

Canadian Hatching Egg Producers



2014
Annual Report

Canadian Hatching Egg Producers

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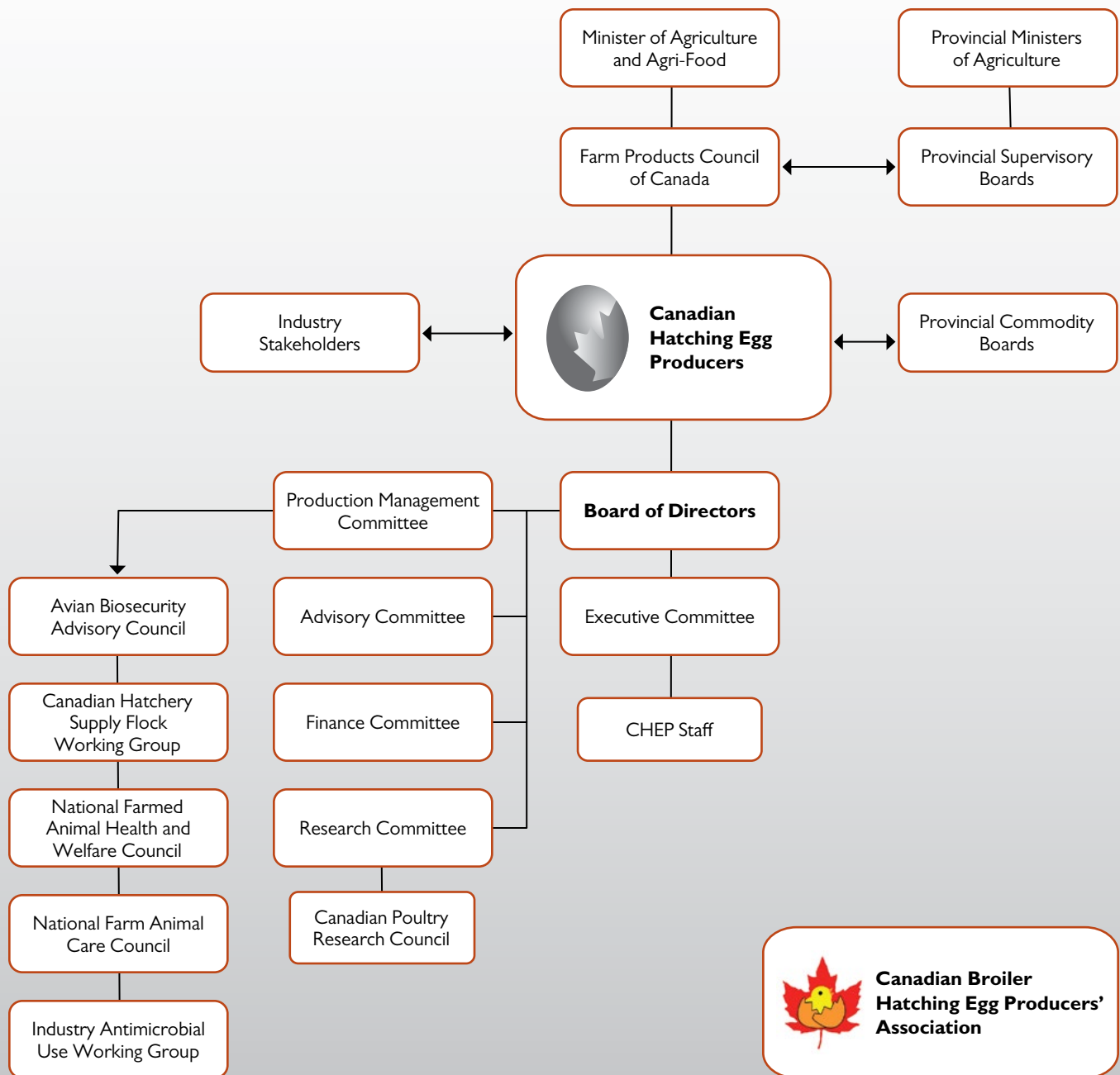
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Organizational Structure

Canadian Hatching Egg Producers



Chairman's Message

Canadian Hatching Egg Producers



As I welcome all Canadian hatching egg producers into 2015, it is my sincere hope that 2014 served you and your families well.

2014 has revealed that life can throw us some wicked curve balls. Avian influenza (AI) raised its ugly head again in British Columbia at the end of the year and the undercover videos projected on our television screens demonstrates that diligence must be maintained on our farms. The ongoing uncertainties surrounding trade talks are always on our minds. Your national organization is reviewing the allocation system, while the Canadian poultry industry continues its work on the removal of preventive Category I antibiotic use in Canadian poultry production.

In December 2014, AI infected eleven of British Columbia's commercial poultry production facilities, along with one backyard flock. Seven broiler hatching egg farms were affected. Discussions surrounding the B.C. hatching egg supplies for 2015 are currently in progress. The B.C. poultry industry must be commended for their determination and focus, not only on controlling the incident, but also getting the industry back on its feet with minimal disruption.

Animal care, as we know it, will continue to change. To focus on an idea from Farm and Food Care: "Is your farm camera-ready?" We must continue to examine our farms with a critical eye and be able to answer our customers' questions. All procedures must be reviewed to limit any harm or injury to our flocks. The Board of Directors has focused on this issue with the goal to have a national animal care program implemented.

Trade talks have always been front and center when it comes to supply management. The federal government promotes trade as an opportunity for growth, while continuing their commitment to supply management. Both concepts do work in unison. We will make certain that our political leaders continue to understand the benefits of supply management along with their trade agenda.

The current allocation system, which sets provincial allocation based on broilers produced in a province, is under review by the Board of Directors. Further discussions are ongoing with a goal to complete in 2015.

In May 2015, Category I antibiotics can no longer be used in a preventive manner in Canadian hatching egg producers' birds. This will eliminate the preventive use of Category I antibiotics in the entire poultry industry in Canada. This new reality demonstrates our commitment to preserving Category I antibiotics, understanding its need in the human health system.



