



Canadian Hatching Egg Producers

ANNUAL REPORT

2012



Canadian Hatching Egg Producers

21 Florence Street

Ottawa, Ontario

K2P 0W6

Tel: (613) 232-3023

Fax: (613) 232-5241

Email: info@chep-poic.ca

Website: <http://www.chep-poic.ca>

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Chairman's Message

Canadian Hatching Egg Producers

The saying "time flies when you are having fun" comes to mind when reviewing 2012. Certainly the year flew by rather quickly and I enjoyed being your chair. The crown jewel of the year would have to be the signing of the addendum to the Federal Provincial Agreement (FPA) by the hatching egg producers in Alberta and Saskatchewan and their respective signatories. The unwavering support of supply management by the federal and provincial governments comes with great gratitude. Relationship building and acknowledgement of our roles and responsibilities with our partners in the industry also made 2012 a year to remember. The work on industry issues such as food safety, animal welfare, antimicrobial use and hatchery supply flock requirements did not go unnoticed.

As we move into 2013, I am optimistic that the positive momentum will continue. On the FPA front, it is my hope that its conclusion through the approval of the CHEP Proclamation will be in the short term as it goes through the process within the federal government. Domestic hatching egg allocation and production gained a lot of attention this past year and work continues at many levels to see an outcome that can be supported by all partners in the industry. Whether it is tariff rate quota (TRQ) utilization and movement, supplemental imports, or interprovincial movement on chicks, issues will always arise and collaboration with our supply managed partners, the hatcheries, is essential to moving our industry forward to ensure domestic production is produced where it is allocated. We have an opportunity to take a leadership role and work with the industry on antimicrobial use. Much has also been done within the animal welfare file including the start of the review of the poultry meat code of practice using the process developed by the National Farm Animal Care Council (NFACC) that will incorporate the new realities. Work on food safety continues, including a review of the hatchery supply flock policy, which when concluded, will result in more responsibilities on the part of producers to further demonstrate the safety of our product.

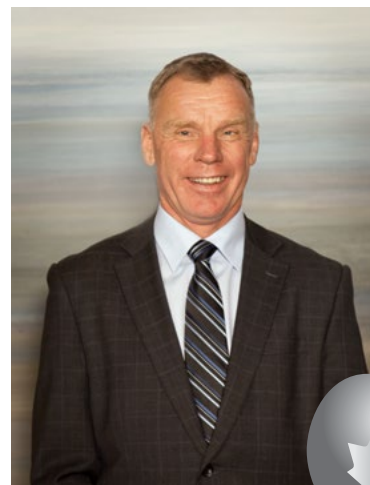
As chair, it is my role to look at possible opportunities for our sector. On the production side, I am confident that broiler hatching egg producers are responsive to the needs of the marketplace and will continue to invest in our industry. We must work on the negative noise supply management is unjustly receiving. The leadership within supply management has taken steps to address the issue. We have to ask ourselves what are we, as individuals, going to do about it? More possibilities lie within us as producers to do our part as advocates for our livelihood.

Thanks to the staff and Directors of CHEP, as well as the alternates and managers from the provinces for a very memorable year.

Cheers,



Jack Greydanus
Chair



Jack Greydanus
Chair



General Manager's Report

Canadian Hatching Egg Producers

The Canadian Hatching Egg Producers (CHEP) have worked diligently to include Alberta and Saskatchewan as signatory members of CHEP's Federal Provincial Agreement (FPA) and full members of CHEP. In May of this year, the Addendum to CHEP's FPA was signed by all Saskatchewan signatories, followed by the signing by Alberta's signatories at the end of December.

The addition of Alberta and Saskatchewan further strengthens CHEP's mission to continue growing 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 approval of the changes to CHEP's Proclamation – the final stage necessary for embracing Alberta and Saskatchewan as signatory members – has been moving through the federal government for completion and is expected to be concluded in the first half of 2013.

During the year, CHEP met with producers in Nova Scotia and were provided with an update on the process and current issues in that province, while outlining to them CHEP's goal of strengthening the industry and representing all broiler hatching egg producers in Canada. Further, CHEP has also initiated discussions with New Brunswick producers with a plan to meet in 2013.

In 2012, CHEP represented 235 broiler hatching egg producers from British Columbia through Quebec, who together produced 91% of the 666.1 million broiler hatching eggs produced in Canada this year. A joint economic impact study conducted on behalf of Canada's four national supply managed poultry agencies in 2011 indicated that broiler hatching egg producers contributed \$286 million to Canada's Gross Domestic Product (GDP) while contributing more than 3,500 jobs to total employment in Canada.

As expected, the 11th year of the World Trade Organization's (WTO) Doha Round of negotiations were very low-key due to elections taking place around the world, including the United States. Conversely, Canada and the European Union increased the momentum to complete the Comprehensive Economic and Trade Agreement (CETA) in 2012. The goal for both governments was to finalize a CETA deal by the end of the year; however, this was not achieved. There is ongoing pressure to conclude these negotiations in early 2013 since the United States and the European Union are expected to begin discussions towards their own bilateral trade deal in the coming year.

In June 2012, Canada and Mexico officially requested membership to join the existing nine member countries in the Trans-Pacific Partnership (TPP) negotiations. On October 9th, the Canadian government announced that Canada had formally joined the TPP trade negotiations and were invited to sit at the negotiating table during the 15th round of TPP negotiations that took place from December 3 through 12, 2012 in Auckland, New Zealand. There are currently eleven member countries (Australia, Brunei Darussalam, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam) involved in the negotiations of this multilateral trade agreement. Japan has indicated some interest in joining these negotiations; however, no decision had been made as of yet.



Giuseppe Caminiti
General Manager



General Manager's Report

CHEP, along with the other national supply management sectors, continues to monitor the ongoing public criticism against supply management, and are actively responding by providing and clarifying the benefits of the supply management system. There is a misperception among segments of the public and in the media 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. The Canadian government continues to strongly support supply management and has indicated that it is not up for negotiation. This position has not prevented Canada from being involved in or concluding trade agreements. CHEP will continue to maintain its involvement with the Canadian government in trade discussions in order to defend and promote Canada's balanced trade position within all agreements.

CHEP devoted a great deal of time and resources during the past year to matters related to interprovincial movement (IPM) in the broiler hatching egg and chick sector and its impact on broiler hatching egg producers' ability to produce their allocations. Further dialogue will continue in the New Year.

Feed prices continued their upward trend during the year and settled at higher levels, resulting in increased costs of production to producers and all levels of the industry. Feed costs are a large proportion of producers' costs and impact the entire industry.

