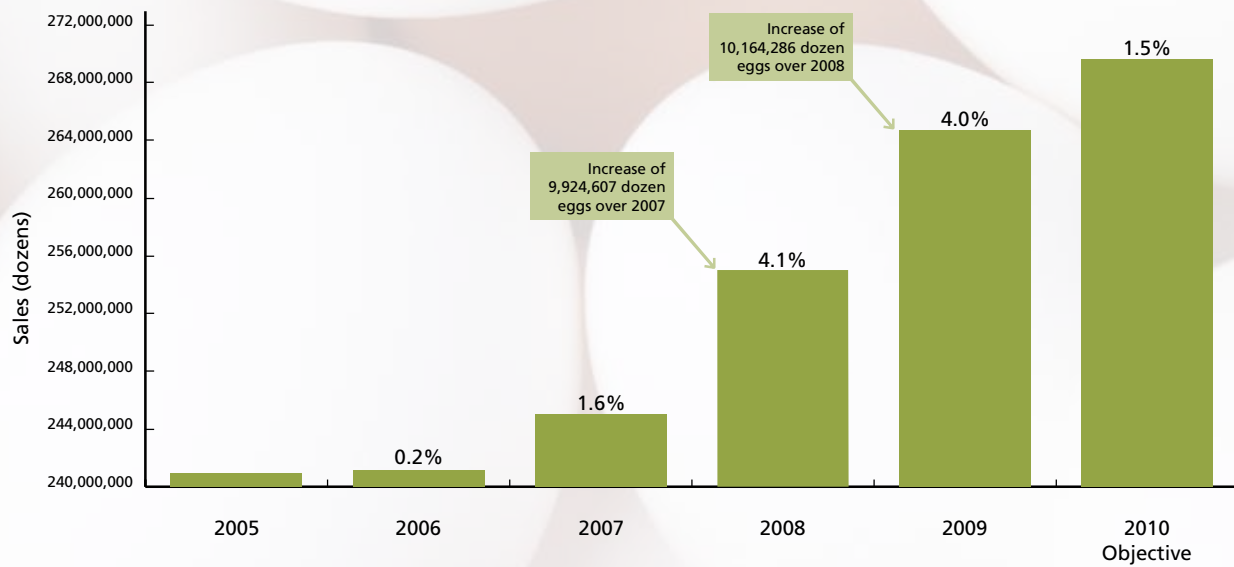


584,749,191 dozen eggs
and counting!



2009: A year of continued growth at retail

Total Retail Egg Sales Show Consistent Growth (52-week periods)



Source: Nielsen MarketTrack, Total Eggs-National
52-week periods ending December 19, 2009.

This past year, total egg sales at retail increased significantly more than was anticipated. Preliminary Nielsen sales data from 2009 shows 4.0% growth year-over-year, eclipsing our 1.5% target and nearly matching the 4.1% increase achieved in 2008.



Increase in 2009 total retail egg sales over and above last year's 4.1% increase.



Increase in total retail egg sales during the February promotion period on top of the 4.7% increase achieved during the 2008 promotion.



Now believe an egg a day is OK, compared with 33% in 2007. Our targeted outreach to doctors is making a difference.
(Source: 2009 EFC Physicians Survey)

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37th Annual Report of the Egg Farmers of Canada for presentation March 24, 2010 at the 37th annual meeting and to the Minister of Agriculture and Agri-Food, the Honourable Gerry Ritz, and to the Farm Products Council of Canada.

21 Florence Street, Ottawa, Ontario K2P 0W6
t: 613-238-2514 www.eggs.ca





CHAIRMAN'S MESSAGE

Canada's more than 1,000 regulated

A Story to Tell

Egg farmers in this country have an important story to tell. It's a story about people who are passionate about their work. It's about people who contribute in so many ways to their rural communities and who produce food that helps feed the country. Egg farmers also claim a legacy of cooperation across ten provinces and the Northwest Territories that goes back some four decades. It's a very Canadian story I want people to know.

As Chairman of Egg Farmers of Canada (EFC) for the past decade, I've overseen real progress on food safety, the environment, traceability, animal care and disease prevention. All the while, Canada's more than 1,000 regulated egg farmers have provided families with an affordable, fresh and nutrient-rich protein source. It's an accomplishment in which all egg farmers take great pride.

This is the direct result of working together. Under supply management, Canada's unique approach to agriculture for eggs, poultry and dairy, we're able to anticipate market demand and offer a wide variety of eggs to Canadians. This keeps prices stable for consumers and income stable for farmers. It's also why farmer participation in the Cost of Production Survey is so critical. As well, supply management enables us to fulfill the need for pandemic and seasonal flu vaccine quickly and efficiently. In short, with all the interest these days in eating local, food sovereignty, human health and

the family farm, it's an approach to agriculture I'm fighting to maintain for future generations of Canadians.

As egg farmers, we've challenged ourselves through innovation to be the best in the world at what we do. It's why our work as an industry can never be complete. We're engaged in a process of continuous improvement that delivers results for all our stakeholders: consumers, farmers, processors and regulators. Canadians trust egg farmers to provide their families with safe, healthy, affordable food, confident in the knowledge that farmers are living up to this great responsibility. Ultimately, when you visit the grocery store, your family and mine are eating eggs from a regulated Canadian egg farmer.

On a personal note, I'm very pleased we achieved an agreement to resolve a dispute over quota allocation with the Saskatchewan Egg Producers. It came at an important time for our industry, with growth of total egg sales at retail reaching 4% in 2009. While the economic slowdown has no doubt been partly responsible for increased demand for our very affordable product, brisk sales are also evidence that our marketing programs and television ads have gained traction with consumers.

Not least, I was in Geneva at the end of November during the World Trade Organization (WTO) ministerial meetings,



egg farmers provide families with

where I discussed issues of importance to Canadian egg farmers with Minister of Agriculture Gerry Ritz and David Walker, the new Chair of the WTO agriculture negotiations. Around this time, I also received word from Minister Ritz that he would consider increasing the maximum compensation level for farmers whose flocks are ordered destroyed under the *Health of Animals Act*. This positive news punctuates a very memorable year in which we helped host one of the International Egg Commission's most successful annual conferences ever.

To conclude, I'd like to thank our Chief Executive Officer, Tim Lambert, for his ability to inspire on a daily basis. His leadership and tremendous energy have shaped a very competent team that's making EFC into one of the best agriculture organizations in Canada. I'm very grateful to each and every EFC staff member and provincial general manager for their efforts to help achieve this goal. Finally, I thank my Board of Directors, whose wisdom and service continue to benefit this industry in countless ways.

Laurent Souigny
Chairman, Egg Farmers of Canada

Success Worth Reflecting On

Overall, 2009 was very successful for Egg Farmers of Canada (EFC). As with any organization, there are always issues and challenges that have not moved forward as planned. Nevertheless, as I look across the entire organization and industry, I see 2009 as having been strong and I see those unresolved challenges being tackled with much optimism in 2010.

Any discussion of our success should begin with the outstanding growth in egg consumption, with retail sales up 4%. No doubt, a challenging economy has led many to choose eggs as an extremely high quality protein at a very reasonable price. Yet, this tells only part of the story.

The strong marketing work being done by EFC and all provincial boards is a significant contributor to this growth. We continue to see the benefits of a broad-based, integrated and focused strategy. From our newest television ads featuring Olympians Hayley Wickenheiser and Kim St-Pierre, to our targeted contacts with doctors, consumers are hearing our healthy energy message and choosing eggs. As well as growth in table demand, we have seen increased demand within the processed egg market—growth that led to a significant increase in allocation.



I cannot help but contrast our success with the terrible struggles around the globe during the worst recession of modern times. With people losing jobs, companies closing doors and others drastically cutting production, our industry is growing. This is a success worth reflecting on. I give full marks to the Board of Directors for their guidance and credit to the entire staff team at EFC and in the provinces for this achievement. Moreover, this is a tribute to the wisdom and foresight of the founders of supply management. Today, this infrastructure allows us to continue to thrive when others struggle.

As EFC, we have many roles including a very significant business to operate—the Industrial Product Program. It's a multi-million dollar business and must be run with an eye to continuously improving efficiency and reducing costs wherever possible. We were very successful this past year in implementing a new transportation system in Atlantic Canada, which will save hundreds of thousands of dollars annually. Based on this achievement, plans are under way in 2010 to seek further savings elsewhere in Canada.

As well, in collaboration with the provinces, we are making progress in developing national traceability standards and enhancing our on-farm programs for both food safety and animal care.

These positive outcomes are possible because of the strengthening of our internal planning and business processes. In order to succeed, a company must have a clear sense of purpose; it must have the right skill sets within the team; and that team must be supported by the appropriate tools and resources. Only with this backdrop can a company successfully execute its strategy. All our units have contributed greatly not only to EFC but to the overall Canadian egg industry.

