Membership:

- ▶ Dean Penner, Chair, Manitoba
- ▶ Brian Bilkes, CBHEPA
- ▶ Ernie Silveri, CHF Representative
- ▶ Jan Rus, CFC
- ▶ Robert DeVal, FPPAC
- ▶ Steve Welsh, AAFC
- ▶ Guy Giroux, DFAIT
- ▶ Nicolas Paillat, CPEPC

By November, the global economic situation was getting worse. As the world's financial markets continued to weaken, economic growth forecasts in Canada were revised downwards yet again, leading many to expect flat growth in 2012. Several issues were discussed, including: the impact of recent chicken overproduction for 2011; the prospects for growth in chicken demand in 2012; favourable conditions for chicken demand as competing meats continue to experience production cutbacks and rising retail prices; the rising presence of spent fowl meat; the growing trend of "trading down" by consumers to shift demand from white meat to more dark meat cuts; a recent drop in live prices due to falling feed prices; year-to-date chicken production up 0.6% above the same time a year earlier; and domestic hatching egg production, hatching egg imports and egg sets below levels from a year earlier. Committee members agreed that total chicken production in 2011 should reach the target of 1,021 million kilograms set in July. As a result, the committee recommended a 2012 chicken production target of 1,031 million kilograms, which represents growth of 1.0% over 2011. The CHEP Board of Directors approved 1,031 as the allocation for 2012.

Sincerely,

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

Dean Penner
Chair, Advisory Committee



Finance Committee Report

Canadian Hatching Egg Producers

The Finance Committee met on three separate occasions (March, July and November) during the year. The committee reviewed CHEP's financial situation and examined CHEP's financial policies as required at each meeting.

Revenues equalled \$1.77 million and expenditures totalled \$1.64 million in 2011, which resulted in a surplus of \$0.13 million. Actual revenues were comparable to the projected budget of \$1.76 million despite minimal increases in egg production from the prior year. Revenue increased by \$0.1 million compared to the previous year as a result of the national levy rate increase, which was in effect for only three quarters of the year. Actual expenditures of \$1.64 million were lower than the budget of \$1.79 million due in large part to CHEP Directors' continued efforts in reducing meeting and travel costs as well as some budget items being delayed to 2012 for food safety and building repairs. Actual expenditures were \$0.26 million higher compared to the previous year due to increased costs related to the Federal Provincial Agreement (FPA), the Executive Committee composition, increased trade activities and costs to commemorate CHEP's 25th Anniversary.

The Finance Committee presented a budget for 2012 that included a projected deficit of \$77,500 for the year, however, I am pleased to announce no increase in national levy was deemed required at this time. 2012 budgeted revenues are estimated to increase by \$68,000 which is attributable to an increase in the national levy that will be in effect for the entire 2012 year. Budgeted 2012 expenditures over 2011 are expected to increase by \$122,500 as a result of several factors including: one standalone FPA meeting, the Executive Committee composition, location of meetings, professional requirements, and expenditures that were to occur in 2011 but have been rescheduled for 2012.

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. There was an additional \$5,000 per year committed to research expenditures for 2011 and 2012.

At CHEP's Annual General meeting in March 2011, the firm of Welch LLP was appointed to perform the 2011 year-end audit.

Sincerely,

Gyslain Loyer
Chair, Finance Committee



Membership:

- ▶ Gyslain Loyer, Chair, Quebec
- ▶ Kevin Tiemstra, Alberta
- ▶ Hendrik Van Steenberg, Saskatchewan
- ▶ Dean Penner, Manitoba
- ▶ Ernie Silveri, CHF Representative



Research Committee Report

Canadian Hatching Egg Producers

CHEP Research Priorities

We reviewed our research priority areas from each region and made the following recommendations (**bolded points indicate new priorities**):

- Food safety
- Environmental research
- Dark-meat utilization
- Control of Salmonella in broiler breeders through vaccination
- Production-based research
- **Early mortality of breeder hens**
- **Low production of young breeders**
- **Actual effect of climate control (in hatching egg cooler, cooling during transportation and at the hatchery) on fertility**
- **Comparison of bedding materials**

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

One of the most significant research developments in 2011 was the hiring of **Dr. Bruce Roberts** as CPRC's Executive Director. Bruce brings a broad range of knowledge and experience within agriculture and business, and he continues to work in transition with **Gord Speksnijder** who has provided us excellent service since 2003. It is this team, along with the CPRC Board of Directors, that aims to provide value to producers, and have CPRC recognized as the national voice for poultry research in Canada (www.cp-rc.ca).