Jack Greydanus
Chair, CHEP

Chairman's Message

In closing, CHEP strives to meet the goals of our strategic plan, including ongoing discussions with Nova Scotia and New Brunswick to become members of CHEP. As farmers, our lives and jobs are always under intense scrutiny. Whether it is animal care, supply management, or on-farm responsibilities, we stand united when we state that we are and will always be accountable for our actions.

Please join me in thanking our staff Giuseppe, Nicole, Viki, Tim, Sophie, Joy and Charles for their commitment to our industry on our behalf.

Sincerely,



Jack Greydanus
Chair



General Manager's Report

Canadian Hatching Egg Producers



As we look back over the past year, the Canadian Hatching Egg Producers' Board of Directors worked through a number of critical issues. However, none was more significant for the poultry industry than the discovery of a highly-pathogenic H5N2 avian influenza virus in British Columbia in December 2014.

The first affected premise was confirmed positive on December 1, triggering immediate action by the British Columbia poultry industry and the Canadian Food Inspection Agency. By December 18, twelve positive cases were confirmed, seven of which were broiler breeder operations.

Three turkey premises, one egg layer premise and one backyard flock also tested positive. The British Columbia poultry industry quickly rallied together to stamp out the virus as effectively as possible. The British Columbia industry had already begun the process of cleaning and disinfecting by year's end. The poultry industries also continued to work with government to review the poultry models, which includes the broiler breeder model, to ensure fair compensation for producers.

A review of the broiler hatching egg allocation system, which included interprovincial movement discussions, brought the Board of Directors, producers and hatcheries together from across the country. The dialogue continues in an effort to find a resolution. As part of these discussions, the Quota Lease Pool policy and the Liquidated Damages Agreement are also being reviewed.

The continued goal to have representation at the national table from across Canada was confirmed in the new strategic plan. Meetings were held with producers in Nova Scotia and New Brunswick throughout the year. Nova Scotia held a public meeting in late October to discuss establishing a broiler hatching egg board, while additional meetings were held with New Brunswick's producers.

The Canadian Hatching Egg Producers continued working with the Canadian Hatchery Federation to make additional recommendations to the Department of Foreign Affairs, Trade and Development Canada concerning the Notice to Importers for Broiler Hatching Eggs and Chicks, which sets the rules and conditions related to Tariff Rate Quotas for broiler hatching eggs and broiler chicks entering Canada.

Although an agreement on trade facilitation and food security issues was struck as part of the World Trade Organization's Doha Round in December 2013 in Bali, Indonesia, it wasn't until well into 2014 before India would accept and allow the work to begin on implementation of these agreements.

A number of negotiations towards a Trans-Pacific Partnership (TPP) agreement were held throughout the year, however, negotiations advanced little in 2014, and the ability for members to move the talks forward depends heavily on the outcome of the bilateral talks being held between Japan and the United States. The TPP membership is comprised of Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States of America and Vietnam.



Giuseppe Caminiti
General Manager, CHEP

General Manager's Report

As part of the poultry industry's approach to responsible antibiotic use, the preventive use of Category I antibiotics is no longer allowed on the farm or in the hatchery for commercial meat birds (chicken and turkey), layers and breeders effective May 15, 2014, while preventive use of Category I antibiotics will no longer be allowed for use in parent breeder chicks and poults as of May 15, 2015.

The National Strategy for the Control of Poultry-Related Human *Salmonella* Enteritidis Illness in Canada was completed. In addition, the fourth draft of Canadian Hatchery Supply Flock Policy and Program was released and is being reviewed.

The National Farm Animal Care Council received government funding and support which renewed efforts in the revision of the Code of Practice for poultry. Changes to the *Health of Animals Regulations* Part XII – Transportation of Animals, is pending. The poultry industry remains active in providing guidelines and resources to producers to address animal welfare issues, including those related to transport and euthanasia.

The Board of Directors, led by Chair Jack Greydanus and Vice-Chairs Calvin Breukelman and Kevin Tiemstra, along with the CHEP staff, remain focused on the continued improvements to the Canadian broiler hatching egg industry.

Sincerely,



Giuseppe Caminiti
General Manager



Bob Coonts, Abstract, Fine Art
Fort Collins, Colorado, United States

CHEP Executive Committee



From left to right:

- ▲ Jack Greydanus, Chair
- ▲ Calvin Breukelman, Vice-Chair, British Columbia
- ▲ Kevin Tiemstra, Second Vice-Chair, Alberta
- ▲ Giuseppe Caminiti, CHEP General Manager



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.

CHEP Board of Directors



From left to right 1st row:

- ▲ Jack Greydanus, Chair
- ▲ Calvin Breukelman, Vice-Chair, British Columbia
- ▲ Kevin Tiemstra, Second Vice-Chair, Alberta

From left to right 2nd row:

- ▲ Dick Ottens, Ontario
- ▲ Henk van Steenberg, Saskatchewan
- ▲ Ernie Silveri, CHF
- ▲ Dean Penner, Manitoba
- ▲ Gyslain Loyer, Quebec

Absent:

- ▲ Doug McGhee, CHF

Canadian Hatching Egg Market Review

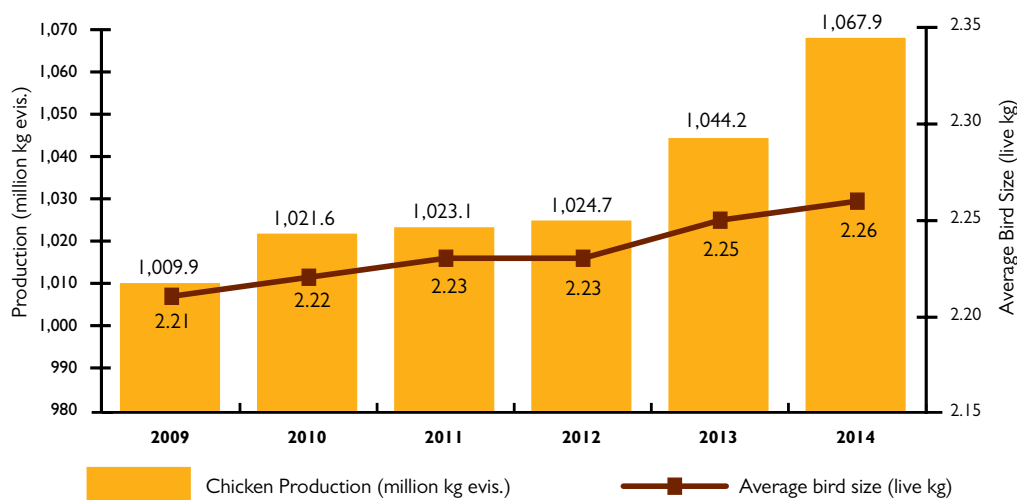
Canadian Hatching Egg Producers



The Canadian broiler hatching egg industry entered into 2014 buoyed by steady and positive market trends in the demand for chicken and broiler hatching eggs, which were guided by an improving economic outlook paired with increasing competitive meat prices. As the year progressed, so too did the upward movement of the chicken and broiler hatching egg allocations that were needed to satisfy market requirements. By year's end, the chicken industry saw an increase of 2.3% in annual growth – a level not seen since 2007 – while annual domestic broiler hatching egg production growth approached the 2.0% range for a second consecutive year.

The Canadian Hatching Egg Producers (CHEP) established the 2014 initial allocations in March 2013 based on estimated chicken production of 1,053 million kilograms (eviscerated), which represented growth of 0.8% above actual 2013 chicken production of 1,044.2 million kilograms. In July 2013, the 2014 estimate increased to 1,062 million kilograms and remained unchanged in November 2013 and again in March 2014. However, in response to improving market forecasts in July 2014, the 2014 estimated chicken production was adjusted upwards to 1,065 million kilograms, which represents an increase of 2.0% above 2013. In the end, chicken production totaled 1,067.9 million kilograms in 2014, for a year-over-year increase of 2.3%, and 2.9 million kilograms higher than the final estimated level of production.

Canadian Chicken Production and Average Bird Size (2009-2014)



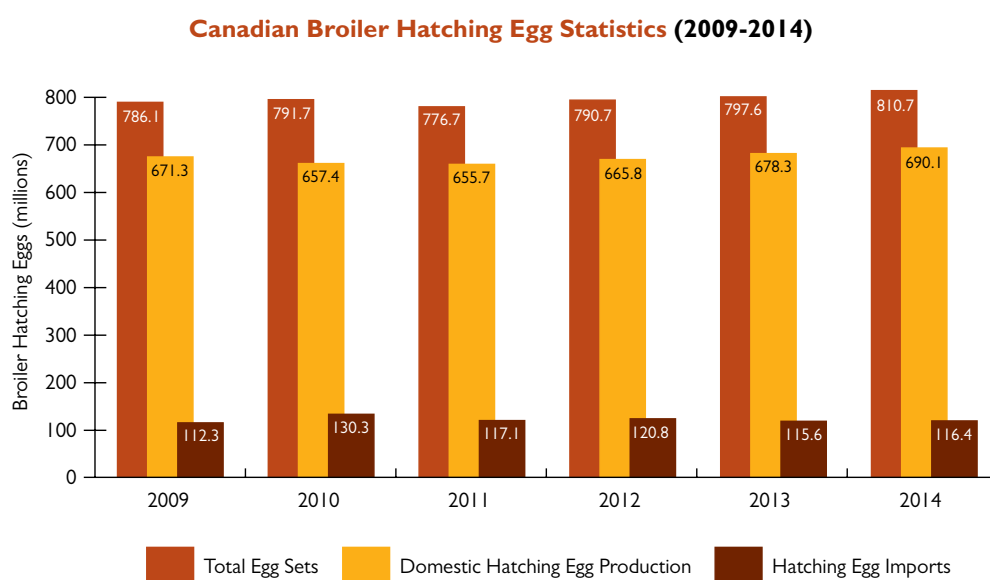
Sources: Chicken Farmers of Canada, Canadian Hatching Egg Producers

In 2014, Canadian hatcheries set a total of 810.7 million broiler hatching eggs, an increase of nearly 13.0 million eggs (or 1.6%) from 2013. Meanwhile, domestic broiler hatching egg production totaled 690.1 million eggs, an increase of 11.8 million eggs (or 1.7%) over the previous year and equal to 100.7% of the final 2014 allocation. Broiler hatching egg imports increased by 0.8 million eggs (or +0.7%) compared to last year, while broiler chicks imported into Canada fell by more than 0.1 million chicks (or -0.8%). As a result, 2014 combined imports (egg equivalent) increased by 0.6 million eggs (or +0.4%) from 2013, while the total number of broiler hatching egg exports increased by 0.1 million eggs to 0.16 million eggs.

Canadian Hatching Egg Market Review

Canadian domestic broiler hatching egg production in 2014 increased 1.7% compared to 2013, with improved production levels reported in the majority of provinces. Among the six member provinces, domestic production reached 99.5% of the 2014 final allocations, down slightly from 100.0% in 2013.

There were requests totaling 4.3 million broiler hatching eggs from hatcheries seeking supplemental imports during the year. Although 2.7 million broiler hatching eggs were authorized for supplemental import permits in 2014, with nearly 2.2 million broiler hatching eggs (or 79.9%) entering into Canada, import permits (TRQ) totaling 2.8 million broiler hatching eggs and 1.4 million broiler chicks were left unused at the end of the year.



Sources: CHEP, AAFC

Broiler Hatching Egg Production and Imports

Domestic broiler hatching egg production in Canada increased by 11.8 million eggs (or 1.7%) in 2014. Provincially, British Columbia's domestic production grew by 0.2% and imports increased 20.1%, resulting in 4.9% more eggs set during the year. These trends follow the December outbreak of avian influenza which affected production at seven broiler breeder farms in B.C. In Alberta, domestic production fell by 0.1 million eggs (or -0.2%) with 29.0% more imports and 3.4% more eggs set. Saskatchewan's production fell by more than 0.9 million eggs (or -3.3%), while imports grew by 42.1%, finishing the year with 1.8 million eggs (or 5.2%) more eggs set. Manitoba experienced a decline in domestic production of more than 0.5 million eggs (or -1.6%), while their hatcheries imported 1.8% fewer imports, contributing to nearly 0.5 million (or -1.2%) fewer eggs set. In Ontario, production grew by nearly 5.1 million eggs (or 2.5%), while imports fell by 7.4%, resulting in 1.7 million more eggs set (or 0.8%). Quebec's production grew by more than 6.0 million eggs (or 3.3%), while total imports fell by 11.9%, resulting in 1.9 million more eggs (or 0.8%) being set.