My annual report commentary and that of our Chairman, Laurent Souigny, generally make reference to the World Trade Organization. 2009 was the quietest year I can remember for the Doha Round. Talks have slowed to the point where countries are beginning to consider taking a hiatus. It needs to be noted that, at every juncture, the Canadian government has reiterated its support for supply management and the critical role it plays in Canadian agriculture. I would hope that throughout this devastating recession our government continues to recognize the benefits supply management brings to the economy.



and the **direct** result of working together under supply management.

Harmonization of Stakeholder Relationships

STRATEGIC OBJECTIVE: Ensure a high degree of transparency and trust in our relationships with all stakeholders

Despite our achievements, there are some areas that have not unfolded as well as we had hoped. The primary issue to note is our continued lack of agreement with egg processors. At the time of preparing these comments, talks had again picked up with a renewed sense of optimism towards a solution. I hope to be in a position to report this as a success at this time next year.

Going forward, we need to develop a shared understanding of our future, whether it be as processors, graders or producers. We need solutions that create success and opportunity for all stakeholders. These solutions need to ensure an economically sustainable future for all sectors. Our vision, therefore, needs to be not merely a vision for EFC but one that

encompasses the entire industry. From a planning perspective, this distinction is critical. We have all of the key industry stakeholders around our board table. As a result, our vision for the future must extend beyond individual stakeholder interests and embrace our entire industry.

In terms of our business strategy going into 2010, industry can expect to see a growing focus on Corporate Social Responsibility, or CSR as it is commonly referred to. CSR is as much an underlying philosophy and approach to business as it is about initiatives and projects. If you consider CSR in its broadest context, it will impact every decision or strategic choice we make.

Being socially responsible means a commitment to continuously improving on-farm food safety and animal care. It means going beyond what is legally required and seeking ways to improve because it's the right thing to do. Our traceability project is an example of leading, rather than following. Should there ever be a food safety issue involving eggs, however unlikely, we want to be able to respond very quickly to address it.



From left to right: Laurent Souigny (EFC Chairman), Frank Pace (IEC Chairman), Tim Lambert (EFC CEO), Paula Panetta (EFC Executive Assistant).

International Egg Commission Marketing and Production Conference

September 13-18, 2009, Vancouver

What's better than a roomful of Canadian egg farmers? How about a room full of egg farmers from around the world! In mid-September, approximately 450 enthusiastic egg farmers and other industry representatives from 35 countries came to Vancouver for the International Egg Commission (IEC) Marketing and Production Conference. The

2009 Conference was a tremendous hit in more ways than one. Not only was it the largest, most financially successful in IEC history, conference delegates furthered their knowledge of egg production, animal care, marketing and nutrition thanks to presentations from a host of excellent speakers.

Being socially responsible also means contributing to society in others ways, too, such as making donations to food banks and to poor nations. I believe that many people would be surprised to learn that our industry contributes powdered egg to many African and Caribbean nations. While we have been doing this for years, we doubled our contribution in 2009. Here at home, every provincial board office contributes fresh eggs to local food banks.

In 2010, we are planning to study the egg industry's carbon footprint. This work will lead to strategies and investments to reduce our impact on the environment. Egg production is already one of the most efficient forms of animal agriculture, but we are committed to doing even better. In addition, our promotional efforts will feature egg farmers, who, through their dedication and hard work, maintain a great deal of credibility in the eyes of Canadians. As our slogan says: Egg Farmers of Canada—dedicated to quality. I'm inspired by the prospects for the future and this overarching strategy that will drive EFC forward for years to come.

In closing, I would like to thank our Chairman, Laurent Souigny, who continues to provide tremendous depth and strength of leadership, and who demonstrates a commitment to this industry that motivates all of us. I would also like to express my appreciation to the Executive Committee and to the Board of Directors for their continued guidance, expertise and support. Above all, I thank them for their trust. Finally, our successful execution of many initiatives this past year is the result of a very strong staff team that I am proud to serve.



Tim Lambert,
Chief Executive Officer, Egg Farmers of Canada



While in Vancouver, delegates experienced Canada's majestic beauty and history, as well as our love for hockey. Among the many highlights were excursions to Grouse Mountain, the Museum of Anthropology at the University of British Columbia, and GM Place—home of the Vancouver Canucks and the site of the IEC's gala banquet. These memorable activities

were made possible by strong support from many key individuals, organizations, and sponsors.

The entire Canadian egg industry is very honoured to help host the annual conference whenever it comes to Canada, which is about once every ten years. Our involvement is also visible in other ways, with CEO Tim Lambert

chairing the IEC animal welfare working group and marketing committee, and serving on the Commission's executive committee. Egg Farmers of Canada has been a proud member of the IEC for 30 years and we look forward to the next IEC Conference in Prague in 2010.



¹Leith Murray, Prince Edward Island ²Stan Fehr, Saskatchewan ³Richard Decelles, Canadian Poultry and Egg Processors Council ⁴Robert Sexty, Consumers' Association of Canada ⁵Marvin Friesen, Canadian Poultry and Egg Processors Council ⁶George MacLeod, New Brunswick ⁷Fred Krahn, British Columbia ⁸Peter Clarke, Nova Scotia ⁹Hubert Schillings, Ontario ¹⁰Serge Lefebvre, Quebec ¹¹Bruce Ramage, Northwest Territories ¹²Kurt Siemens, Manitoba ¹³Mike Vanderpol, Canadian Poultry and Egg Processors Council ¹⁴Joseph R. Smallwood II, Newfoundland and Labrador ¹⁵Ben Waldner, Alberta ¹⁶Laurent Souigny, Chairman ¹⁷Tim Lambert, Chief Executive Officer

Board of Directors



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STRATEGIC OBJECTIVE: Increase the consumption of eggs.



Marketing and Nutrition

One of our primary objectives is to increase the consumption of eggs nationwide and grow our markets. To accomplish this goal, EFC and its provincial partners employ a marketing and nutrition strategy that communicates the right messages to the right segments of the Canadian population at the right times. This strategy is amply supported by our innovative Healthy Energy and Cholesterol Concerned programs, timely retail promotions, targeted consumer research and perfect partnerships—all designed to position Canada Grade A eggs as the most complete breakfast food available.



Above: Kim St-Pierre (left) and Hayley Wickenheiser, Women's Olympic and World hockey champions.

This past year, we are pleased to report that total egg sales at retail increased significantly more than was anticipated. In December, Nielsen sales data showed 4.0% growth year-over-year, eclipsing our 1.5% target and almost matching the 4.1% increase achieved in 2008. While current economic conditions have certainly played a role in increasing consumption, we are confident about the positive impact of our programs and promotions. Ultimately, this achievement would not have been possible without the consistent and concerted work of our entire national and provincial marketing team. In 2009, their work on committees, at workshops and in bringing great ideas to life—whether at the provincial level or nationally—has been essential to our success.

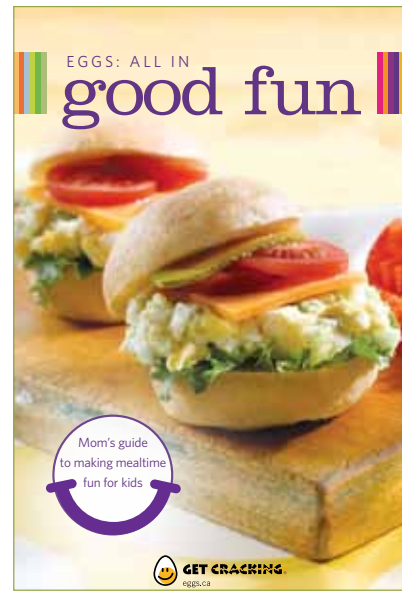
In 2009, we aimed our Healthy Energy strategy at women aged 25 and over to position eggs as a source of rich protein for healthy, active people. In our marketing plan, we developed new television ads to promote the healthy energy message and tap into the excitement building around the Vancouver Olympics. These ads in English and French featured women's Olympic and World hockey champions Hayley Wickenheiser and Kim St-Pierre playing outdoor hockey followed by an egg breakfast. Reaction has been extremely positive, with ad tracking results showing a highest-ever 89% appeal rate among our target of female viewers. EFC relies on television to promote the energy message because it is the greatest source of awareness for eggs and our ads generally enjoy a high level of viewer recall among consumers.

Both Wickenheiser and St-Pierre are going to be the face of a national in-store promotion in early 2010 and will also serve as spokespeople for eggs until the end of the Olympic year.

Meanwhile, at the local level, EFC partnered with Hockey Canada to sponsor 111 hockey tournaments through our popular EGGStreme Hockey program, helping reach 120,000 participants and parents with messages about eggs. At these events, players received Get Cracking® hockey tape, water bottles and pucks. Off the ice, during the spring and summer months, we reached approximately 250,000 Canadians by proudly sponsoring 70 mini-soccer tournaments through our partnership with Soccer Canada.