CHEP established the 2012 broiler hatching egg allocation to be in line with the chicken requirements for Canada; however, due to various production issues in certain areas of the country, shortages were experienced in some provinces. As a result, producers and hatcheries from across the country worked together to move domestic and imported product to where it was required, in an effort to meet the needs of the marketplace and reduce supplemental imports.

Producers in all provinces must endeavour to produce their allocations. It is equally as important that producers and hatcheries work together to ensure that the needs of the Canadian marketplace are being met. The positive relationship between the producers and hatcheries at both the federal and provincial levels was demonstrated through the work undertaken to improve the supplemental import process and in discussions related to import issues affecting the industry in Canada.

CHEP has focused on completing a draft management manual for the Canadian Hatching Egg Quality (CHEQ™) on-farm food safety program with a goal of continuous improvement and increased consistency of program auditing and implementation. CHEQ™ continues to be implemented on broiler hatching egg farms across the country, including farms in Nova Scotia and New Brunswick. In Canada, approximately 95% of producers are certified.

A broiler breeder welfare program based on the *Recommended code of practice for the care and handling of farm animals: Chickens, Turkeys and Breeders from Hatchery to Processing Plant* (2003) and current industry practices has been drafted. The Recommended Code is being updated using the process established by the National Farm Animal Care Council (NFACC). As a part of this NFACC process, a report on the priority welfare issues for breeders has also been developed. CHEP is also proud to support the development of a Canadian poultry welfare auditing course through the Poultry Industry Council (PIC) and Professional Animal Auditor Certification Organization, Inc. (PAACO).

General Manager's Report

CHEP continues to work with industry and government stakeholders on the development of a policy for hatchery supply flocks. Priority issues such as program costs and administration are being discussed. CHEP is represented on the national *Salmonella Enteritidis* (SE) Working Group, which is coordinating the development of a national strategic plan to reduce SE in humans and poultry, and also actively participates in a sector-wide strategy related to antimicrobial use (AMU).

There continues to be a number of ongoing and new issues that arose during the year that are highlighted further within the annual report.

A thank you goes out to the Chair, Jack Greydanus, the Board of Directors, broiler hatching egg producers across the country, and CHEP staff, Nicole, Tim, Viki, Joy and Emily for their dedication to the broiler hatching egg industry.

A handwritten signature in black ink, appearing to read 'G. Caminiti', is positioned above the printed name.

Giuseppe Caminiti
General Manager

CHEP Board of Directors

Canadian Hatching Egg Producers



From left to right clockwise:

- ▲ Gyslain Loyer, Quebec
- ▲ Hendrik van Steenberg, Saskatchewan
- ▲ Dean Penner, Manitoba
- ▲ Ernie Silveri, CHF Representative
- ▲ Kevin Tiemstra, Alberta
- ▲ Calvin Breukelman, Vice Chair, British Columbia
- ▲ Jack Greydanus, Chair, Ontario

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.



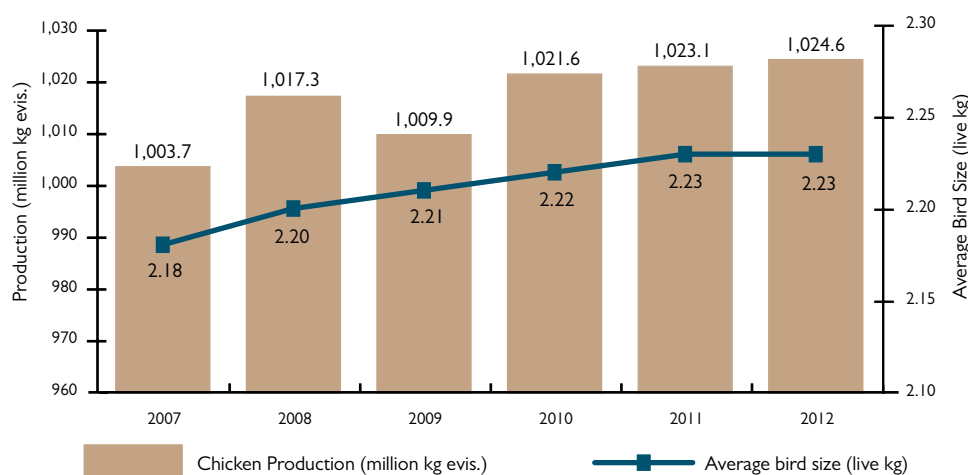
Canadian Hatching Egg Market Review

Canadian Hatching Egg Producers

In 2012, the Canadian broiler hatching egg industry responded to a variety of challenges, including rising feed costs, stagnating consumer demand and lower chicken production. Domestic hatching egg production grew by 1.6%, reaching 99.0% of the final allocations that were established in July 2012, up from 97.0% in 2011. In 2012, Canadian hatcheries set 1.7% more eggs than in the previous year, which helped to offset the increases in imports of broiler hatching eggs (+2.4%) and broiler chicks (+3.5%), along with improved hatchability in most provinces.

The Canadian Hatching Egg Producers' (CHEP) initial 2012 allocations (March 2011) were established on the basis of an estimated chicken production level of 1,052 million kilograms, however this estimate was revised downwards in July 2011 (1,032 million kilograms) and again in November 2011 (1,031 million kilograms), and remained unchanged in March 2012 when the 2012 allocations were again reviewed. However, in response to trends showing lower chicken production from the previous year, as well as underproduction of chicken allocations in the first half of 2012 without a clear indication of growth in the final half of the year, CHEP's Board of Directors agreed to establish the final 2012 allocations based on chicken production level of 1,028 million kilograms, which represented growth of 4.9 million kilograms (or 0.5%) above chicken production in the previous year. In the end, despite periods of overproduction during the second half of the year, chicken production in 2012 totaled 1,024.6 million kilograms (eviscerated), an increase of 1.5 million kilograms (or 0.1%) from the 1,023.1 million kilograms produced in 2011, but 3.4 million kilograms short of the production level that was used to establish the final broiler hatching egg allocations for 2012.