CHEP is also supporting the development of a broiler breeder precision feeding system at the University of Alberta. We ask a lot from our birds, and improvements to the way we feed them may also benefit their health and welfare.

Sincerely,

Cheryl Firby
Chair, CHEP Research Committee



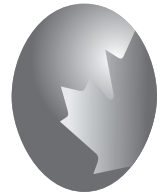
Membership:

- ▶ Cheryl Firby, Chair, Ontario
- ▶ Bilkes, British Columbia
- ▶ Josh Lubach, Alberta
- ▶ Jeff Regier, Saskatchewan
- ▶ Kevin Enns, Manitoba
- ▶ Robert Massé, Quebec

CHEP Alternates



From left to right:
 Kevin Enns, Manitoba
 Jeff Regier, Saskatchewan
 Robert Massé, Quebec
 Brian Bilkes, British Columbia
 Cheryl Firby, Ontario



Provincial Managers



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

CHEP Staff



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

FINANCIAL STATEMENTS
For
CANADIAN HATCHING EGG PRODUCERS
For year ended
DECEMBER 31, 2011

CANADIAN HATCHING EGG PRODUCERS
INDEX TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 & 2
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF OPERATIONS	4
STATEMENT OF CHANGES IN NET ASSETS	5
STATEMENT OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7 - 12

INDEPENDENT AUDITOR'S REPORT

To the Minister of Agriculture and Agri-Food, Government of Canada, the 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 statement of financial position as at December 31, 2011 and the statements of operations, 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, 2011 and the results of its operations, the changes in its net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other Matter

The financial statements of Canadian Hatching Egg Producers for the year ended December 31, 2010, were audited by another auditor who expressed an unmodified opinion on those statements on February 15, 2011.

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

Chartered Accountant
Licensed Public Accountants

Ottawa, Ontario
February 15, 2012.

Welch LLP

An Independent Member of BKR International

CANADIAN HATCHING EGG PRODUCERS
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 43,239	\$ 32,424
Short-term investments - note 5	800,000	688,117
Accounts receivable	320,664	287,070
Prepaid expenses	<u>10,420</u>	<u>12,106</u>
	<u>1,174,323</u>	<u>1,019,717</u>
PROPERTY AND EQUIPMENT		
Land and building - note 6	651,600	665,638
Other - note 7	<u>7,083</u>	<u>14,148</u>
	<u>658,683</u>	<u>679,786</u>
	<u>\$ 1,833,006</u>	<u>\$ 1,699,503</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 140,302	\$ 131,713
Current portion of long-term debt - note 6	<u>8,642</u>	<u>8,166</u>
	<u>148,944</u>	<u>139,879</u>
LONG-TERM DEBT - note 6	<u>328,057</u>	<u>336,707</u>
	<u>477,001</u>	<u>476,586</u>
NET ASSETS		
Internally restricted for research purposes	15,023	20,023
Internally restricted for severance contingency	108,916	96,054
Unrestricted	<u>1,232,066</u>	<u>1,106,840</u>
	<u>1,356,005</u>	<u>1,222,917</u>
	<u>\$ 1,833,006</u>	<u>\$ 1,699,503</u>

Approved on behalf of the Board:



Jack Greydanus, Chair



Calvin Breukelman, Vice Chair

(See accompanying notes)

Welch LLP

An Independent Member of BKR International

CANADIAN HATCHING EGG PRODUCERS
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2011

	<u>2011</u>	<u>2010</u>
Revenues		
Levies	\$ 1,762,608	\$ 1,694,976
Interest	<u>9,351</u>	<u>4,195</u>
	<u>1,771,959</u>	<u>1,699,171</u>
Expenses		
Amortization	24,070	47,134
Building occupancy	35,154	34,846
Directors' fees and participants'	304,005	284,594
Interest on long-term debt	13,369	13,818
Meetings	54,399	23,335
Membership fees	32,153	29,980
Office and administrative	167,052	117,001
Professional fees	192,272	111,810
Research	65,000	71,081
Salaries and benefits	517,166	512,115
Staff	55,438	43,057
Trade	98,957	45,000
Translation and interpretation	<u>79,836</u>	<u>80,457</u>
	<u>1,638,871</u>	<u>1,414,228</u>
Net revenue	<u>\$ 133,088</u>	<u>\$ 284,943</u>

(See accompanying notes)

Welch LLP

An Independent Member of BKR International

CANADIAN HATCHING EGG PRODUCERS
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2011