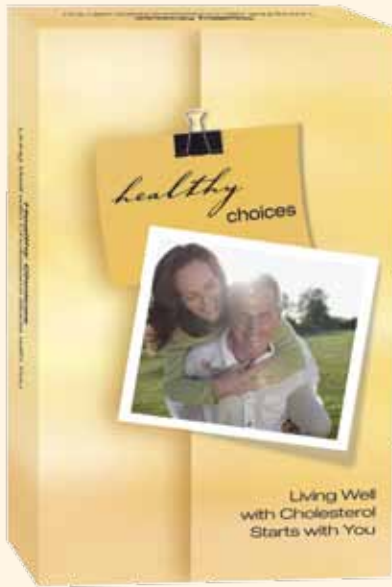
Above: 2009 Canwest Canspell champion Laura Newcombe of Toronto, Ontario with EFC Chief Executive Officer Tim Lambert.



Above: New in 2009, the *EGGS: ALL IN good fun* brochure features six recipes that turn meal times into family fun times with eggs.

While the physical energy eggs provide is generally well understood, we are also targeting mothers with school-age children with the message that eggs provide healthy energy to help students focus on their studies. This is why we helped sponsor the Canwest Canspell National Spelling Bee, an exciting English-language spelling competition held April 16, 2009 at the Museum of Civilization in Gatineau, Quebec for students in grades 4 to 8. Prior to the competition, 22 regional finalists enjoyed a healthy egg breakfast and learned how eating eggs can help improve concentration at school. After 52 gruelling rounds, Laura Newcombe of Toronto emerged as the winner and took home a \$15,000 grand prize from EFC to put toward her studies. Next year, EFC will again sponsor Canspell in addition to La Dictée P.G.L., an international French-language dictation.

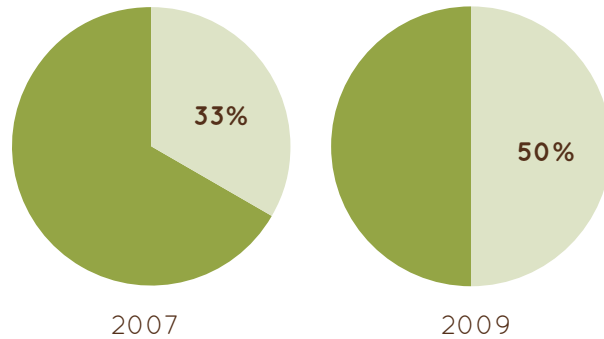
Another major part of the 2009 marketing plan was to access physicians who limit their patients' egg intake. Specifically, we reached out to general practitioners and family physicians to educate them that eating an egg a day is perfectly fine for patients, even those who have been diagnosed with high cholesterol. This messaging is consistent with research published in the last 10 years which reveals little evidence of any connection between egg consumption and cardiovascular disease. To communicate this message, we hired a special physicians' education team to visit about 2,100 physicians across Canada up to four times each. In 2010, we plan to visit 4,800 doctors and are optimistic we will significantly increase the number of doctors who agree that an egg a day is OK!



Above: Issued by doctors to patients newly diagnosed with high cholesterol, the *Healthy Choices* kit illustrates how eggs can be part of a healthy lifestyle.

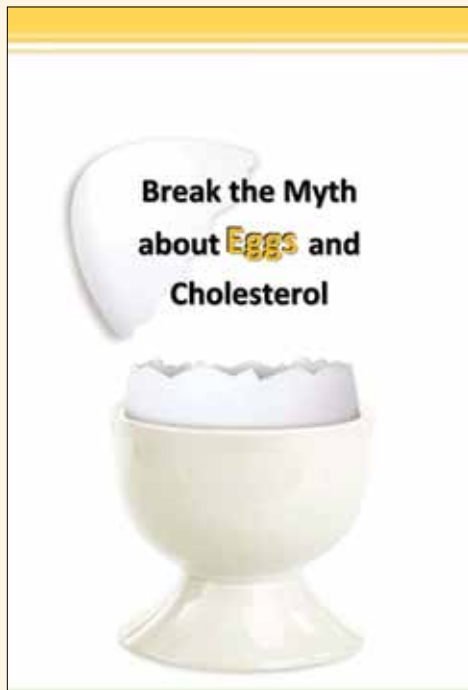
1 out of 2 doctors now believes an egg a day is OK— up from 1 in 3 in 2007.

Are there foods that you previously recommended high cholesterol patients limit or eliminate, but you now feel are acceptable?



EGGS

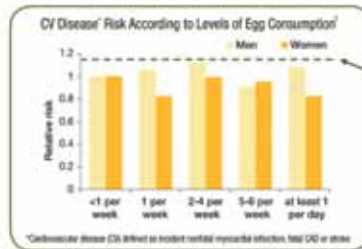
(Source: 2009 EFC Physicians Survey)



Below: We distributed our new *Break the Myth about Eggs and Cholesterol* resource to doctors in 2009 as part of the Physicians' Education Program.

Egg Intake Does Not Increase Risk of Cardiovascular Disease

According to a large (n>100,000) prospective study, the consumption of 1 egg per day does not increase the risk of coronary heart disease and stroke.¹



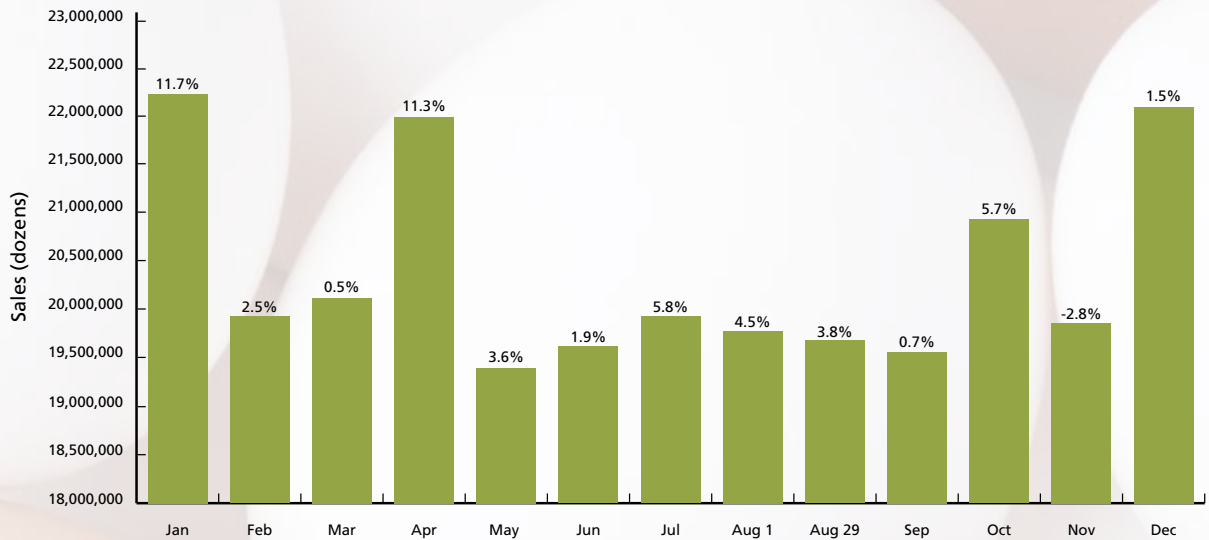
Relative risk did not increase significantly whether egg consumption was < than 1 egg / week or 1 egg / day.

A 2007 study found that eating 7 or more eggs per week does not increase the risk of stroke or coronary artery disease.²

1. Hu FB, Stamper MJ, Brown DR, et al. A prospective study of egg consumption and risk of cardiovascular disease in men and women. *JAMA* 2004;291:1545-54.
2. Sureski A, Suri M, Ahmed S, et al. Regular egg consumption does not increase the risk of stroke and cardiovascular diseases. *Med Sci Monit* 2007; 13(2):CR18.
3. Yusuf WJ, McNamee RB, Tezza MA, Smith EE, Gaziano JA. Plasma lipid and lipoprotein responses to dietary fat and cholesterol: A meta-analysis. *American Journal of Clinical Nutrition* 1997; 65(6):1747-1754.
4. Clarke R, Frost C, Collins R, Appleby P, Parish S. Dietary fat and blood cholesterol: Quantitative meta-analysis of metabolic ward studies. *British Medical Journal* 1997; 314(7074):1123-27.



Total Retail Egg Sales Show Year-over-Year Growth in 12 out of 13 Periods (4-week periods)



Source: Nielsen MarketTrack, Total Eggs-National
4-week periods ending December 19, 2009.

Besides efforts to meet with physicians at their workplaces, EFC also attends various health conferences to reach doctors, dietitians and other health care professionals. In 2009, we attended the Primary Care Today medical conference in Toronto in May, the Family Medicine Forum in Calgary in October as well as the Symposium francophone de la médecine in Montreal, also in October. In addition, EFC convened a panel of doctors in February to review the last decade of research on cardiovascular disease risk and dietary cholesterol. Of note, the panel cited genetics, obesity, and saturated fat and trans-fat intake as primary risk factors—not egg consumption, which was found to be harmless for the vast majority of Canadians. These findings were published in the *International*

Journal of Clinical Practice and will be sent to doctors across Canada in 2010.