Canadian Chicken Production (2007-2012)

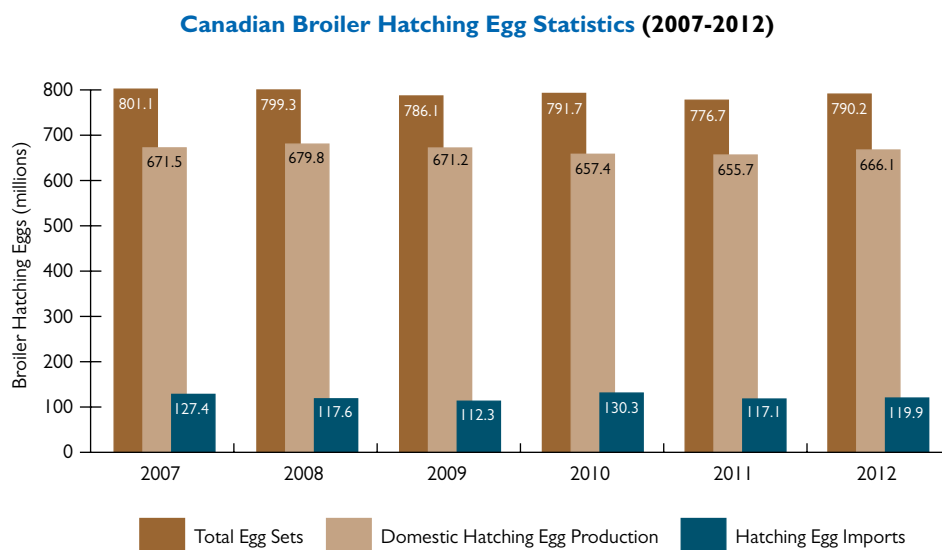


Sources: Chicken Farmers of Canada (chicken production); Canadian Hatching Egg Producers (average bird size)

Canadian Hatching Egg Market Review

In 2012, Canadian hatcheries set a total of 790.2 million broiler hatching eggs, an increase of more than 13.5 million eggs (or 1.7%) from 2011. Meanwhile, domestic broiler hatching egg production totaled 666.1 million eggs in 2012, an increase of 10.5 million eggs (or 1.6%) over 2011. While domestic broiler hatching egg production in Canada totaled 99.0% of the final allocation for 2012, broiler hatching egg imports increased by 2.8 million eggs (or 2.4%) over 2011, while the number of broiler chicks imported into Canada increased by nearly 0.6 million chicks (or 3.5%) over 2011. As a result, combined imports in 2012 rose by nearly 3.7 million eggs (egg equivalent) or 2.6% over 2011, while the total number of broiler hatching egg exports fell by 0.6 million eggs (or -80.8%) compared to 2011.

By and large, Canadian domestic broiler hatching egg production in 2012 finished much closer to the final allocation than in previous years, with improved overall production reported in the majority of provinces. Among CHEP's signatory and contract member provinces, domestic production reached 97.6% of their share of the 2012 final allocations, up from 96.0% in 2011.



Sources: CHEP; Agriculture and Agri-Food Canada (AAFC)

Throughout the fourth quarter of the year, CHEP received a number of requests from hatcheries seeking supplemental imports. Requests for broiler hatching eggs to be delivered throughout the months of October and November were filled with domestic product and import quota (TRQ). Supplemental import requests for broiler hatching eggs to be delivered throughout December could not be filled, resulting in the authorization of supplemental import permits for hatcheries in Ontario and Quebec totaling 5.0 million hatching eggs for delivery up to December 31st. In all, 4.8 million broiler hatching eggs entered into Canada as supplemental imports in 2012, or 96.5% of all permits authorized.

Provincial Hatching Egg Production

Overall, the domestic production of hatching eggs in Canada increased by 10.5 million eggs (or 1.6%) from 2011. In British Columbia, domestic broiler hatching egg production grew by 1.0% in 2012, finishing the year at 96.8% of its final allocation, with 2.4% fewer eggs set during the year and a 3.3% reduction in total imports. B.C.'s hatchability rate for 2012 improved to 84.0%, up from 82.5% in 2011, while chicken production increased by 0.8% from the previous year.

In Alberta, domestic broiler hatching egg production grew by 0.1 million eggs (or 0.2%) in 2012, reaching 92.3% of its final allocation, while both egg sets (-0.8 million eggs or -1.0%) and total imports (-6.0%) were down compared to the previous year. Alberta's hatchability rate for 2012 improved to 80.6%, up significantly from a rate of 79.0% in 2011, while chicken production grew by 1.0% from the previous year.

Saskatchewan's domestic broiler hatching egg production saw significant growth in 2012, rising by 2.7 million eggs (or 10.4%) above 2011, achieving 98.4% of its final allocation. While total egg sets only grew by 0.2 million eggs (or 0.6%) in 2012, Saskatchewan's imports fell by 32.6% from 2011. The hatchability rate increased to 81.6% in 2012, up from 80.5% in the previous year, while chicken production grew by 0.6% during that span.

Similarly, Manitoba experienced strong growth in its domestic broiler hatching egg production in 2012, rising nearly 2.3 million eggs (or 7.7%) above 2011, reaching 99.3% of its final allocation. Manitoba's imports fell by 7.5% in 2012, while its hatchability rate held steady at 80.9%, and its chicken production increased by 2.7% over 2011.

In Ontario, domestic broiler hatching egg production grew by 1.8 million eggs (or 1.0%) in 2012, achieving 95.6% of its final allocation, with growth in both eggs set (5.4 million eggs or 2.4%) and total imports (4.1%, including supplemental imports) over the previous year. Meanwhile, Ontario saw its hatchability rate drop to 82.4% in 2012, down from 83.2% in 2011, while its chicken production also dropped in 2012, falling 1.2% from the previous year.

Although Quebec's domestic production fell by 2.2 million broiler hatching eggs (or -1.2%) from the previous year, Quebec hatcheries set 4.0 million more eggs (or 1.8%) in 2012 as a result of imports increasing by 15.2%, which included supplemental imports. After accounting for its lease of quota totaling 1.0 million broiler hatching eggs from B.C., Alberta and Ontario in November 2012, Quebec's domestic production totaled 102.1% of its final allocation. Quebec's hatchability rate improved to 83.0% in 2012, up from 82.7% in 2011, and chicken production held steady, increasing by 0.2% over 2011.

Canadian Hatching Egg Market Review

Table 1 – Hatching Egg Production (000 hatching eggs)

Year	BC	AB	SK	MB	ON	QC	NS	NB/PE/NL	Canada
2012	98,399	65,165	29,217	32,622	197,641	180,152	25,355	37,595	666,148
2011	97,430	65,035	26,460	30,295	195,781	182,386	24,019	34,314	655,721
2010	97,896	68,107	26,665	31,402	199,190	175,712	23,602	34,874	657,447
2009	100,899	67,332	29,033	31,593	199,007	182,216	21,499	39,676	671,255
% Change									
12/11	1.0	0.2	10.4	7.7	1.0	(1.2)	5.6	9.6	1.6
11/10	(0.5)	(4.5)	(0.8)	(3.5)	(1.7)	3.8	1.8	-1.6	(0.3)
10/09	(3.0)	1.2	(8.2)	(0.6)	0.1	(3.6)	9.8	-12.1	(2.1)

Sources: CHEP, AAFC

The national hatchability rate rose slightly to reach 82.3%, up 0.1% from 2011, with Alberta, Nova Scotia and B.C. recording increases of nearly 2% above 2011 levels, while Ontario (-0.9%) and the combined region of New Brunswick, P.E.I. and Newfoundland & Labrador (-6.8%) saw a decline. The average live weight of broilers produced in Canada dipped slightly to 2.23 kg live per bird, as gains reported in B.C. (1.0%), Manitoba (0.3%) and Quebec (0.2%) were more than offset by smaller bird sizes in the other provinces and regions in 2012. Only Ontario experienced a drop in its market share of chicken production, falling 1.2% from 2011, while all other provinces including the combined region of New Brunswick, P.E.I. and Newfoundland & Labrador saw greater market shares in 2012.