	<u>2011</u>				<u>2010</u>
	<u>Internally restricted for research purposes</u>	<u>Internally restricted for severance contingency</u>	<u>Unrestricted</u>	<u>Total</u>	<u>Total</u>
Balance, beginning of year	\$ 20,023	\$ 96,054	\$ 1,106,840	\$ 1,222,917	\$ 937,974
Net revenue	-	-	133,088	133,088	284,943
Internally imposed restrictions - note 8	<u>(5,000)</u>	<u>12,862</u>	<u>(7,862)</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 15,023</u>	<u>\$ 108,916</u>	<u>\$ 1,232,066</u>	<u>\$ 1,356,005</u>	<u>\$ 1,222,917</u>

(See accompanying notes)

Welch LLP

An Independent Member of BKR International

CANADIAN HATCHING EGG PRODUCERS
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net revenue	\$ 133,088	\$ 284,943
Adjustment for amortization	<u>24,070</u>	<u>47,134</u>
	157,158	332,077
Changes in non-cash working capital components:		
Accounts receivable	(33,594)	28,499
Prepaid expenses	1,686	6,705
Accounts payable and accrued liabilities	<u>8,589</u>	<u>(19,832)</u>
	<u>133,839</u>	<u>347,449</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(825,000)	(2,460,322)
Maturity of investments	713,117	2,157,205
Purchase of property and equipment	<u>(2,967)</u>	<u>(7,401)</u>
	<u>(114,850)</u>	<u>(310,518)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment on long-term debt	<u>(8,174)</u>	<u>(7,706)</u>
INCREASE IN CASH	10,815	29,225
CASH AT BEGINNING OF YEAR	<u>32,424</u>	<u>3,199</u>
CASH AT END OF YEAR	<u>\$ 43,239</u>	<u>\$ 32,424</u>

(See accompanying notes)

Welch LLP

An Independent Member of BKR International

CANADIAN HATCHING EGG PRODUCERS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

1. ORGANIZATION AND PURPOSE

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

The mission of the organization is to 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.

The organization is a non-profit organization within the meaning of the Income Tax Act (Canada) and is exempt from income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

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

The organization 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.

Financial instruments

The organization 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 and short-term investments in guaranteed investment certificates are classified as held-for-trading financial assets and are measured at fair value.

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.

CANADIAN HATCHING EGG PRODUCERS
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

Investment in co-owned property

The organization accounts for its investment in the co-owned property using proportionate consolidation. Under this method, the organization's share of the assets, liabilities, revenues, expense and cash flows of the co-owned property are reported in these financial statements.

Property and equipment and related amortization

Property and equipment are recorded at cost.

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

Building	40 years
Office furniture and equipment	5 years
Electronic equipment	3 years

Use of estimates

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

3. FUTURE ACCOUNTING STANDARDS FOR THE NOT-FOR-PROFIT SECTOR

The Accounting Standards Board of the Canadian Institute of Chartered Accountants (CICA) recently approved a financial reporting framework designed specifically to meet the needs of users of financial statements prepared by not-for-profit organizations. These new standards must be applied to the organization by December 31, 2012 fiscal year-end. Not-for-profit organizations are given the option to adopt International Financial Reporting Standards (IFRS) instead of the new not-for-profit accounting standards if that is the organization's preferred course of action. Management is currently evaluating the impact of this new reporting framework on its financial statements.

CANADIAN HATCHING EGG PRODUCERS
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2011

4. FINANCIAL INSTRUMENTS

The organization's financial instruments consist of cash, short-term investments, accounts receivable, accounts payable and accrued liabilities and long-term debt.

The fair values of the organization's cash, short-term investments, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature. The fair value of long-term debt is not readily obtainable.

Unless otherwise noted, it is management's opinion that the organization is not exposed to significant interest rate, currency, credit or other price risks arising from these financial instruments.

Credit risk

The organization is exposed to credit risk resulting from the possibility that parties may default on their financial obligations. The organization's maximum exposure to credit risk represents the sum of the carrying value of its cash, short-term investments and its accounts receivable. The organization's cash is deposited with a Canadian chartered bank and as a result management believes the risk of loss on this item to be remote. The organization also manages its credit risk by reviewing accounts receivable monthly, following up on outstanding amounts, and obtaining a letter of credit from each province as a guarantee of payment of outstanding balances. Management believes that all accounts receivable at year-end will be collected and has not deemed it necessary to establish an allowance for doubtful accounts. The organization reduces the credit risk attributable to its short-term investments by investing in guaranteed investment certificates.

Interest rate risk

The organization's short term investments bear interest at a fixed rate. The organization therefore is not exposed to the risk of changes in fair value resulting from interest rate fluctuations. The organization's other financial assets and liabilities do not comprise interest rate risk since they either bear interest at fixed rates or do not bear interest.

5. SHORT-TERM INVESTMENTS

Short-term investments are as follows.