Still on the theme of growth, EFC again worked closely with graders to sell more eggs during a time of peak supply. As part of our second national on-carton promotion in February, consumers who purchased specially-marked eggs entered a PIN at eggs.ca for a chance to win a trip for four to Costa Rica. In total, egg sales increased 2.5% over last year's four-week promotion period—all this on top of the 4.7% increase achieved during the 2008 promotion. The next promotion is planned for January 2010 and features an in-store tear-away coupon consumers can mail in with three UPC codes for a chance to win Team Canada Get Cracking® toques, Best Buy gift

cards, and a grand prize trip for four to the 2010 IIHF Men's World Hockey Championship in Germany in May. The promotion is timed to coincide with slowing demand for table eggs that usually follows the holidays.

Along with on-carton and in-store promotions, EFC has also teamed up with the popular Running Room Ltd. fitness chain to promote the twin benefits of healthy eating and exercise. As a result, trainers at its numerous locations across Canada are encouraging aspiring runners and walkers to consume eggs as a healthy source of energy for optimal performance. This past year, our promotional efforts also received a tremendous boost from our association with McDonald's Restaurants of Canada, which uses



GET CRACKING®...

Put your energy to the test with Enter your PIN for a chance to a family adventure in Costa Rica filled with action-packed days of hiking, rafting, kayaking, horseback riding and zip lining.**

ENTER YOUR PIN AT EGGS.CA!

** Activities may vary based on time of year and tours available.

Above: *Play to Win with Eggs!* generated a 2.5% increase in sales during the 4-week promotion period.



fresh Canada Grade A shell eggs in its Egg McMuffin® breakfast sandwich specifically. Eggs played a starring role in a 30-second McDonald's television ad that included the Get Cracking® logo. Further, EFC was invited to promote eggs during a gathering of restaurant managers at McDonald's Western Canada headquarters in Burnaby, British Columbia.

There's no question consumer research continues to play a central role in our short-term and long-term strategies to increase egg consumption. This past year, we held focus groups with consumers to develop and fine-tune our new television ads and spoke with doctors about whether their attitudes toward egg consumption have changed. For our upcoming consumer loyalty

program, we conducted consumer research to understand how to promote Canadian eggs and Canadian egg farmers. Besides qualitative research, EFC also invited 1,000 respondents to complete our annual Usage and Attitudes survey on eggs.

Looking ahead, EFC is working to grow total national retail sales by 1.5% again in 2010. With the full support of our Board of Directors, buy-in from all provinces on the national strategy and another total team effort from staff, this goal is well within reach.



STRATEGIC OBJECTIVE: Ensure the continued viability of an effective supply management system.

International Trade and Government Relations

Supply management is a uniquely Canadian approach to agriculture. For four decades, it has been a fixture of our country's food production landscape, providing egg farmers a fair return, reasonable prices for consumers and stability for rural communities. What makes this possible are import controls, producer pricing and production discipline.

These three pillars make it possible to predict supply and plan for demand. In order to ensure the continued viability of an effective supply management system, these pillars must be maintained.

Achieving this objective required us to maintain close communication with government officials throughout 2009. In doing this, we worked in tandem with our national supply management coalition partners in the dairy, chicken, turkey and broiler hatching egg sectors on various international and domestic

activities. We also maintained a strong presence in Geneva to monitor the Doha Round of negotiations at the World Trade Organization (WTO). Further, we gathered support for supply management among like-minded organizations through our participation in various international events. At home, we hosted our annual breakfast for politicians in May, attended the annual federal-provincial-territorial agriculture ministers' meetings in July and expressed serious concerns over a renewed Agreement on Internal Trade (AIT).



While there was little this past year in the way of progress at the WTO, there is no question a deal is coming. This is why our national supply management coalition (SM-5) maintained a strong presence in Geneva and why we met regularly with government officials, including the Minister of International Trade, Stockwell Day, and the Minister of Agriculture, Gerry Ritz. At these meetings, we offered our unwavering support for the government to achieve a trade deal that results in no negative economic impact for Canadian farmers. It was a message delivered to bureaucrats and to politicians of all stripes. In many instances, we offered our support for the federal government's stated position of no decreases in over-quota tariffs and no increases to minimum market access alongside our national and provincial supply management partners in the dairy and poultry sector.

In Geneva, national SM-5 representatives met with the WTO's

new Agriculture Negotiations Chair, David Walker, shortly after his appointment in April to discuss supply management and the Canadian government's trade position. The SM-5 also met regularly with Canada's new Chief Agriculture Negotiator, Gilles Gauthier, to offer our support and technical expertise. In addition, we met regularly with other WTO member countries to obtain as much information as possible following high-level meetings. With the Doha Round negotiations akin to a giant 153-piece jigsaw puzzle, with a piece for each WTO member, building and maintaining close relations with international partners is a critical part of the information-gathering process.

To broaden support for and understanding of supply management internationally, EFC also worked with a number of like-minded organizations. In June, we were part of an SM-5 delegation that went to Rome for the United Nations World Food Summit.

Egg Farmers Combat Hunger

Egg farmers have long been a steady presence in communities across Canada, contributing in many ways to the local economy. Besides supporting many small businesses in the places where they live, they purchase feed, fuel, fertilizer and new vehicles while confidently employing thousands of Canadians. Yet it's fair to say that the contribution of egg farmers to the community goes well beyond family, local business and their involvement in numerous local organizations.

Every year, egg farmers contribute substantially to domestic and international organizations working to combat hunger. For about two decades running, EFC has partnered with provincial egg boards to deliver fresh eggs to food banks. Following a request from Food Banks Canada this past year, the EFC Board of Directors approved an increase in the amount of eggs supplied to food banks to 5,620 boxes of 15 dozen eggs.

Beyond our borders, egg farmers donate powdered egg to communities in Central America, the Caribbean and Africa. This initiative is made possible by Canadian Food for Children, a program headed by Dr. Andrew Simone. According to Dr. Simone, a box of powdered egg will feed a village for a month. In 2009, EFC doubled its annual donation of dried whole egg to 16 metric tons.

A few months later, in September, Chairman Laurent Souigny and Chief Executive Officer Tim Lambert attended the WTO Symposium in Geneva. That same month, Vice-Chairman Peter Clarke delivered a comprehensive presentation about the merits of supply management to roughly 400 egg industry delegates from around the world at the International Egg Commission conference in Vancouver. In particular, we are heartened by the growing realization that Canada is not alone in voicing serious concern for its sensitive products at the WTO. Many countries are in a similar position. This is why the federal government's continued support for supply management before the world remains critical as member countries move toward a deal.

Needless to say, being close to the action in Geneva is a must. This is why the national SM-5 again employed a full-time WTO-accredited staff person to monitor the talks and file *Geneva Watch* reports. This newsletter was distributed regularly to all national and provincial supply management groups and is always found on the trade section of our website at eggs.ca. To keep up to speed on the latest developments, the national SM-5 also held weekly conference calls. Internally, our Trade Policy Manager provides EFC decision-makers with regular WTO briefings, while a trade report is always included in Tim Lambert's weekly *CEO Update*.

Turning to the home front, we strengthened our unified approach on trade across all provinces and territories in full cooperation with our national supply management partners. EFC staff are active participants on the SM-5 Joint Executive Committee,

the Communications Committee and the Technical Committee. These committees enable us to collaborate on common government relations and communications strategies as well as on technical issues related to trade. In addition, EFC worked closely with the national SM-5 on the *Call for Coherence*, an international declaration illustrating how the current WTO deal contravenes various aspects of international declarations and agreements—an initiative expected to continue in 2010. On a related matter, the SM-5 was extremely pleased when Minister Day stated in October that supply management would not be a bargaining chip in upcoming negotiations over a new trade deal between Canada and the European Union. EFC sincerely thanks Minister Day and Minister Ritz for the federal government's continued public support of our industry.

Meanwhile, national and provincial supply management groups backed by the Canadian Federation of Agriculture were pressing provincial and federal government officials for assurances that supply management would not be negatively affected by a renewed Agreement on Internal Trade. EFC and its SM-5 coalition partners believe strongly that the agreement, which governs interprovincial trade, does not contain the necessary provisions to guard provincial supply management standards from legal challenges. EFC will continue working with its partners to ensure provincial Premiers and Ministers fully understand the need for adequate safeguards for supply management in the AIT.

One of the best opportunities for speaking directly with politicians about supply management is our annual

Parliament Hill Breakfast. EFC hosted its fifth edition of the breakfast on May 6, attracting nearly 50 Members of Parliament and Senators, including the Ministers of Agriculture and Finance. During remarks by EFC Chairman Laurent Souigny and Minister Ritz inside the Parliamentary Restaurant, participants enjoyed omelettes prepared under the supervision of our EFC Directors. For their part, egg farmers relish the opportunity to interact informally with their Members of Parliament and consider the breakfast a highlight of their year. Politicians also appreciate the friendly, casual nature of the event, making it a popular success year after year.

All told, it has been a very productive and involved year on the trade file for EFC. Looking ahead, Egg Farmers of Canada will continue to deliver a consistent message alongside our national supply management coalition partners on the need to maintain a viable, effective supply management sector for future generations of Canadians. With the help of grassroots egg farmers across the country, it's a message politicians can expect to hear loud and clear in 2010.