Table 2 – Selected Factors Impacting Hatching Egg Production (2012)

	BC	AB	SK	MB	ON	QC	NS	NB/PE/NL	Canada
Hatchability									
2012 (%)	84.0	80.6	81.6	80.9	82.4	83.0	84.4	75.2	82.3
% change 12/11	1.9	2.1	1.4	0.0	(0.9)	0.4	2.1	(6.8)	0.1
Total (Combined) Imports									
(000 eggs equiv.)	24,087	11,885	4,658	9,878	43,610	46,723	552	3,347	144,741
% change 12/11	(3.3)	(6.0)	(32.6)	(7.5)	4.1	15.2	206.7	2.3	2.6
Chicken Production									
(000 kg evis.)	155,213	93,027	39,814	43,419	330,898	280,754	35,634	45,916	1,024.6
% change 12/11	0.8	1.0	0.6	2.7	(1.1)	0.2	2.0	0.9	0.1
Chicken Production									
Market Share (%)	15.1	9.1	3.9	4.2	32.3	27.4	3.5	4.5	100.0
% change 12/11	0.6	0.8	0.4	2.6	(1.2)	0.1	1.8	0.8	-
Avg. live weight of broilers									
(kg live/bird)	2.18	2.26	2.05	1.97	2.29	2.28	2.15	2.10	2.23
% change 12/11	1.0	(0.4)	(0.9)	0.3	(0.4)	0.2	(1.3)	(1.2)	(0.1)

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

Farm Cash Receipts and Producer Prices

In 2012, total farm cash receipts for broiler hatching egg producers grew by 5.1% to \$272.7 million, up from the \$259.5 million earned in 2011. This increase is largely due to higher saleable chick prices in all provinces, up 3.5% on average from 2011, which resulted from higher feed costs driven by summer drought conditions in most growing regions. Farm cash receipts in 2012 also increased as a result of higher domestic hatching egg production in most provinces, with national production up 1.6% from the previous year.

Table 3 – 2012 Farm Cash Receipts and Producer Prices

	Farm Cash Receipts		Hatching Egg Producer Prices	
	2012 \$ 000	% change 12/11	¢ per saleable chick (2012 average)	% change 12/11
British Columbia	43,236	1.7	54.52	0.6
Alberta	28,007	4.7	53.34	4.4
Saskatchewan	12,661	17.0	53.70	5.7
Manitoba	13,713	10.7	52.17	2.7
Ontario	76,414	4.8	47.94	3.7
Quebec	73,609	2.6	49.50	3.9
CANADA	272,756	5.1	51.86	3.5

Sources: CHEP (Farm Cash Receipts); Provincial Commissions (Prices)



2011 Final Production Report

The final assessment for audited broiler hatching egg production in 2011 was presented during the CHEP meeting in July 2012. Based on the findings outlined in Table 4 below, CHEP's signatory and service contract member provinces encountered production levels which were within their final allocations for 2011. After accounting for the quota transactions stemming from the 2011 quota lease pools, domestic broiler hatching egg production in Canada reached 97.0% of total allocations for 2011, down from a combined utilization rate of 97.3% achieved in 2010, while the final allocation for 2011 was largely unchanged from 2010. Since each of CHEP's signatory and contract member provinces finished with a utilization rate of 101% or less for the 2011 production year, no penalties were assessed for liquidated damages.

Table 4 – 2011 LDA Production and Allocations by Province

Province	Domestic Production (eggs)	2011 Final Allocations (eggs) ¹	% utilization	Quota Leased (eggs)	Final % utilization
British Columbia	97,430,407	102,855,777	94.73%	-822,476	95.49%
Alberta	65,035,335	70,981,434	91.62%	0	91.62%
Saskatchewan	26,460,114	29,834,873	88.69%	-117,242	89.04%
Manitoba	30,295,535	33,085,978	91.57%	-375,930	92.62%
Ontario	195,781,115	207,927,941	94.16%	-1,763,978	94.96%
Québec	182,385,893	177,500,466	102.75%	3,079,626	101.00%
CANADA	655,721,476	675,813,809	97.03%	0	97.03%

Source: CHEP

Note: ¹ Prior to transactions stemming from the 2011 Quota Lease Pools.



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

The Canadian Hatching Egg Producers Association (CBHEPA) financially assisted three young farmers to acquire and broaden their knowledge of the hatching egg industry. James Malda of Alberta, Benjamin van Steenberg and Timothy van Steenberg of Saskatchewan travelled to Huntsville, Alabama to the Aviagen facilities.

The tour was an opportunity for the three young farmers to learn more about the US poultry industry and receive information about latest management advice and best practices including nutritional advice, veterinary, biosecurity objectives, production planning, shipping and export processes, as well as the latest Ross parent stock and broiler performance data. To get a close look at management practices, Canadian Technical Manager Mark Belanger accompanied the visitors on a tour of the Aviagen hatchery, the company's Egg Depot, pullet and breeder farms, and a customer facility.

The CBHEPA Young Farmers Program is a great opportunity to help prepare the next generation of production managers for future success in the global poultry industry. These young farmers have been working alongside their families in the poultry business from very young ages and plan to pursue careers in the poultry industry.

Timothy van Steenberg has been invited to share his experience with the CHEP Board of Directors at its Summer Meeting in July 2013 in Saskatchewan.



Membership:

- ▲ Brian Bilkes, Chair, British Columbia
- ▲ Tina Notenbomer, Alberta
- ▲ Jeff Regier, Saskatchewan
- ▲ Kevin Enns, Manitoba
- ▲ Cheryl Firby, Ontario
- ▲ Robert Massé, Quebec



CBHEPA 2011 Producer of the Year

Jack and Christine Greydanus were presented with the 2011 Producer of the Year Award at the Canadian Hatching Egg Producers summer meeting in July 2012 in Huntsville, Ontario. The Greydanus' are from Petrolia, Ontario.



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

CBHEPA 2012 Drawing Contest

We received 25 amazing drawings for the contest this year!