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
2014	99,402	66,135	26,725	33,785	210,700	190,932	24,666	37,779	690,124
2013	99,203	66,242	27,649	34,350	205,615	184,889	25,248	35,094	678,290
2012	98,541	64,720	29,358	32,364	197,641	180,026	25,355	37,767	665,772
2011	97,430	65,035	26,460	30,296	195,781	182,386	24,019	34,314	655,721
% Change									
14/13	0.2	(0.2)	(3.3)	(1.6)	2.5	3.3	(2.3)	7.7	1.7
13/12	0.7	2.4	(5.8)	6.1	4.0	2.7	(0.4)	(7.1)	1.9
12/11	1.1	(0.5)	11.0	6.8	1.0	(1.3)	5.6	10.1	1.5

Sources: CHEP, AAFC

In 2014, the hatchability rate in Canada increased to 82.8%, up from 81.7% in 2013, with half the provinces recording hatchability gains. The average live weight of broilers produced in Canada increased to 2.26 kg live per bird, up marginally from the previous year, led by large gains in the combined region of New Brunswick, Prince Edward Island and Newfoundland & Labrador (+4.1%) and Nova Scotia (+2.5%), while declines ranged from 0.2% in Ontario to 1.7% in Alberta.

Table 2 – Selected Factors Impacting Hatching Egg Production (2014)

	BC	AB	SK	MB	ON	QC	NS	NB/PE/NL	Canada
Hatchability									
2014 (%)	82.6	80.3	81.0	82.2	84.1	83.3	82.5	79.7	82.8
% change 14/13	(0.1)	0.2	(0.4)	1.7	2.2	1.7	(0.5)	1.7	1.3
Total (Combined) Imports									
(000 eggs equiv.)	29,653	14,552	9,130	7,541	32,891	43,055	536	2,612	139,969
% change 14/13	20.1	29.0	42.1	(1.8)	(7.4)	(11.9)	(30.7)	(36.0)	0.4
Chicken Production									
(000 kg evis.)	161,034	94,324	41,193	44,625	347,462	294,770	36,465	47,979	1,067,853
% change 14/13	2.9	1.1	(0.5)	3.3	2.8	1.8	1.3	3.9	2.3
Chicken Production									
Market Share (%)	15.1	8.8	3.9	4.2	32.5	27.6	3.4	4.5	100.0
% change 14/13	0.6	(1.1)	(2.7)	1.0	0.6	(0.5)	(1.0)	1.6	-
Avg. live weight of broilers									
(kg live/bird)	2.18	2.23	2.13	1.97	2.33	2.30	2.23	2.23	2.26
% change 14/13	(0.4)	(1.7)	0.1	(0.5)	(0.2)	0.5	2.5	4.1	0.1

Sources: CHEP, AAFC, CFC

Canadian Hatching Egg Market Review

Farm Cash Receipts and Producer Prices

Total farm cash receipts for broiler hatching egg producers grew by 3.1% to reach \$284.9 million in 2014, up from \$276.4 million in 2013.

Table 3 – 2014 Farm Cash Receipts and Producer Prices in the Regulated Area

	Farm Cash Receipts		Hatching Egg Producer Prices	
	2014 \$ 000	% change 14/13	¢ per saleable chick (2014 average)	% change 14/13
British Columbia	43,242	(0.6)	53.62	(2.1)
Alberta	29,040	(1.8)	54.10	(2.9)
Saskatchewan	11,801	(6.5)	54.44	(4.4)
Manitoba	14,866	2.4	54.24	2.9
Ontario	83,130	5.3	48.61	1.5
Quebec	77,453	5.6	49.99	0.9
CANADA	284,860	3.1	52.50	(0.8)

Sources: CHEP, Provincial Boards/Commissions

2013 Final Production Report

The 2013 audited broiler hatching egg production report was approved at the meeting in July 2014. Table 4 (below) outlines the final production information for CHEP's six member provinces after accounting for the transactions from the quota lease pool. Domestic broiler hatching egg production reached 100.63% of total allocations for the year, up from 98.90% in 2012, while the final allocation for 2013 was up by nearly 0.9 million hatching eggs from 2012. Since each of the member provinces, with the exception of Alberta, finished with a utilization rate equal to or less than 101.0% of their 2013 final allocation, no penalties were assessed. In May 2014, CHEP's Board of Directors exempted Alberta from liquidated damages in relation to its 2013 allocation.

Table 4 – 2013 LDA Production and Allocations by Province

Province	Domestic Production (eggs)	2013 Final Allocations (eggs)	% utilization	Quota Leased (eggs)	Final % utilization
British Columbia	99,203,290	100,521,711	98.69%	-177,020	98.86%
Alberta	66,242,155	63,514,049	104.30%	0	104.30%
Saskatchewan	27,648,906	29,754,730	92.92%	-282,838	93.81%
Manitoba	34,349,597	33,320,365	103.09%	696,028	101.00%
Ontario	205,614,913	210,150,146	97.84%	-2,428,396	98.99%
Quebec	184,889,253	180,888,146	102.21%	2,192,226	101.00%
CANADA	678,290,179	674,035,572	100.63%	0	100.63%

Source: CHEP



Sincerely,

[Handwritten signature]

Jeff Regier
Chair



Producer of the Year recipients Hélène Émond and Pierre Bélanger of La Ferme Lafeuille Inc. accepted the award from Brian Bilkes, CBHEPA Chair and Gyslain Loyer, CHEP Director from Quebec



Jeff Regier, Chair, Saskatchewan

Membership:

- ▲ Robert Massé, Vice-Chair, Quebec
- ▲ Joe Neels, British Columbia
- ▲ Dennis Wickersham, Alberta
- ▲ Murray Klassen, Manitoba
- ▲ Cheryl Firby, Ontario



Young Farmers Program participants: Kurt Barkman, Saskatchewan, Melissa Weins, Saskatchewan, Marianne Bonnar, British Columbia and Mark Belanger, Canadian Technical Manager, Aviagen Inc.