STRATEGIC OBJECTIVE:

Continue to enhance the Industrial Product Program through continuous improvement, consistency of execution and program integration.



Managing the Industrial Product Program

Egg Farmers of Canada strives to ensure overall industry stability for farmers, processors and consumers through continuous enhancement of the Industrial Product Program (IPP). The IPP exists to ensure customer requirements are satisfied with eggs for processing. From there, eggs are made into value-added products and other items such as powdered egg, cake mix and shampoo.

A significant amount of energy goes into managing this supply of eggs to processors and while this part of the business once made up about 5–10% of annual egg production, recent estimates peg it closer to 30%.

In 2009, EFC made additional progress on efforts to streamline and standardize IPP operating procedures. We refined production planning tools, further standardized the way we handle

grader and processor requests, and are working with graders and processors to enhance our production forecasting ability. As well, we realized significant savings following the implementation of recommendations from a transport study in Atlantic Canada. Perhaps most significantly, a disagreement with Saskatchewan Egg Producers over quota allocation was resolved, putting an end to a long debate at the EFC Board of Directors' table.

Playing a Key Role in Human Vaccine Production

Eggs are already well known for their versatility in the kitchen. But did you know eggs aren't always for eating? Besides their core function as a great source of protein, Canadian eggs play an essential role in the production of our country's seasonal and pandemic influenza vaccines. In fact, there are designated flocks that supply eggs specifically for human vaccine production.

The reason eggs are used in vaccine production is simple: a virus cannot grow in a Petri dish. A virus needs living cells in order to multiply. To prepare the vaccine, fertilized medium and large size eggs are sent to a lab and injected with a special serum containing the virus, followed by an incubation period lasting 15 days. At this stage, the vaccine is extracted, bottled and then



shipped to Health Canada for national distribution.

This past spring, concerns over a global flu pandemic resulting from the person-to-person spread of H1N1 Type A influenza caused a surge in demand for pandemic vaccine in Canada—on top of the usual demand for regular seasonal flu vaccine. Anticipating this need, Canadian egg farmers were

prepared to respond rapidly to the government's request for 50 million doses of pandemic vaccine. Consequently, EFC added laying hens to the national vaccine hen inventory to meet the demand. Looking back, this was a good example of supply management responding quickly to ensure that each and every Canadian would have access to influenza vaccine.

At the Annual General Meeting in March 2009, the EFC Board unanimously supported a new quota allocation agreement providing Saskatchewan with 4.76% of any national quota increase. The agreement came at a time of outstanding growth for our industry in retail egg sales. With this new deal in place, the Board approved a quota increase in March of 378,393 layers and an additional 7,046 layers in September to meet increased demand. Now that all provinces are in agreement over allocation and levy, requirements for 2010 were unanimously approved by

the Board of Directors in November. It is worth noting that our ability to resolve this issue as a Board showed egg farmers throughout Canada are willing and able to work together to preserve an orderly market. Going forward, the Board can focus its full attention and resources on other key strategic issues affecting the national egg supply.

One of these issues is supply chain efficiency. We achieved success this past year after implementing recommendations from our Atlantic Canada transport study. Two companies are under contract in the region and

EFC realized significant savings last year by identifying more efficient transportation routes. In 2010, we will be conducting a study of routes in Western Canada to identify potential efficiencies and cost savings. As part of a supply chain working group of processors and graders chaired by EFC, we will also be re-examining supply chain efficiency in the Atlantic region to identify additional areas for improvement.

Our work on supply chain efficiency is complemented by an effective production management system.

VACCINE QUOTA ALLOCATION (LAYERS)

| PROVINCE | 2010 ALLOCATION | 2009 ALLOCATION DEC 28/08 TO DEC 26/09 | 2008 ALLOCATION JUNE 29/08 TO DEC 27/08 | 2008 ALLOCATION DEC 30/07 TO JUNE 28/08 |
|--------------|-----------------|---|--|--|
| ON | 127,000 | 211,000 | 211,000 | 200,783 |
| QC | 349,200 | 562,100 | 562,100 | 522,720 |
| NB | 0 | 56,500 | 56,500 | 60,000 |
| TOTAL | 476,200 | 829,600 | 829,600 | 783,503 |

NUMBER OF VACCINE QUOTA HOLDERS PER PROVINCE*

| PROVINCE | 2009 | 2008 |
|--------------|----------|----------|
| ON | 2 | 2 |
| QC | 5 | 6 |
| NB | 0 | 1 |
| TOTAL | 7 | 9 |

*1 US producer in 2008 and 2009.

VACCINE EGGS TO IP POOL

| PROVINCE | 2009 | 2008 |
|--------------|----------------|----------------|
| ON | 80,955 | 101,221 |
| QC | 210,040 | 287,721 |
| TOTAL | 290,995 | 388,942 |

Data in boxes of 15 dozen.

Building on the work of the National Egg Supply Team (NEST), we now have the National Production Management Program and its suite of projects: Early Fowl Removal (EFR), Quota Credits and Flock Placement. The goal is to have all three working in harmony to match supply with demand. The first two have been successfully completed, while work on the longer-term Flock Placement project remains ongoing.

This past year, we updated the EFR policy in July to better suit the supply and demand situation in Canada and allow for more flexibility. The program has not been used in recent years because hens are needed to meet the increased demand for eggs in both the table and IP markets; it will be available, however, should the need arise in the future. We also revised the Quota Credits policy so that credits can

be applied any time over the course of the year, rather than at specific times. This is significant because farmers wishing to refurbish their lay facility to observe current animal care and food safety guidelines can now do so with more flexibility, as long as the change in production does not negatively impact supply. The Board approved the updated policy in November.

Regarding flock placement, EFC is continuing to establish a program to reduce seasonal fluctuations in supply and demand. Ultimately, the goal is to determine in advance where hens should be placed to satisfy demand. This past year, we identified all variables in egg production. In short, we are attempting to determine demand over a two-year period, taking into account that production needs to meet seasonal demand.

Throughout 2009, EFC's Chief Operations Officer ensured continuity in the IPP by improving and integrating existing policies and programs. As part of these efforts, EFC conducted a thorough review of Standard Operations Procedures (SOPs) and process maps across the Operations Department and tightened these where appropriate. SOPs ensure the consistency of key functions like breaker requests for industrial product and provincial IP declarations.

For example, the Business Development Unit (BDU) established SOPs and a log where issues are identified, shared and mitigated. Meanwhile, the IPP Unit has managed a nest-run weight project in Atlantic Canada which is designed to streamline how nest-run weights are accounted for. Equally important, we standardized all policy and guideline documents across the



Operations Department to ensure a common look and feel, clearly outlining areas of responsibility and authority. As a result, stakeholders can be confident that EFC programs are delivered in a consistent manner across the country. With regard to third-party verification at processing plants, we are currently transitioning from manual to digital verification in order to standardize reporting and decrease the potential for error. Not least, our field inspectors are more involved than ever in the supply chain, in addition to their usual on-farm duties.

In terms of imports, EFC worked this past year to measure the effect of over-access imports on the national egg supply. These are imports which exceed Canada's minimum market access commitment of 5% of national consumption and thus require payment of an over-quota tariff. To monitor these as well as supplementary imports brought in at a zero tariff to bridge occasional gaps in domestic supply, we established SOPs and a special database to carefully track imports. Starting next year, EFC staff will prepare quarterly import reports based on this and other internal and external data. These reports will make forecasting supply

and demand more of an exact science and could potentially help realize some cost savings.

In conclusion, we are confident that changes implemented to this point are yielding significant positive benefits for the entire industry. In large part, this success is due to thorough stakeholder consultations and dedicated staff. Looking forward, EFC will continue working with its partners to enhance the Industrial Product Program through a process of perpetual improvement, consistent execution and program integration.