The members selected the drawing of Tianna Notenbomer, 13 years old, from Monarch, Alberta for this year's contest. Tianna's drawing was the cover of the Christmas card sent to the Prime Minister of Canada, the Right Honourable Stephen Harper.



Thank you to all the participants for their entries as they became the face of the CHEP 2012 Christmas Card Collection. From Alberta: Jessica Hofman, Ashley Ijtsma, Jayden Ijtsma; British Columbia: Joshua Apperloo, Rebecca Apperloo, Annette Bilkes, Claire Bilkes, Janes Bilkes, John Bilkes, Olivia Kunze, Richard Kunze, Brayden Lubach, Jacob Zylstra, Jessica Zylstra, Logan Zylstra and from Ontario: Angie Jones, Ben Sinnige, Joëlle Sinnige, Sabine Sinnige, Samantha Van Rooyen, Robert Van Rooyen, Nicole Van Rooyen, Victoria Van Rooyen, Matthew Ypma.

The members of the Producer Association modified the November meeting to commit more time for allocation discussion, and to review the by-laws and the distribution of TRQ of Hatcheries Based on Domestic Hatching Egg Sets. The focus of future meetings is to strengthen the Producer Association.

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

Brian Bilkes
Chair, CBHEPA

Report of the Production Management Committee

Canadian Hatching Egg Producers

Product safety and animal care are two priority areas for the Canadian Hatching Egg Producers (CHEP). The members of the Production Management Committee (PMC) provide recommendations to the CHEP board on these important topics.

Product safety

CHEP is committed to our goal of continuing to produce safe, high-quality hatching eggs. One of our major activities was working with the Canadian Food Inspection Agency (CFIA) and other key stakeholders on a draft federal policy for hatchery supply flocks, including broiler breeders. This is a complex process and much more remains to be done. We are at the table to maintain our involvement, and to ensure the results work for producers.



Food safety continues to be a top consumer issue. It is more important than ever for producers to say what they do, do what they say, and prove it when it comes to on-farm food safety. CHEQ™ is the tool for our producers to do just that.

As we aim to continuously improve, we are reviewing our practices and working with our supply chain partners with respect to responsible use of medications. The CHEQ™ multi-year certificate for certified producers was updated and sent out to provincial boards. The draft CHEQ™ management manual, which covers all the protocols and processes related to the CHEQ™ Program, is being prepared for the CFIA Technical Review (Part 2). We also reviewed the *Spent Broiler Breeder Flock Sheet*, which provides traceability and is required to ship birds to federally registered processing establishments.



Membership:

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

Report of the Production Management Committee

Animal care

We are active in several areas related to animal care. The review of the *Recommended Code of Practice for the Care and Handling of Farm Animals: Chickens, Turkeys and Breeders from Hatchery to Processing Plant*, last published in 2003, is underway using the process developed by the National Farm Animal Care Council (NFACC). The first step will be to receive the scientific report on our priority welfare issues. CHEP participates in this process along with the other national organizations listed in the code.

CHEP has completed a first draft of a broiler breeder welfare program in consultation with provincial boards. As a significant portion of our program is based on the Code, we will coordinate our progress with that of the code review.

CHEP has also contributed to the finalization of an initiative focused on maintaining bird care throughout the supply chain. This document, *Recommended Best Practices for Bird Care in the Canadian Poultry Supply Chain from Farmer to Processor*, has been distributed to producers and the entire industry.

Sincerely,



Dean Penner
Chair, Production Management Committee



Report of the Advisory Committee

Canadian Hatching Egg Producers

The Advisory Committee faced a number of challenges in 2012 to properly gauge current and future production recommendations, from escalating feed costs caused by summer drought, to chicken underproduction in the first nine months of the year, flat consumer demand amidst growing food prices and burdening debt levels, just to name a few.

Members gathered in March, July and November to discuss the factors shaping market conditions and to review chicken production for 2012 and 2013. The chicken industry entered the year with falling feed costs and a renewed sense of optimism that production would be set for growth in 2012, with improving prospects to consumers despite rising inflation in the prices of food, notably in competing meats. The members continue to strive for reaching a balance between meeting the future needs of the Canadian chicken marketplace and offering hatching egg producers the necessary signals they need to properly plan their breeder placements.

In March, the committee sought to assess the expected level of growth in 2012 and 2013. The market conditions discussed included: a 2.9% increase in domestic hatching egg production over the previous year while total egg sets fell by 3.6%; a 29% drop in broiler hatching egg imports, while TRQ usage was nearly 2% above prorata; a 5% drop in broiler chick imports with TRQ usage nearly 17% below prorata; hatchability in Canada improved to 82.1%; a 2.9% drop in chicken production, with allocations set to mid-July down 1.5% from the same periods in 2011; chicken imports below prorata; chicken storage stocks falling below the previous year's levels; higher average live weight of Canadian broilers (2.24 kg per bird); lower live prices paid to broiler producers, as wholesale prices remained stable while feed prices continued to fall; growing share of spent fowl in overall chicken production, reaching 10.8% of production in 2011; a downward revision of Canadian GDP growth projections to 2% in 2012 and up to 2.5% in 2013, while inflation (CPI) for all food items rose 4.2% in the previous 12 months, with all meats costing 6.5% more, while the CPI for chicken, beef and pork were 3.8%, 11.9% and 3.9%, respectively. The members recognized that the strength of the summer market would depend on consumers' willingness to purchase more chicken in place of more expensive competing meats, which would influence the expected level of growth in 2013. In anticipation of chicken production allocations in the second half of 2012 exceeding actual production in the previous year, members agreed to a 2012 chicken production recommendation of 1,031 Mkg, which represents growth of 0.75% over the 1,023.1 Mkg produced in 2011, and unchanged from the CHEP allocation set the previous November. For 2013, members focused on modest growth until consumer demand showed signs of improvement, and agreed on a 2013 recommendation of 1,041 Mkg, which represents growth of 1.0% over the CHEP allocation of 1,031 Mkg for 2012. In both cases, CHEP's Board of Directors approved the recommendations.