The winner of the 2014 CBHEPA drawing contest is Angie Jones of Ontario. ►

The other participants' drawings were the covers for the CHEP 2014 Christmas Card Collection. ▼



Logan Edgerton 3 yrs
Ontario



Nicky Kapteyn 5 yrs
Ontario



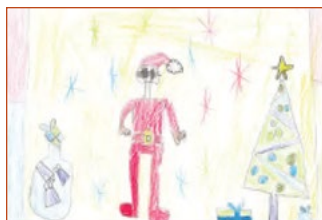
Jolina Friesen 6 yrs
British Columbia



Ian Van de Velde 6 yrs
Alberta



Cameron Edgerton 7 yrs
Ontario



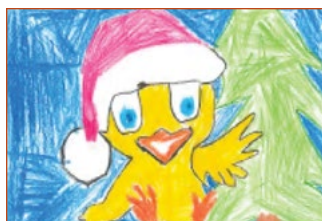
Cordell Kapteyn 8 yrs
Ontario



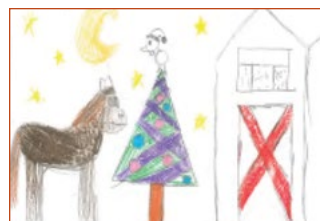
Tatum Turner 8 yrs
Alberta



Chloe Turner 9 yrs
Alberta



Keagan Edgerton 10 yrs
Ontario



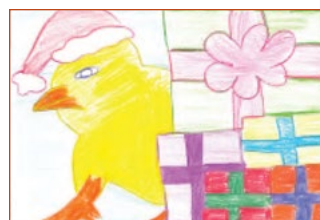
Holly Kapteyn 10 yrs
Ontario



Jared Neels 11 yrs
British Columbia



Abby van Steenberg 11 yrs
Saskatchewan



Joey Edgerton 12 yrs
Ontario

Report of the Production Management Committee

Canadian Hatching Egg Producers



Broiler hatching egg producers in all member provinces implement the CHEQ™ program in order to produce quality hatching eggs. CHEQ™ includes good production practices on the farm as well as a HACCP-based generic model that is reviewed regularly by the Canadian Food Inspection Agency (CFIA).

The Production Management Committee has proposed revisions to CHEQ™ based on member feedback, industry initiatives such as antibiotic use, research and regulations. Producers can expect to see the new manual in 2015.

Category I Antibiotic Use Initiative

CHEP continues to work with our supply chain partners to ensure the responsible use of medications in the poultry industry. Responsible antibiotic use means consulting with your veterinarian, and following the CHEQ™ requirements for antibiotic use. Producers must follow the food safety, biosecurity and breeder health management practices outlined in CHEQ™ as well as in other applicable programs, such as provincial biosecurity programs. This may prevent and reduce the incidence of disease and the need for antibiotics.

On May 15, 2014, preventive use of Category I antibiotics was not allowed on broiler hatching egg farms. Producers received a CHEP guide on responsible use, egg quality and improved barn management protocols in May 2014, as well as additional updates via CHEP's newsletter.

Category I antibiotics will also cease to be administered to breeder chicks starting May 15, 2015. Governments domestically and internationally have recognized the need to address antimicrobial resistance. The committee continues to work on ways to minimize the impacts on producers and their birds.

Animal Care – Making Strides

CHEP continues to promote the need for high standards for animal care and broiler breeder husbandry. CHEP is active on several projects that address decision-making within the supply chain and educational resources for stakeholders.

Poultry Code of Practice Development

The National Farm Animal Care Council (NFACC) was granted government funding via Agriculture and Agri-Food Canada's *Growing Forward 2* program in July 2014. The Poultry Code Development Committee is pursuing an aggressive timeline between September 2014 and July 2015 to develop the document. As a result of the active participation of various stakeholders, including poultry producers, researchers and members of the supply chain, the Codes will provide credible and feasible guidelines on sound management and welfare practices. The Code of Practice for the Care and Handling of Farm Animals: Chickens, Turkeys and Breeders from Hatchery to Processing Plant is expected to be completed in early 2016 and will be the foundation for CHEP's Animal Care Program.



Dean Penner, Chair, Manitoba

Membership:

- ▲ Calvin Breukelman, British Columbia
- ▲ Kevin Tiemstra, Alberta
- ▲ Henk van Steenberg, Saskatchewan
- ▲ Dick Ottens, Ontario
- ▲ Gyslain Loyer, Quebec

Report of the Production Management Committee

Animal Welfare Resources

Considerable efforts are focused on developing resources for producers to assist with day to day decision making. Working alongside industry partners, CHEP has been active with issues including transport, euthanasia, training and handling. Collaborations with the Poultry Industry Council (PIC) to provide education and extension services for the poultry industry have been successful. A series of resources related to the euthanasia of poultry will be developed. The on-farm poster entitled “Timely Euthanasia of Compromised Chicks/Poults” is available. Work on a “How to Euthanize Poultry” booklet is ongoing, with hands-on training sessions expected in the near future.

The Professional Animal Auditor Certification Organization (PAACO)’s Poultry Welfare Auditor Training course is being developed to reflect the Canadian relevant information. The next course will be held in May 2015 and potential animal welfare auditors are encouraged to attend.

National *Salmonella* Enteritidis strategy

The National Strategy for the Control of Poultry-Related Human *Salmonella* Enteritidis (SE) Illness in Canada for the Canadian poultry industry was completed. The strategy identifies five strategic priorities: monitoring and surveillance of SE in poultry and poultry products; integrating data from the monitoring and surveillance of SE in live poultry, food and human illness; on-farm and industry control strategies; regulatory actions to improve control of SE in the poultry sectors; and food safety education. The development of national standards for poultry breeding stocks, and development of defined and documented responses to SE-positive results in the poultry sectors were noted as high priorities. These recommendations will be further developed in discussions between CHEP and the CFIA.