FEDERAL QUOTA ALLOCATION (DOZENS)

| PROVINCE | 2010 ALLOCATION | 2009 ALLOCATION | 2008 ALLOCATION |
|--------------|--------------------|--------------------|--------------------|
| BC | 67,736,019 | 66,692,583 | 66,213,800 |
| AB | 48,808,984 | 47,402,326 | 46,820,109 |
| NT | 2,935,459 | 2,908,211 | 2,896,491 |
| SK | 24,978,136 | 24,519,658 | 24,428,395 |
| MB | 59,122,208 | 58,594,170 | 58,366,811 |
| ON | 206,982,295 | 204,471,972 | 203,397,677 |
| QC | 101,547,319 | 98,337,562 | 96,886,293 |
| NB | 11,516,963 | 11,361,660 | 11,288,839 |
| NS | 20,288,181 | 20,108,513 | 20,031,119 |
| PE | 3,359,037 | 3,328,852 | 3,315,857 |
| NL | 8,996,923 | 8,913,934 | 8,878,198 |
| TOTAL | 556,271,524 | 546,639,441 | 542,523,590 |

EGGS FOR PROCESSING (EFP) QUOTA (DOZENS)

| PROVINCE | 2010 ALLOCATION | 2009 ALLOCATION | 2008 ALLOCATION |
|--------------|-------------------|-------------------|-------------------|
| BC | 2,499,000 | 2,499,000 | 2,499,000 |
| AB | 624,750 | 624,750 | 624,750 |
| NT | 0 | 0 | 0 |
| SK | 4,998,000 | 4,998,000 | 4,998,000 |
| MB | 9,996,000 | 9,996,000 | 9,996,000 |
| ON | 17,493,000 | 17,493,000 | 17,493,000 |
| QC | 2,499,000 | 2,499,000 | 2,499,000 |
| NB | 0 | 0 | 0 |
| NS | 0 | 0 | 0 |
| PE | 0 | 0 | 0 |
| NL | 0 | 0 | 0 |
| TOTAL | 38,109,750 | 38,109,750 | 38,109,750 |

NUMBER OF REGISTERED PRODUCERS PER PROVINCE

| PROVINCE | 2009 | 2008 | 2007 |
|---------------|--------------|--------------|--------------|
| BC | 131 | 132 | 128 |
| AB | 158 | 168 | 167 |
| SK | 62 | 64 | 64 |
| MB | 157 | 158 | 168 |
| ON | 344 | 346 | 351 |
| QC | 108 | 106 | 104 |
| NB | 15 | 16 | 17 |
| NS | 22 | 22 | 23 |
| PE | 10 | 11 | 11 |
| NL | 7 | 8 | 11 |
| NT | 1 | 1 | 1 |
| CANADA | 1,015 | 1,032 | 1,045 |

Reported data as of December 31, 2009.

AVERAGE NUMBER OF LAYERS PER PRODUCER

| PROVINCE | 2009 | 2008 | 2007 |
|---------------|---------------|---------------|---------------|
| BC | 18,065 | 17,799 | 18,112 |
| AB | 10,641 | 9,851 | 9,794 |
| SK | 14,118 | 13,484 | 13,385 |
| MB | 13,770 | 13,549 | 12,681 |
| ON | 21,394 | 21,123 | 20,868 |
| QC | 35,945 | 32,528 | 33,517 |
| NB | 27,790 | 25,856 | 24,586 |
| NS | 33,142 | 32,806 | 31,447 |
| PE | 12,163 | 11,219 | 11,302 |
| NL | 47,662 | 42,909 | 30,802 |
| NT | 0 | 0 | 75,884 |
| CANADA | 19,287 | 18,766 | 18,595 |

Audited data for 2007 and 2008. Reported data for 2009.
Excludes inventory for EFP, Stand Down, Special Permits, and Early Fowl Removal.

2009 INTERPROVINCIAL MOVEMENT OF EGGS

| SELLERS | BUYERS | | | | | | | | | | | | | TOTAL SALES |
|------------------------|---------------|----------------|------------------|---------------|----------------|---------------|------------|----------------|----------------|----------------|----------------|---------------|---------------|------------------|
| | YT | BC | AB | NT | SK | MB | NU | ON | QC | NB | NS | PE | NL | |
| YT | - | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| BC | 0 | - | 1,380 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,380 |
| AB | 28,005 | 216,291 | - | 37,627 | 47,225 | 24,451 | 164 | 0 | 0 | 0 | 0 | 0 | 0 | 353,763 |
| NT | 0 | 0 | 0 | - | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| SK | 0 | 1,405 | 439,133 | 613 | - | 7,847 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 448,998 |
| MB | 0 | 212,242 | 957,604 | 0 | 136,142 | - | 2 | 159,405 | 0 | 0 | 0 | 0 | 0 | 1,465,395 |
| NU | 0 | 0 | 0 | 0 | 0 | 0 | - | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ON | 0 | 0 | 0 | 0 | 143 | 35,582 | 0 | - | 462,521 | 0 | 2,220 | 0 | 0 | 500,466 |
| QC | 0 | 0 | 780 | 0 | 0 | 1,976 | 0 | 279,272 | - | 39,747 | 37,700 | 0 | 1,971 | 361,446 |
| NB | 0 | 0 | 160 | 0 | 0 | 0 | 0 | 2,376 | 4,563 | - | 282,520 | 816 | 2,835 | 293,270 |
| NS | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 367,747 | - | 11,963 | 22,698 | 402,408 |
| PE | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 120 | 0 | - | 0 | 120 |
| NL | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 419 | 0 | 0 | - | 419 |
| TOTAL PURCHASES | 28,005 | 429,938 | 1,399,057 | 38,240 | 183,510 | 69,856 | 166 | 441,053 | 467,084 | 408,033 | 322,440 | 12,779 | 27,504 | 3,827,665 |

Data in boxes of 15 dozen.
EFC table movement included.
Subject to revision.

STRATEGIC OBJECTIVE:

Mitigate risks posed by current and emerging issues associated with food-borne illness, poultry diseases and the environment while positioning national egg supply management as the ideal system to manage a broad range of risks.

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Managing Risk

Every day, this country's 1,015 regulated egg farmers are trusted to protect their flocks from disease while producing safe, fresh, and nutritious eggs for all Canadians. It's a significant responsibility which egg farmers from coast to coast take very seriously.

Of note this past year, we made significant progress in securing adequate compensation for farmers whose flocks are ordered destroyed by government in the rare event of disease, such as avian influenza (AI). In addition, we made headway on a new national insurance program for egg farmers and pullet producers. Not least, EFC began concept trials to help establish a set of national egg traceability standards that will make it possible to trace eggs and hens up and down the supply chain—from the farm right to your table.

In 2009, Egg Farmers of Canada worked closely with the Minister of Agriculture and Agri-Food, the Honourable Gerry Ritz, to request a review of the maximum compensation available to egg farmers under the *Health of Animals Act* (HAA) should

their hens be destroyed by government due to disease. Subsequently, EFC staff have worked closely with Canadian Food Inspection Agency (CFIA) representatives and in December we were pleased to receive a letter from the Minister outlining his view that the current \$8 per hen maximum available through the HAA is inadequate. With the government's mandatory notifiable national avian influenza surveillance program for commercial poultry in full swing, a fair solution is needed urgently. EFC thanks Minister Ritz for the continued significant attention he is devoting to this issue.

Regarding on-farm food safety, Egg Farmers of Canada is proud of its ability to safeguard Canada's egg supply. Following the introduction of one of Canada's first HACCP-based on-farm food safety programs in 1990,



Start Clean-Stay Clean™-layer was later recognized as technically sound by CFIA and is today regarded as a world-leading program for mitigating hazards in egg production. HACCP is a preventative approach for mitigating risk in food production by identifying hazards. In keeping with our culture of continuous improvement, EFC conducted a gap analysis of SC-SC-layer this past year by comparing it with existing international food safety programs. We also attended the federal government's Avian Biosecurity Advisory Council meetings to determine how new voluntary national biosecurity standards for poultry could impact our own food safety program. As well, the Business Development Unit (BDU) undertook a complete point-by-point review and comparison of new American food safety regulations upon their coming

into effect this past June. In 2010, EFC Field Inspectors will change the way SC-SC-layer data is captured on-farm using new hand-held tablet computers. Our on-farm food safety and biosecurity efforts are complemented by Start Clean-Stay Clean™-pullet, a biosecurity and hygiene program centered on the various aspects of pullet production in Canada.

A very real concern for egg farmers is the need for financial protection in the rare event *Salmonella enteritidis* (Se) is detected in their flocks. This is why a task team made up of EFC staff, provincial board general managers and pullet industry representatives are working to establish a new Se reciprocal insurance program for egg farmers and pullet producers. Under the existing EFC compensation program, coverage exists for egg farmers if lay facilities are

Strengthening Confidence in Canadian Eggs Through Traceability

Since Canada's federal, provincial and territorial agriculture ministers first called for a national traceability system for poultry and livestock in 2006, Egg Farmers of Canada has been working closely with government and industry partners to fulfill this mandate. As part of this new national traceability system, food safety and human health will be significantly enhanced through premises identification and animal identification as well as the ability to track animal movement.

To further strengthen stakeholder confidence in Canadian eggs, EFC is going a step further: egg traceability. In the unlikely event eggs are suspected of contributing to a human health emergency, it would be possible to trace product in a timely manner to minimize risk to the public. This past year, we spearheaded a concept trial with two graders in Atlantic Canada to stamp a unique identification code directly onto the egg. Our goal is to have a full set of national standards in place for tracking Canadian eggs by 2012.

tested in the last ten weeks of lay. Under the new program, it will be possible to test facilities more frequently as well as pullet barns, which would be tested on an annual basis.

To further strengthen trust in Canadian eggs, EFC is currently engaged in a process to establish a set of national egg and hen traceability standards. In 2009, the BDU made considerable progress toward this goal. As part of our work on egg traceability this year, two graders in Atlantic Canada participated in a traceability concept trial printing eggs with a unique producer code. These eggs could then be traced up and down the supply chain. With these initial steps completed, two graders in Western Canada will participate in the second stage of the concept trial in 2010. By 2012, EFC's national egg and hen traceability standards are expected to be in place.