In July, the Committee focused on a final chicken production recommendation for 2012, before reviewing 2013. Members discussed market trends which included: a 2.1% increase in domestic hatching egg production and a 1.4% drop in total egg sets in Canada from June 2011; a 16% drop in total broiler hatching egg imports with no change in broiler chick imports; the expectation that chicken demand would sustain growth in the summer months as an abundance of boneless chicken meat hits the market; a 1.8% drop in chicken production, likely to be offset by growth as year-end chicken allocations are expected to exceed actual production in the previous year; no change in the average live weight of broilers (2.23 kg); year-to-date



Membership:

- ▲ Dean Penner, Chair, Manitoba
- ▲ Steve Welsh, AAFC
- ▲ Brian Bilkes, CBHEPA
- ▲ Jan Rus, CFC
- ▲ Ernie Silveri, CHF
- ▲ Nicolas Paillat, CPEPC
- ▲ Edouard Huot, DFAIT
- ▲ Robert De Valk, FPPAC

Report of the Advisory Committee

chicken imports at prorata; a 5-cent drop in wholesale chicken prices, with expectations of further declines as a result of higher chicken allocations; storage stocks remain low; anticipated chicken production growth of 1.6% in the U.S. in the final quarter of 2012, including higher per capita meat consumption after a projected decrease in 2012; growing feed prices due to severe hot weather conditions in several growing regions, likely to push feed contracts higher into early 2013 and live prices closer to \$1.70 per kg; an improving outlook for the Canadian economy, with GDP growth expected to reach 2.25% in 2012 and 2.50% in 2013; slowing inflation for food prices, as the CPI for food items rose by 2.5% between May 2011 and May 2012, while the CPI for all meats rose 6.1%, and the CPI for chicken, beef and pork rose by 7.0%, 7.2% and 4.4%, respectively. For 2012, members debated the extent to which growth could arise in the final months of 2012 with the prospects of overproduction, while recent production forecasts suggested that the previously set allocation of 1,031 Mkg was unlikely to be reached. The committee ultimately agreed on a 2012 chicken production recommendation of 1,028 Mkg, which represents growth of 0.5% over the 1,023.1 Mkg produced in 2011 and down 3 Mkg from the CHEP allocation set in March. In its first review of the 2013 chicken production, it was agreed to maintain the previously set CHEP target of 1,041 Mkg, which represents growth of 1.25% over the 2012 recommendation, and is consistent with modest growth in both the population and consumer demand. CHEP's Board of Directors approved both recommendations.

In November, the Committee sought to take a cautious approach as they focused on a 2013 recommendation in a way that would properly account for any shortfalls in production from the 2012 allocation set in July. Since July, consumer debt in Canada had reached record levels, and the outlook for Canadian GDP growth was beginning to soften for 2012 and 2013. Furthermore, the USDA had reduced its outlook for chicken production and per capita meat consumption in 2012 and 2013, while in Canada, chicken underproduction through early September contributed to flat growth compared to the previous year. While assessing the expected level of production for 2012, the most difficult issue surrounded the possibility of overproduction during the final weeks of the year, and the impact it would have on production in 2013. In their discussion, members focused on the latest market conditions including: a 1.2% increase in domestic hatching egg production from October 2011 with a 0.4% increase in total egg sets; a 2.2% drop in hatching egg imports, with TRQ utilization at 7.7% above prorata, while chick imports fell 1.1% and remain at prorata; improved hatchability (82.4%); a drop of 6.3 Mkg (or 0.7%) in chicken production; chicken underproduction through early September; slightly lower average live weights (2.22 kg); a rapid increase in the average live price paid to broiler producers to \$1.82, up from \$1.68 at the end of 2011; record wholesale prices reaching \$3.70, up from \$3.41 at the end of 2011; spent fowl imports totaling 89.9 Mkg, up 44% from the same time in 2011; continuation of slowing inflation, as the CPI for all food items between September 2011 and September 2012 rose by only 1.6%, with all meats costing 3.8% more, while the CPI for chicken, beef and pork is 2.3%, 6.2% and 0.5%, respectively. Ultimately, the Committee agreed that the CHEP allocation of 1,028 Mkg for 2012 would only be met if chicken overproduction exceeded expectations to finish the year, and agreed to a lower expected growth rate for 2013 as a consequence. Members agreed on a 2013 recommendation of 1,036 Mkg, which represents growth of 1% above the 2012 projected level of production of 1,026 Mkg, and is 5 Mkg lower than the previous CHEP allocation set in July. CHEP's Board of Directors approved this recommendation for 2013.

Sincerely,



Dean Penner
Chair, Advisory Committee

Report of the Finance Committee

Canadian Hatching Egg Producers

The Finance Committee met three times during the year where the Canadian Hatching Egg Producers' (CHEP) financial situation and financial policies were examined and reviewed as required. In 2012, revenues equalled \$1.82 million, while expenditures totalled \$1.56 million, which resulted in a surplus of \$0.26 million. Actual revenues were slightly below the projected budget of \$1.83 million, while being \$48,000 higher than the previous year due to a small increase in production levels and the national levy rate being in effect for the entire year compared to only three quarters in the prior year. Actual expenditures of \$1.56 million were lower than the budget of \$1.9 million due in large part to the CHEP Directors' continued efforts in reducing meeting and travel costs as well as some items being lower than budget, delayed or cancelled altogether. Actual expenditures decreased by \$83,000 compared to the previous year on account of a number of items being below budget including: the Federal Provincial Agreement (FPA), trade activities and capital building expenditures.

The Finance Committee presented a budget for 2013 that included a projected deficit of \$95,400 for the year, however it was decided that no increase in the national levy was required for a second year in a row. 2013 budgeted revenues are estimated to remain level at \$1.83 million, while expenditures are expected to increase by \$18,000 as a result of several factors including: Directors' compensation, the location and frequency of meetings with related costs and professional requirements.

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. An additional \$7,000 was committed to research expenditures in 2012.

Given that the director fee and monthly stipend rates have remained constant over the last five years, the Finance Committee recommended that these rates be increased effective for 2013. Both recommendations were accepted by CHEP's Board of Directors.

At CHEP's Annual General Meeting held in March 2012, the firm of Welch LLP was re-appointed to perform the 2012 year-end audit.

Sincerely,



Gyslain Loyer
Chair, Finance Committee



Membership:

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

Report of the Research Committee

Canadian Hatching Egg Producers

Research is an important priority for CHEP. We continue to support the development of a precision feeding system for broiler breeders at the University of Alberta. CHEP is also pleased to have provided funds for Canadian poultry research students to attend this year's World's Poultry Congress in Brazil to present their study results.

We continue to support the Canadian Poultry Research Council (CPRC) as it grows in recognition and takes on several important initiatives. 2012 saw the completion of the National Poultry Research Strategy in consultation with key stakeholders. There was also significant activity regarding the Poultry Science Cluster in partnership with AAFC as the current Growing Forward programs draw to a close. CPRC also welcomed Aviagen as inaugural sponsor for the Research Sponsorship program.

Broiler breeder research is funded by the CPRC through the support of the industry, including CHEP. This includes research on breeder behavior and alternative feeding strategies, and the development of a vaccine for *Salmonella*. Research on avian influenza, alternatives to antibiotics and value-added uses for poultry are other important topics being covered.