Canadian Hatchery Supply Flock Policy and Program

CHEP, in consultation with provincial boards, continues to work with the CFIA on the draft Canadian Hatchery Supply Flock Policy and Program (CHSFPP). CHEP responded to CFIA consultations on the document and proposed regulatory revisions. Our main priority is to ensure any new requirements contribute to continued confidence when it comes to food safety, and are manageable for broiler hatching egg producers.

Consultations and collaborations

The CFIA is in the process of modernizing food safety programs, and adopting broad, forward-looking plans for its animal health and plant health business lines. There have been numerous consultations in 2014, and CHEP took the opportunity to provide comment and feedback.

CFIA and the poultry industry continue to look for ways to improve the efficiency of CanNAISS, the joint national avian influenza surveillance initiative. The program is designed to detect the presence of notifiable avian influenza in live Canadian poultry, and enhance Canada’s surveillance efforts.

Sincerely,



Dean Penner
Chair



Report of the Advisory Committee

Canadian Hatching Egg Producers



The industry entered 2014 amidst an improving economy and overall improved demand for chicken. Arguably the biggest challenge for the Committee was in harnessing the positive market signals and ensuring that the opportunity for strong growth would be properly captured in its discussions and recommendations.

In March, Canadian economic growth projections were revitalized, with annual gross domestic product (GDP) growth forecasts in the range of 2.0% to 2.5% for 2014 and 2015, while positive job growth was also being reported. In the competing meat sectors, price and production challenges continued to favour the chicken sector, as the pork industry was saddled with a Porcine Epidemic Diarrhea (PED) virus situation and cattle supplies were expected to remain tight throughout 2014. Meanwhile, in the United States, egg sets and chick placements were only marginally higher than in 2013, leading to concerns about the availability of import supplies. Recognizing that the outlook on competitive meats remained favourable to the chicken industry, and with continued focus on the opportunity for further expansion, the committee recommended a revised 2014 chicken production of 1,062 Mkg, an increase of 1.7% over 2013 (1,044.2 Mkg), and unchanged from the previous estimate from November 2013. For 2015, the situation facing the competing meat sectors, combined with lower expected feed prices and improved economic forecasts for the medium term, all played favourably to greater levels of consumer demand for chicken in 2015. As a result, the initial 2015 chicken production recommendation was 1,078 Mkg, representing an increase of 1.5% over 2014.

In July, the continuation of positive economic trends that included expected GDP growth of 2.5% in 2014 and 2015, and yearly price inflation for food items remained at very low levels. The Consumer Price Index (CPI) for beef and pork rose by 11.9% and 16.7%, respectively, while the CPI for chicken rose by only 0.7%, pointing to a price advantage for chicken. Furthermore, the CFC approved a medium term growth target of 2.5%. Meanwhile, the U.S. reported a 3% increase in the number of broiler breeder placements, suggesting that U.S. hatching egg supplies would improve in the second half of the year. Increases in wholesale prices for chicken indicated that demand was exceeding supplies, in large part because of the competitive meat situation and growing per capita consumption for chicken in North America. For 2014, the positive signals related to competitive meats, lower expected feed costs and a stronger North American economy pointed favourably to the continuation of strong chicken demand. As such, the Committee issued a recommendation for a final 2014 chicken production of 1,065 Mkg, an increase of 2.0% above 2013, and up 3 Mkg from the previous target set in March. As for 2015, it was agreed that the positive factors for the chicken industry would continue, and the Committee recommended a 2015 chicken production at 1,086 Mkg, an increase of 2.0% above 2014, and up 8 Mkg from the previous target.



Dean Penner, Chair, Manitoba

Membership:

- ▲ Jeff Regier, CBHEPA
- ▲ Jan Rus, CFC
- ▲ Robert DeValk, FPPAC
- ▲ Mathieu Boucher, AAFC
- ▲ Guy Giroux, DFATD
- ▲ Doug McGhee, CHF
- ▲ Ernie Silver, CHF

Report of the Advisory Committee

In November, the Canadian economy was still expected to grow by 2.5% in 2014 and 2015, while the unemployment rate had fallen to 6.5% in October. The competitive meat situation continued to favour chicken and consumer demand for meat proteins reportedly hit its highest level since 2004, with increases to chicken per capita consumption expected in 2015 and beyond, in Canada and the U.S. Meanwhile, year-to-date domestic chicken disappearance to October 1st were up 3.6% from the previous year, while lower feed grain prices were expected to reduce live chicken prices at a time when meat demand is on the rise. In the U.S., the outlook on chicken production suggested growth of 2.9% in 2015, while 2.0% year-over-year growth in the U.S. broiler breeder flock has led to greater hatching egg supplies. Several positive factors continued to support the expectation of strong growth in 2015, and a recommendation was made to increase the 2015 chicken production at 1,092 Mkg, an increase of 2.5% above 2014, and unchanged from July. For the medium term, member organizations expected annual growth to range between 1.5% to 3.0% for 2016 and beyond.

Sincerely,



Dean Penner
Chair



Report of the Finance Committee

Canadian Hatching Egg Producers



The Finance Committee met throughout the year where the Canadian Hatching Egg Producers' (CHEP) financial situation and financial policies were reviewed. In 2014, revenues equalled \$1.90 million, while expenditures totalled \$1.80 million, which resulted in a surplus of almost \$101,500. Actual revenues were marginally higher than the projected budget of \$1.87 million primarily due to a small increase in production levels compared to the previous year. Actual expenditures were significantly lower than the budget of \$2.04 million due in large part to the CHEP Directors' continued efforts in significantly reducing meeting and travel costs. In addition, some items were lower than budget, delayed to the subsequent year or cancelled altogether. Actual expenditures decreased by approximately \$45,000 compared to the previous year on account of a number of items being below budget.