Granted, the creation of such a system cannot occur in a vacuum. National egg traceability standards must also take into account principles outlined by the Industry-Government Advisory Committee (IGAC), a body established by federal-provincial-territorial agriculture ministers in 2006 to lead the development and implementation of a national traceability system for poultry and livestock. IGAC's 15 government and 20 industry members are building a system that will incorporate various functions, including premises identification, animal identification and animal movement. In 2009, EFC staff and George MacLeod, our

producer representative from New Brunswick, attended IGAC meetings to determine how the national traceability system for poultry might impact the development of EFC's own egg and hen traceability program. As we develop egg and hen traceability for our industry, we are studying successful traceability systems in Europe and working to stay ahead of the curve with respect to the government's own traceability requirements for poultry.

No matter how much excellent work is done to keep our flocks healthy and produce safe food, there is no such thing as zero risk. Consequently, it is important for EFC and its provincial board partners to prepare for emergencies. To this end, EFC provided media training in 2009 to Nova Scotia's Emergency Response Team, whose members would be on the front lines of media inquiries in the event of an emergency or crisis situation involving poultry in that province. In addition, EFC regularly updates its internal protocols for handling emergencies such as we did in 2009 for avian influenza and Influenza A (H1N1).

In addition to our work on compensation, food safety and insurance, we have instituted a formal process by which risks with the potential to prevent EFC from achieving business plan objectives are identified. This requires us to rank risks, establish tolerance scales, identify triggers and develop mitigation strategies to head off each of these identified risks. Risk

identification and management is part of the annual planning cycle and is critical to our ability to achieve our objectives as an organization. In line with our commitment to continuous improvement as a national industry, EFC will continue to advance projects such as these to help strengthen confidence in Canadian eggs and egg farmers.



STRATEGIC OBJECTIVE:

Promote and gain broad acceptance for the science-based production of Canadian egg farmers.

Managing Issues

Generally speaking, Canadians today are more removed than ever before from farming and agriculture. Most live in cities and towns, away from the farms and families who produce our food. As a consequence, obtaining widespread public acceptance for on-farm science-based production practices is an increasing challenge for those who make their living from the land. This holds especially true for those who raise animals for food production, including egg farmers.

In 2009, EFC actively sought opportunities to speak with various audiences about production practices and the values egg farmers hold dear. For instance, we organized educational workshops for retailers, foodservice professionals and a large foodservice company. To complement these activities, we developed print and online resources aimed at answering common questions about egg production. Meanwhile, EFC studied various types of alternative hen housing, took part in discussions to develop new Canadian standards for organic poultry and strengthened ties with several international agriculture organizations. Perhaps most significantly, EFC has begun to explore the concept of

Corporate Social Responsibility (CSR), a values-based approach to business that is helping us determine and better communicate our principles to Canadians.

While farmers understand the need to show they are good at what they do, it is also necessary to show they care. This is why EFC has begun a journey that has the potential to positively impact every aspect of our business. As one part of our work on CSR, we are seeking to convey the value of Canadian-grown food. In buying Canadian eggs, consumers are supporting local farmers who care about their animals, the environment and the greater good of the communities





An egg farmers's breakfast every morning comes from the same hens that lay

in which they live. In 2009, we began a number of short- and longer-term CSR projects, including an egg industry carbon footprint study, a national egg traceability system to further strengthen trust in eggs as well as consumer research for a Canadian egg loyalty campaign. We also developed a communications plan incorporating ideas from the national-provincial Communications Committee, which helped lay the groundwork for farmer CSR awareness sessions to promote leadership and good citizenship. Next, to ensure our communications are relevant and are having the desired effect with various audiences, we reviewed public messages to gauge the strength of their emotional impact. Finally, we expanded our photo and video archives to assist with efforts to bolster the image of egg farmers.

On the subject of animal care, EFC made additional progress this past year on our goal of attaining compliance on Animal Care Program cage density guidelines. Specifically, EFC Field Inspectors worked closely with farmers to address any shortfalls or impediments to achieving a passing score. To support these efforts, inspectors reviewed key aspects of the program at their annual workshop to ensure delivery remains consistent across the country. They also trained

provincial field staff in Ontario and British Columbia to ensure that delivery of national on-farm food safety programs remains consistent with national standards. Finally, EFC welcomed two new Field Inspectors in Saskatchewan and Eastern Ontario-Southern Quebec to our national team.

Regarding specialty egg production, EFC completed a report documenting the various alternative hen housing practices currently found in Canada. Of note, these findings could inform upcoming efforts to revise the Animal Care Program to include guidelines and best practices for free-run, free-range, aviary and colony cage housing. During on-farm visits in 2010, field inspectors will use their new handheld tablet computers to obtain more information about alternative housing and specialty egg production on Canadian egg farms.

As indicated earlier, EFC has been conducting outreach efforts with a number of important food industry stakeholders in order to provide them with factual, scientifically accurate information about egg production. In 2009, we directly engaged representatives of major Canadian retailers and foodservice companies through a series of workshops that included farm tours, marketing and nutrition presentations, science-based

information sessions by poultry experts and more. We feel we are making significant headway in our efforts to inform important decision-makers about the industry. These workshops for food industry stakeholders have been overwhelmingly positive experiences for all involved. In particular, our farm tours make it possible for accomplished chefs and business operators to meet an egg farmer for the first time.

To support these and other outreach efforts this past year, we developed a number of communications products on animal care and the egg industry. Perhaps most common were full-page fact sheets distributed to foodservice companies as well as to politicians at EFC's annual Parliament Hill Breakfast in May. In collaboration with our provincial boards, we also developed a fact sheet about raising hens in an urban environment to help municipal politicians and consumers better understand the issue. Besides these initiatives, we added fresh footage to our *From the Farm to Your Table* video series at eggs.ca and crafted messages to support the egg traceability concept trials in Nova Scotia and New Brunswick. In 2010, we are planning to produce a new resource on supply management.



millions of eggs for Canadian families—a very powerful connection that unites.

To further support our work on animal care, EFC works collaboratively with domestic and international partner organizations. In 2009, we held a conference call with Canada's five provincial Farm Animal Council (FAC) groups to provide an overview of our communications activities and seek feedback. The FACs, which are established in Ontario, Manitoba, Saskatchewan, Alberta and now British Columbia, offer a valuable service educating Canadians about egg production and agriculture issues in general. In the international realm, EFC continues to strengthen ties with the Inter-American Committee on Avian Health (CISA), which consists of government and poultry industry representatives from throughout the Americas working together to propose new guidelines for World Organization for Animal Health (OIE) consideration. We also attended the OIE conference in Paris as a representative of Canada's National Poultry Group, made up of turkey, chicken and egg farmer organizations. This meeting provided insight into OIE's framework and showed how much Canada is respected for the work we have done to help prepare for a worldwide animal health emergency.

With respect to organic agriculture, EFC has been involved in a consultations process with government and non-governmental organizations to help develop Canadian organic standards. In 2009, EFC managed to secure a voting position on the committee reviewing organic standards as well as representation on a special task force for organic poultry. Prior to these developments, regulated farmers producing organic eggs under supply management were not able to be part of the discussion. As a result, the committee agreed with our view that outdoor access for organic poultry be restricted during emergencies and during wild bird migration periods. It was also agreed that access to waterways be limited given that such a practice may encourage the spread of avian influenza. In addition, the committee voted in favour of EFC's position that organically-raised hens may receive a one-time treatment of a parasiticide. Meanwhile, to broaden our knowledge of organic poultry in 2009, the Field Operations Unit conducted a study to compare North American certification bodies. In 2010, we will further refine our position on organic standards as they relate to poultry and strengthen relationships with others involved in this process.

Research continues to be an area of significant investment for egg farmers. EFC maintains a special Research Committee to provide funding to researchers who have an impact on eggs. Committee members review the EFC business plan to ensure that the research proposals they select are consistent with achieving business plan objectives. As well, EFC continues to be a member of the Canadian Poultry Research Council. This very important national body is significant because of the funding it provides researchers for primary scientific research.

There's no question egg farmers are passionate about producing a nutritious food source for Canadians; they are equally passionate about caring for the environment, the hens under their care and their community. These are qualities that shine through and, as such, we are increasingly optimistic about our efforts to strengthen trust between egg farmers and Canadians. It's worth remembering that an egg farmer's breakfast every morning comes from the same hens that lay eggs for millions of Canadian families—a very powerful connection that unites.



Governance

Supporting all our activities at Egg Farmers of Canada are governance principles and processes that bring the Board of Director's vision for the Canadian egg industry to life. Making this possible is our ongoing commitment to enhancing our annual planning cycle as well as a strong connection between Board goals and individual unit work plans. As a direct consequence, we are seeing positive results across the organization.