Since the inception of the CPRC, funding has been matched almost 5 to 1 via government and industry funding sources, demonstrating effective leverage of industry funds.

CHEP's overall research priorities are as follows:

1. Production-based research
2. Food safety
3. Control of Salmonella
4. Breeder welfare
5. Environmental research
6. Poultry health and disease
7. Dark-meat utilization

Sincerely,



Cheryl Firby
Chair, CHEP Research Committee



Membership:

- ▲ Cheryl Firby, Chair, Ontario
- ▲ Brian Bilkes, British Columbia
- ▲ Tina Notenbomer, Alberta
- ▲ Jeff Regier, Saskatchewan
- ▲ Kevin Enns, Manitoba
- ▲ Robert Massé, Quebec



Canadian Hatching Egg Producers

CHEP Alternates



Clockwise from left to right:
Robert Massé, Quebec; Brian Bilkes, British Columbia;
Tina Notenbomer, Alberta; Kevin Enns, Manitoba;
Jeff Regier, Saskatchewan; Cheryl Firby, Ontario

Provincial Managers



Clockwise from left to right:
Pierre Belleau, Quebec; Stephanie Nelson, British Columbia;
Bob Smook, Alberta; Bob Guy, Ontario; Wayne Hiltz, Manitoba
Missing: Clinton Monchuk, Saskatchewan

CHEP Staff



Clockwise from left to right:
Victoria Sikur, Food Safety Officer; Giuseppe Caminiti, General
Manager; Joy Edstron, Bookkeeper; Emily Fudakowski, Part-Time
Clerical; Nicole Duval, Office Administrator; Tim Nikita, Economist

FINANCIAL STATEMENTS
For
CANADIAN HATCHING EGG PRODUCERS
For the years ended
DECEMBER 31, 2012 AND 2011

CANADIAN HATCHING EGG PRODUCERS
INDEX TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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Welch LLP

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, 2012, December 31, 2011 and January 1, 2011 and the statements of operations, changes in net assets and cash flows for the years ended December 31, 2012 and December 31, 2011 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 accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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, 2012, December 31, 2011 and January 1, 2011 and the results of its operations and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian accounting standards for not-for-profit organizations.



Chartered Accountant
Licensed Public Accountants

Ottawa, Ontario
February 13, 2013.

Welch LLP – Chartered Accountants
1200-151 Slater Street, Ottawa, ON K1P 5H3
T: 613 236 9191 F: 613 236 8258 W: www.welchllp.com
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CANADIAN HATCHING EGG PRODUCERS
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012, DECEMBER 31, 2011 AND JANUARY 1, 2011

	Dec. 31, <u>2012</u>	Dec. 31, <u>2011</u>	Jan. 1, <u>2011</u>
<u>ASSETS</u>			
CURRENT ASSETS			
Cash	\$ 42,158	\$ 43,239	\$ 32,424
Short-term investments - note 5	1,028,630	800,000	688,117
Accounts receivable	386,336	320,664	287,070
Prepaid expenses	<u>13,456</u>	<u>10,420</u>	<u>12,106</u>
	<u>1,470,580</u>	<u>1,174,323</u>	<u>1,019,717</u>
PROPERTY AND EQUIPMENT			
Land and building - note 6	635,312	651,600	665,638
Other - note 7	<u>5,103</u>	<u>7,083</u>	<u>14,148</u>
	<u>640,415</u>	<u>658,683</u>	<u>679,786</u>
	<u>\$ 2,110,995</u>	<u>\$ 1,833,006</u>	<u>\$ 1,699,503</u>
<u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	\$ 134,871	\$ 115,955	\$ 100,572
Government remittances payable	27,766	24,347	31,141
Current portion of long-term debt - note 6	<u>9,146</u>	<u>8,642</u>	<u>8,166</u>
	171,783	148,944	139,879
LONG-TERM DEBT - note 6	<u>318,904</u>	<u>328,057</u>	<u>336,707</u>
	<u>490,687</u>	<u>477,001</u>	<u>476,586</u>
NET ASSETS			
Internally restricted for research purposes	8,023	15,023	20,023
Internally restricted for severance contingency	112,909	108,916	96,054
Unrestricted	<u>1,499,376</u>	<u>1,232,066</u>	<u>1,106,840</u>
	<u>1,620,308</u>	<u>1,356,005</u>	<u>1,222,917</u>
	<u>\$ 2,110,995</u>	<u>\$ 1,833,006</u>	<u>\$ 1,699,503</u>

Approved on behalf of the Board:



Jack Greydanus, Chair



an, Vice Chair

(See accompanying notes)

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CANADIAN HATCHING EGG PRODUCERS
STATEMENT OF OPERATIONS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Revenues		
Levies	\$ 1,808,576	\$ 1,762,608
Interest	<u>11,643</u>	<u>9,351</u>
	<u>1,820,219</u>	<u>1,771,959</u>
Expenses		
Amortization	25,275	24,070
Building occupancy	48,949	35,154
Directors' and participants' fees	285,377	304,005
Interest on long-term debt	12,894	13,369
Meetings	39,788	54,399
Membership fees	32,933	32,153
Office and administrative	129,822	167,052
Professional fees	143,645	192,272
Research	67,000	65,000
Salaries and benefits	564,105	517,166
Staff	50,930	55,438
Trade	82,008	98,957
Translation and interpretation	<u>73,190</u>	<u>79,836</u>
	<u>1,555,916</u>	<u>1,638,871</u>
Net revenue	<u>\$ 264,303</u>	<u>\$ 133,088</u>

(See accompanying notes)

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CANADIAN HATCHING EGG PRODUCERS
STATEMENT OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>				<u>2011</u>
	Internally restricted for research purposes	Internally restricted for severance contingency	Unrestricted	Total	Total
Balance, beginning of year	\$ 15,023	\$ 108,916	\$ 1,232,066	\$ 1,356,005	\$ 1,222,917
Net revenue	-	-	264,303	264,303	133,088
Internally imposed restrictions - note 8	<u>(7,000)</u>	<u>3,993</u>	<u>3,007</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 8,023</u>	<u>\$ 112,909</u>	<u>\$ 1,499,376</u>	<u>\$ 1,620,308</u>	<u>\$ 1,356,005</u>

(See accompanying notes)