	<u>2011</u>	<u>2010</u>
Guaranteed investment certificates, bearing interest rates between 1.2% and 1.4% maturing at various dates in 2012	\$ 800,000	\$ 688,117

Investments are managed by the board of directors in consultation with the organization's financial advisors. The organization limits its investments to those authorized investments under the Farm Products Agencies Act ("Act"). These limits restrict the organization to only invest money in its possession or control that is not immediately required for the purposes of its operations. Furthermore, the Act requires the investments to be in securities of or guaranteed by the Government of Canada.

CANADIAN HATCHING EGG PRODUCERS
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2011

6. PROPERTY AND EQUIPMENT - LAND AND BUILDING

Land and building

The organization holds an 8.02% interest, as co-owner with Egg Farmers of Canada, Dairy Farmers of Canada and Canadian Federation of Agriculture, in a property located at 21 Florence Street, Ottawa, Ontario, that houses the organization's office.

The organization's proportionate share of the cost and related accumulated amortization is as follows:

	<u>2011</u>		<u>2010</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
Land	\$ 54,135	\$ -	\$ 54,135	\$ -
Building	<u>651,519</u>	<u>54,054</u>	<u>649,269</u>	<u>37,766</u>
	<u>705,654</u>	<u>\$ 54,054</u>	<u>703,404</u>	<u>\$ 37,766</u>
Less accumulated amortization	<u>54,054</u>		<u>37,766</u>	
Net book value	<u>\$ 651,600</u>		<u>\$ 665,638</u>	

Long-term debt

The organization is responsible for its pro-rata share of the long-term debt to the Bank of Montreal. The organization's share of the principal balance owing at December 31, 2011 is as follows.

	<u>2011</u>	<u>2010</u>
Long-term debt - 5.68% interest rate, payable in blended monthly payments of \$2,296, due November 30, 2017	\$ 336,699	\$ 344,873
Less current portion	<u>8,642</u>	<u>8,166</u>
	<u>\$ 328,057</u>	<u>\$ 336,707</u>

The organization's share of principal repayments required in future fiscal years is as follows:

2012	\$ 8,642
2013	9,146
2014	9,679
2015	10,243
2016	10,840
Subsequent to 2016	288,149

The organization and the other co-owners have jointly and severally entered into the loan agreement and therefore the organization is contingently liable for that portion of the long-term debt attributable to the other co-owners in the event that they should default in their financial commitment. The balance of the long-term debt attributable to the other co-owners at December 31, 2011 is \$3,861,529.

CANADIAN HATCHING EGG PRODUCERS
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2011

7. PROPERTY AND EQUIPMENT - OTHER

Property and equipment - other consists of:

	2011		2010	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
Office furniture and equipment	\$ 37,468	\$ 31,618	\$ 37,977	\$ 29,047
Electronic equipment	<u>50,837</u>	<u>49,604</u>	<u>58,511</u>	<u>53,293</u>
	88,305	\$ 81,222	96,488	\$ 82,340
Less accumulated amortization	<u>81,222</u>		<u>82,340</u>	
Net book value	\$ <u>7,083</u>		\$ <u>14,148</u>	

8. INTERNALLY IMPOSED RESTRICTIONS

During the year, the Board of Directors internally restricted \$12,862 (2010 - \$35,131) for severance contingency. During the year the organization utilized \$5,000 (2010 - \$11,081) of the reserve internally restricted for research purposes.

9. COST SHARING ARRANGEMENT

Canadian Hatching Egg Producers shares office facilities and certain staff costs with Dairy Farmers of Canada, Egg Farmers of Canada and Canadian Federation of Agriculture. Each organization bears its proportionate share of the related costs.

10. COMMITMENTS

The organization has various agreements with remaining terms ranging from 1 to 5 years. The aggregate future minimum payments under these agreements are as follows:

2012	\$ 4,145
2013	2,557
2014	2,557
2015	2,557
2016	2,131

CANADIAN HATCHING EGG PRODUCERS
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2011

11. CAPITAL MANAGEMENT

The organization defines its capital as the sum of its net assets. The organization's objectives with respect to managing its capital are to hold sufficient unrestricted net assets to finance ongoing operations and safeguard its ability to continue as a going concern. The organization 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 severance contingency. 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. The organization monitors its capital requirements and objectives through its budgeting process and its financial statement review process. In order to maintain or adjust its capital structure, the organization may have to modify its forecast expenses for the realization of certain activities. The organization is not subject to externally imposed restrictions on its capital.

12. COMPARATIVE FIGURES

Comparative figures have been reclassified where necessary to conform with the presentation adopted for the current year.