The Finance Committee presented a budget for 2015 that included a projected deficit of \$130,000. After three years with no change in levy and future increased financial demands, an increase in the national levy rate to \$0.0032 per broiler hatching egg was recommended and approved by the CHEP Board of Directors. 2015 budgeted revenues are estimated at \$2.06 million, while expenditures are expected to increase by \$145,500 as a result of several factors including: the location and increase in frequency of meetings, capital building expenditures and additional funding for research expenditures.

In March 2014, CHEP re-appointed Welch LLP to perform the 2014 year-end audit.

Sincerely,

Gyslain Loyer
Chair



Gyslain Loyer, Chair, Quebec

Membership:

- ▲ Henk van Steenberg, Saskatchewan
- ▲ Dean Penner, Manitoba
- ▲ Dick Ottens, Ontario
- ▲ Doug McGhee, CHF



Joan Price Art

Report of the Research Committee

Canadian Hatching Egg Producers



Research is one of the most important tools to answer producers' questions, to solve problems, and to ensure that producers remain competitive and sustainable as an industry. During 2014, the CHEP Research Committee discussed and defined national research priorities. Based on these priorities, CHEP supported Canadian research that benefits broiler hatching egg producers.

CHEP's 2014 Research Priorities are as follows (in decreasing order):

1. Food safety
 - a. Alternatives to antimicrobials
 - b. Egg washing
 - c. Egg size
2. Control of *Salmonella*
 - a. Vaccination
 - b. General control
3. Breeder welfare
 - a. Stocking density
 - b. Euthanasia methods for birds >3kg, including low atmospheric pressure stunning (LAPS)
 - c. Feed restriction programs
 - d. Male mortality/longevity, including the influence of barn design, feed delivery systems or genetic influences
 - e. Early mortality of breeder hens
4. Production-based research
 - a. Low production of young breeders
5. Poultry health and disease
 - a. White chick syndrome
6. Environmental research
 - a. Control of ammonia

CHEP is a member of the Canadian Poultry Research Council (CPRC). Our contribution is leveraged approximately four times, through matching government and industry funds. Agriculture and Agri-Food Canada (AAFC) announced \$4 million for the Poultry Science Cluster, which allowed funding for seventeen projects looking at poultry health, welfare, alternatives to antibiotics and environmental stewardship.



Cheryl Firby, Chair, Ontario

Membership:

- ▲ Joe Neels, British Columbia
- ▲ Dennis Wickersham, Alberta
- ▲ Jeff Regier, Saskatchewan
- ▲ Murray Klassen, Manitoba
- ▲ Robert Massé, Quebec

Report of the Research Committee

CHEP and CPRC are supporting a project at the University of Guelph on alternative feeding strategies for broiler breeders, which may yield benefits for breeder welfare and production. In addition, CHEP also continues its support of research at the University of Alberta on a broiler breeder precision feeding system.

It is crucial that Canada has a strong agricultural research framework. We continue to work with the Canadian Federation of Agriculture (CFA) and other partners to determine strategies to support research, and uncover potential resources for the future.

Sincerely,

A handwritten signature in black ink that reads "Cheryl Firby". The script is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Cheryl Firby
Chair



Bob Coonts, Abstract, Fine Art
Fort Collins, Colorado, United States



Canadian Hatching Egg Producers

CHEP Alternates



From left to right 1st row:
Joe Neels, British Columbia;
Murray Klassen, Manitoba

From left to right 2nd row:
Jeff Regier, Saskatchewan;
Dennis Wickersham, Alberta;
Cheryl Firby, Ontario;
Robert Massé, Quebec;
Christian Trottier, CHF

Absent:
Glen Taschuk, CHF

Provincial Managers



From left to right 1st row:
Clinton Monchuk,
Saskatchewan;
Pierre Belleau, Quebec

From left to right 2nd row:
Stephanie Nelson,
British Columbia;
Bob Guy, Ontario;
Wayne Hiltz, Manitoba;
Bob Smook, Alberta



Canadian Hatching Egg Producers

CHEP Staff



From left to right 1st row:

Sophie Neveux,
Animal Welfare Officer;
Giuseppe Caminiti,
General Manager

From left to right 2nd row:

Victoria Sikur,
Food Safety Officer;
Joy Edstron, Bookkeeper;
Tim Nikita, Economist;
Nicole Duval,
Office Administrator

WTO Representative



Charles Akande
Canadian Dairy, Poultry
and Egg Producers'
Representative to the WTO
Geneva, Switzerland

FINANCIAL STATEMENTS
For
CANADIAN HATCHING EGG PRODUCERS
For the year ended
DECEMBER 31, 2014

CANADIAN HATCHING EGG PRODUCERS
INDEX TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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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, 2014, 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 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, 2014, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.



Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Ontario
February 18, 2015.

Welch LLP – Chartered Professional Accountants
123 Slater Street, 3rd Floor, Ottawa, ON K1P 5H2
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, 2014

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 54,438	\$ 85,901
Short-term investments - note 4	1,125,000	1,005,000
Accounts receivable	337,225	345,563
Prepaid expenses	<u>31,503</u>	<u>17,256</u>
	<u>1,548,166</u>	<u>1,453,720</u>
PROPERTY AND EQUIPMENT		
Land and building - note 5	602,736	619,024
Other - note 6	<u>1,254</u>	<u>4,032</u>
	<u>603,990</u>	<u>623,056</u>
	<u>\$ 2,152,156</u>	<u>\$ 2,076,776</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 108,281	\$ 133,228
Government remittances payable	21,924	13,383
Current portion of long-term debt - note 5	<u>10,243</u>	<u>9,679</u>
	140,448	156,290
LONG-TERM DEBT - note 5	<u>298,960</u>	<u>309,214</u>
	<u>439,408</u>	<u>465,504</u>
NET ASSETS		
Internally restricted for severance contingency	148,396	133,794
Unrestricted	<u>1,564,352</u>	<u>1,477,478</u>
	<u>1,712,748</u>	<u>1,611,272</u>
	<u>\$ 2,152,156</u>	<u>\$ 2,076,776</u>