Welch LLP

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CANADIAN HATCHING EGG PRODUCERS
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net revenue	\$ 264,303	\$ 133,088
Adjustment for amortization	<u>25,275</u>	<u>24,070</u>
	289,578	157,158
Changes in non-cash working capital components:		
Accounts receivable	(65,672)	(33,594)
Prepaid expenses	(3,036)	1,686
Accounts payable and accrued liabilities	18,916	15,383
Government remittances payable	<u>3,419</u>	<u>(6,794)</u>
	<u>243,205</u>	<u>133,839</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,028,630)	(825,000)
Maturity of investments	800,000	713,117
Purchase of property and equipment	<u>(7,007)</u>	<u>(2,967)</u>
	<u>(235,637)</u>	<u>(114,850)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment on long-term debt	<u>(8,649)</u>	<u>(8,174)</u>
INCREASE (DECREASE) IN CASH	(1,081)	10,815
CASH AT BEGINNING OF YEAR	<u>43,239</u>	<u>32,424</u>
CASH AT END OF YEAR	<u>\$ 42,158</u>	<u>\$ 43,239</u>

(See accompanying notes)

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CANADIAN HATCHING EGG PRODUCERS
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 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. ADOPTION OF ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS

Effective January 1, 2012, the organization adopted the requirements of the Canadian Institute of Chartered Accountants (CICA) Handbook - Accounting, *Canadian accounting standards for not-for-profit organizations (ASNFPPO)*. These are the organization's first financial statements prepared in accordance with the accounting standards for not-for-profit organizations and these standards have been applied retrospectively. The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2012, the comparative information presented in the financial statements for the year ended December 31, 2011 and in the preparation of an opening statement of financial position as at January 1, 2011 (the organization's date of transition).

The organization had previously issued financial statements for the year ended December 31, 2011 using a different accounting framework known as the Canadian generally accepted accounting principles. The adoption of ASNFPPO had no impact on the previously reported assets, liabilities, net assets, revenues and expenses of the organization and accordingly no adjustments have been recorded to the comparative financial statements. Certain disclosures have been added to these financial statements to comply with the new ASNFPPO disclosure requirements.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

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.

CANADIAN HATCHING EGG PRODUCERS
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEARS ENDED DECEMBER 31, 2012 AND 2011

3. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

Financial instruments

Measurement of financial instruments

The organization initially measures its financial assets and financial liabilities at fair value adjusted by transaction costs in the case where a financial asset or financial liability is subsequently measured at cost or amortized cost. The organization subsequently measures all its financial assets and financial liabilities at cost or amortized cost.

Transaction costs

Transaction costs associated with the acquisition and disposal of investments are capitalized to the acquisition costs or reduce proceeds on disposal.

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, expenses 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 accounting standards for not-for-profit organizations 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.

The estimated useful life of the organization's property and equipment, the net realizable value of accounts receivable and the amount of accrued liabilities are the most significant items where estimates are used.

CANADIAN HATCHING EGG PRODUCERS
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEARS ENDED DECEMBER 31, 2012 AND 2011

4. FINANCIAL INSTRUMENTS

The organization is exposed to various risks through its financial instruments. The following analysis provides a measure of the organization's risk exposure and concentrations at December 31, 2012, December 31, 2011 and January 1, 2011.

The organization does not use derivative financial instruments to manage its risks.

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 and short-term investments are deposited with a Canadian chartered bank and as a result management believes the risk of loss on these items to be remote. The organization manages its credit risk by reviewing accounts receivable aging monthly and following up on outstanding amounts. 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.

Liquidity risk

Liquidity risk is the risk that the organization cannot meet a demand for cash or fund its obligations as they become due. The organization meets its liquidity requirements by preparing and monitoring detailed forecasts of cash flow from operations, anticipating investing and financing activities and holding assets that can be readily converted into cash.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk, interest rate risk and other price risk.

Currency risk

Currency risk refers to the risk that the fair value of instruments or future cash flows associated with the instruments will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates.

The organization's financial instruments are all denominated in Canadian dollars and the organization transacts primarily in Canadian dollars. As a result, management does not believe it is exposed to significant currency risk.

CANADIAN HATCHING EGG PRODUCERS
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEARS ENDED DECEMBER 31, 2012 AND 2011

4. FINANCIAL INSTRUMENTS - Cont'd.

Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in market interest rates.

The organization's exposure to interest rate risk arises from its short-term investments and long-term debt. The organization's short-term investments include amounts on deposit with financial institutions that earn interest at market rates and its long-term debt bears interest at a rate which is fixed until 2017.

Other price risk

Other price risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market.

The organization is not exposed to other price risk.

Changes in risk

There have been no changes in the organization's risk exposures from the prior year.

5. SHORT-TERM INVESTMENTS

Short-term investments are as follows:

	<u>2012</u>	<u>2011</u>
Guaranteed investment certificates, bearing interest rates between 1.2% and 1.35% maturing at various dates in 2013	<u>\$ 1,028,630</u>	<u>\$ 800,000</u>

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.
YEARS ENDED DECEMBER 31, 2012 AND 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>2012</u>		<u>2011</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>70,342</u>	<u>651,519</u>	<u>54,054</u>
	705,654	<u>\$ 70,342</u>	705,654	<u>\$ 54,054</u>
Less accumulated amortization	<u>70,342</u>		<u>54,054</u>	
Net book value	<u>\$ 635,312</u>		<u>\$ 651,600</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, 2012 is as follows:

	<u>2012</u>	<u>2011</u>
Long-term debt - 5.68% interest rate, payable in blended monthly payments of \$2,296, due November 30, 2017	\$ 328,050	\$ 336,699
Less current portion	<u>9,146</u>	<u>8,642</u>
	<u>\$ 318,904</u>	<u>\$ 328,057</u>

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

2013	\$ 9,146
2014	9,679
2015	10,243
2016	10,840
2017	11,472
Subsequent to 2017	276,670

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, 2012 is \$3,762,342.

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7. PROPERTY AND EQUIPMENT - OTHER

Property and equipment - other consists of:

	2012		2011	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
Office furniture and equipment	\$ 36,747	\$ 36,196	\$ 37,468	\$ 31,618
Electronic equipment	<u>48,341</u>	<u>43,789</u>	<u>50,837</u>	<u>49,604</u>
	85,088	\$ 79,985	88,305	\$ 81,222
Less accumulated amortization	<u>79,985</u>		<u>81,222</u>	
Net book value	\$ <u>5,103</u>		\$ <u>7,083</u>	

8. INTERNALLY IMPOSED RESTRICTIONS

During the year, the Board of Directors internally restricted \$3,993 (2011 - \$12,862) for severance contingency. During the year the organization utilized \$7,000 (2011 - \$5,000) of the reserve internally restricted for research purposes.

9. COST SHARING ARRANGEMENT

The organization 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 4 to 5 years. The aggregate future minimum payments under these agreements are as follows:

2013	\$ 7,957
2014	7,957
2015	7,957
2016	7,531
2017	5,400

11. COMPARATIVE FIGURES

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

Notes