Approved on behalf of the Board:



Jack Greydanus, Chair



Calvin Breukelman, Vice-Chair

(See accompanying notes)

Welch LLP

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CANADIAN HATCHING EGG PRODUCERS
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2014

	<u>2014</u>	<u>2013</u>
REVENUES		
Levies	\$ 1,891,657	\$ 1,825,637
Interest	<u>12,752</u>	<u>13,484</u>
	<u>1,904,409</u>	<u>1,839,121</u>
EXPENSES		
Amortization	19,066	21,477
Building occupancy	47,300	47,743
Directors' and participants' fees	379,024	355,299
Interest on long-term debt	11,854	12,387
Meetings	62,876	60,096
Membership fees	43,056	35,341
Office and administrative	132,664	145,306
Professional fees	172,969	220,667
Research	65,505	68,505
Salaries, benefits and travel	720,510	691,652
Trade	69,123	97,886
Translation and interpretation	<u>78,986</u>	<u>91,798</u>
	<u>1,802,933</u>	<u>1,848,157</u>
NET REVENUE (EXPENSE)	<u>\$ 101,476</u>	<u>\$ (9,036)</u>

(See accompanying notes)

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CANADIAN HATCHING EGG PRODUCERS
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2014

	<u>2014</u>			<u>2013</u>
	Internally restricted for severance contingency	<u>Unrestricted</u>	<u>Total</u>	<u>Total</u>
BALANCE, BEGINNING OF YEAR	\$ 133,794	\$ 1,477,478	\$ 1,611,272	\$ 1,620,308
NET REVENUE (EXPENSE)	-	101,476	101,476	(9,036)
INTERNALLY IMPOSED RESTRICTIONS - note 7	<u>14,602</u>	<u>(14,602)</u>	<u>-</u>	<u>-</u>
BALANCE, END OF YEAR	<u>\$ 148,396</u>	<u>\$ 1,564,352</u>	<u>\$ 1,712,748</u>	<u>\$ 1,611,272</u>

(See accompanying notes)

Welch LLP

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CANADIAN HATCHING EGG PRODUCERS
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net revenue (expense)	\$ 101,476	\$ (9,036)
Adjustment for amortization	<u>19,066</u>	<u>21,477</u>
	120,542	12,441
Changes in non-cash working capital components:		
Accounts receivable	8,338	40,773
Prepaid expenses	(14,247)	(3,800)
Accounts payable and accrued liabilities	(24,947)	(1,643)
Government remittances payable	<u>8,541</u>	<u>(14,383)</u>
	<u>98,227</u>	<u>33,388</u>
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of investments	(1,125,000)	(1,005,000)
Maturity of investments	1,005,000	1,028,630
Purchase of property and equipment	<u>-</u>	<u>(4,118)</u>
	<u>(120,000)</u>	<u>19,512</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment on long-term debt	<u>(9,690)</u>	<u>(9,157)</u>
INCREASE (DECREASE) IN CASH	(31,463)	43,743
CASH AT BEGINNING OF YEAR	<u>85,901</u>	<u>42,158</u>
CASH AT END OF YEAR	<u>\$ 54,438</u>	<u>\$ 85,901</u>

(See accompanying notes)

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CANADIAN HATCHING EGG PRODUCERS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

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

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.

Financial instruments

Measurement of financial instruments

Cash and short-term investments are measured at fair value at the financial statement date.

All other financial instruments are subsequently measured at amortized cost at the financial statement date.

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.

CANADIAN HATCHING EGG PRODUCERS
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2014

2. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

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.

3. 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, 2014.

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.

CANADIAN HATCHING EGG PRODUCERS
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2014

3. FINANCIAL INSTRUMENTS - Cont'd.

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.

i) *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.

ii) *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 fixed rate until 2017.

iii) *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.

4. SHORT-TERM INVESTMENTS

Short-term investments are as follows:

	<u>2014</u>	<u>2013</u>
Guaranteed investment certificates, bearing interest rates of 1.25% maturing at various dates in 2015.	<u>\$ 1,125,000</u>	<u>\$ 1,005,000</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.
YEAR ENDED DECEMBER 31, 2014

5. 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>2014</u>		<u>2013</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>102,918</u>	<u>651,519</u>	<u>86,630</u>
	705,654	<u>\$ 102,918</u>	705,654	<u>\$ 86,630</u>
Less accumulated amortization	<u>102,918</u>		<u>86,630</u>	
Net book value	<u>\$ 602,736</u>		<u>\$ 619,024</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, 2014 is as follows:

	<u>2014</u>	<u>2013</u>
Long-term debt - 5.68% interest rate, payable in blended monthly payments of \$2,296, due November 30, 2017	\$ 309,203	\$ 318,893
Less current portion	<u>10,243</u>	<u>9,679</u>
	<u>\$ 298,960</u>	<u>\$ 309,214</u>

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

2015	\$ 10,243
2016	10,840
2017	288,120

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, 2014 is \$3,546,552.

CANADIAN HATCHING EGG PRODUCERS
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2014

6. PROPERTY AND EQUIPMENT - OTHER

Property and equipment - other consists of:

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
Office furniture and equipment	\$ 34,634	\$ 34,634	\$ 35,396	\$ 35,396
Electronic equipment	<u>36,174</u>	<u>34,920</u>	<u>42,851</u>	<u>38,819</u>
	70,808	\$ 69,554	78,247	\$ 74,215
Less accumulated amortization	<u>69,554</u>		<u>74,215</u>	
Net book value	\$ <u>1,254</u>		\$ <u>4,032</u>	

7. INTERNALLY IMPOSED RESTRICTIONS

During the year, the Board of Directors internally restricted \$14,602 (2013 - \$20,885) for severance contingency. During the preceding year, the remaining restricted fund balance of \$8,023 was utilized by the Organization for research purposes.

8. 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.

9. COMMITMENTS

The Organization has an agreement to lease some of its operating equipment. The remaining lease expires October 26, 2016. The future minimum payments under the agreement is as follows:

2015	\$ 2,557
2016	2,131