This past year, we provided governance training to directors, held an annual Board visioning session and conducted a strategic audit to document the past year's achievements and ongoing challenges. Furthermore, we carried out all staff performance reviews concurrently using a new tool, finalized a business continuity plan and made significant progress toward housing key industry data in a single location. As well, EFC began preparations for a new Cost of Production survey and implemented zero-based budgeting to plan for expenses and contingencies in 2010.

Egg Farmers of Canada's annual planning cycle consists of a number of key components supported by policy development and review processes that reinforce one another and drive EFC's business planning. This work is critical

since the strategic direction established by the Board is used to align all EFC staff work priorities. All resources, be they people or financial, are organized and focused upon goals as determined by the Board of Directors.

In February, the Board of Directors held its visioning session, a full-day workshop setting the stage for business planning in the coming year. Immediately prior to this session, provincial board chairs and general managers spent a full day together discussing key issues affecting the industry.

Three months later, directors participated in a one-day information session designed to strengthen knowledge of governance best practices, trends and principles. The goal of governance training is to ensure that

directors understand their roles and responsibilities as members of the Board. A follow-up session is planned for May 2010, while governance training for staff is expected to be offered shortly afterward. Meanwhile, lessons learned from the visioning session and captured in a follow-up questionnaire to directors produced the *Strategic Insights* report. This report, in turn, guided the development of the 2010–2013 Strategic Plan, which was tabled at the summer producer meeting in New Brunswick. The Business Plan, which includes the 2010 budget, received final Board approval in November.

That same month, EFC commenced a simultaneous performance review of all employees. As part of this process, staff identified personal achievements and updated their job descriptions to

clarify roles and responsibilities. Using a new performance management tool, staff determined personal goals for the coming year to ensure synergy with Board objectives and contributed ideas for personal training and development. Also in November, preparations began in earnest to write the annual report and carry out a strategic audit of the year's achievements and ongoing challenges. To complete the annual planning cycle, the strategic audit was scheduled for presentation to the Board of Directors at the February 2010 Board visioning session. Looking ahead, EFC will continue to fine-tune the annual planning cycle as required.

With a strong set of governance and business planning processes in place, EFC carried out a number of important internal activities in 2009 with confidence. Foremost, we hired



the Thomsen Corporation to conduct a new Cost of Production (COP) Survey in 2010, based on 2009 data. Together with production discipline and import controls, producer pricing is a fundamental pillar of supply management because it ensures a fair return to farmers on their labour and investment. Beginning in March, the Thomsen Corporation will compile a statistically valid sample of input costs from more than 100 regulated egg farmers to determine the cost to produce a dozen eggs. Input costs include electricity, repairs, fuel, feed, pullets and more. In 2011, updated national rate of lay and production costs will form the basis of our monthly COP calculations. The COP survey is carried out every five years and relies above all on farmer participation to be successful.

Still looking broadly across the industry, we are continuing efforts to reopen formal discussions with the provinces over a new Federal Provincial Agreement (FPA). The original FPA, which describes federal, provincial and producer roles in the Canadian egg industry, has served us well since 1976 but requires modernization. This past year, we began informal consultations with several provincial supervisory boards while the federal Farm Products Council of Canada continues to be supportive. For now, reopening these discussions remains a work in progress.

Regarding the new building, the move to Florence Street has been a huge success for EFC. As owners, we continue to realize significant savings in occupancy costs. Equally important, we are taking advantage of opportunities

In order to support the organization's numerous communication, data storage and computing requirements, EFC's Information Services (IS) Unit is constructing a secure network infrastructure designed to improve office productivity. In 2009, we made significant progress on our goal of making all business data accessible from a single database or data "warehouse". Specifically, a prototype was developed to draw data from the Egg Information Management System (EIMS), the Industrial Product Program Unit and the Finance Unit. When fully operational, the data warehouse will connect employees to business information, resulting in more effective and timely decisions. In addition, we continue to provide security awareness messages to staff related to network vulnerabilities.

In 2009, we also witnessed the further evolution of Web-based technology to improve staff collaboration and information exchange. With the deployment of this platform nearly complete, we will be adding functionality in 2010 to further enhance collaboration and reduce e-mail dependency. As well this past year, the IS Unit continued to replace obsolete computers with new environmentally friendly technology.

to work closely with our agriculture partners and building co-owners: Dairy Farmers of Canada, the Canadian Federation of Agriculture and Canadian Hatching Egg Producers. Our new name, meanwhile, continues to yield dividends as it better describes who we are and what we do. In a related matter, EFC finalized a contingency plan that will ensure staff can work remotely in case an emergency prevents access to our building.

For the first time, managers used zero-based budgeting principles to better anticipate expenses in the 2010 Budget. Zero-based budgeting is expected to produce more accurate reporting, predictions and expense tracking and will likely be used again for future annual budgets.

Supported by robust business planning, appropriate governance principles, talented staff and efficient technology, our culture of continuous improvement is helping make EFC into one of the country's leading agriculture organizations—a point of pride for egg farmers today and a great source of inspiration for the next generation.

To the Members of the
Canadian Egg Marketing Agency
c.o.b. Egg Farmers of Canada

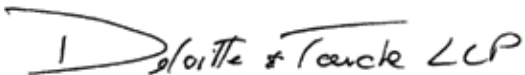
Deloitte & Touche LLP
800 - 100 Queen Street
Ottawa, ON K1P 5T8
Canada

Tel: (613) 236-2442
Fax: (613) 236-2195
www.deloitte.ca

We have audited the statement of financial position of the Canadian Egg Marketing Agency c.o.b. Egg Farmers of Canada ("EFC") as at December 26, 2009 and the statements of operations, changes in fund balances and of cash flows for the fifty-two week period then ended. These financial statements are the responsibility of EFC's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of EFC as at December 26, 2009 and the results of its operations and its cash flows for the fifty-two week period then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants

January 29, 2010

Statement of Financial Position

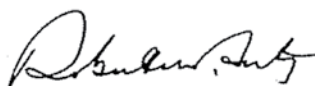
as at December 26, 2009
(in thousands of dollars)

| | Pooled Income Fund | Administration Fund | 2009 | 2008 |
|--|--------------------|---------------------|-----------|-----------|
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | \$ 9,558 | \$ 4,207 | \$ 13,765 | \$ 35,370 |
| Accounts receivable (Note 5) | 8,945 | 1,375 | 10,320 | 14,027 |
| Inventory | 244 | — | 244 | 220 |
| Prepaid expenses | 13 | 280 | 293 | 279 |
| Investments (Note 6) | 28,886 | — | 28,886 | 35,494 |
| | 47,646 | 5,862 | 53,508 | 85,390 |
| RESTRICTED INVESTMENTS (Note 7) | 3,234 | — | 3,234 | 3,538 |
| INVESTMENTS (Note 6) | 7,602 | — | 7,602 | — |
| CAPITAL ASSETS (Note 8) | 36 | 5,448 | 5,484 | 5,428 |
| INTANGIBLE ASSETS (Note 8) | — | 290 | 290 | 328 |
| | \$ 58,518 | \$ 11,600 | \$ 70,118 | \$ 94,684 |
| CURRENT LIABILITIES | | | | |
| Accounts payable and accrued liabilities | \$ 10,816 | \$ 2,111 | \$ 12,927 | \$ 11,720 |
| Short-term portion of long-term loan (Note 9) | — | 62 | 62 | 59 |
| | 10,816 | 2,173 | 12,989 | 11,779 |
| LONG TERM LOAN (Note 9) | — | 2,776 | 2,776 | 2,838 |
| | 10,816 | 4,949 | 15,765 | 14,617 |
| COMMITMENTS AND CONTINGENT LIABILITIES (Notes 14 and 15) | | | | |
| FUND BALANCES | | | | |
| Internally restricted (Note 10) | 13,263 | 4,478 | 17,741 | 11,734 |
| Unrestricted | 34,439 | 2,173 | 36,612 | 68,333 |
| | 47,702 | 6,651 | 54,353 | 80,067 |
| | \$ 58,518 | \$ 11,600 | \$ 70,118 | \$ 94,684 |

APPROVED BY THE BOARD



Chairman of the Board of Directors



Chairman of the Audit Committee

The accompanying notes form an integral part of these financial statements.

Statement of Operations

for the fifty-two week period ended December 26, 2009
(in thousands of dollars)

| | Pooled Income Fund | Administration Fund | 2009 | 2008 |
|---|--------------------|---------------------|-------------|-----------|
| REVENUE | | | | |
| Egg sales | \$ 56,735 | \$ — | \$ 56,735 | \$ 94,263 |
| Levy, service fees and contributions | 87,051 | 16,600 | 103,651 | 135,100 |
| Interest and other income | 1,304 | 215 | 1,519 | 1,638 |
| Other income — restricted (Note 10) | 149 | 38 | 187 | 361 |
| | 145,239 | 16,853 | 162,092 | 231,362 |
| EXPENSES | | | | |
| Trade operations: | | | | |
| Egg purchases | 161,740 | — | 161,740 | 176,009 |
| Transportation and handling | 4,490 | — | 4,490 | 5,514 |
| Food safety program | 116 | — | 116 | 123 |
| Third party verification | 1,215 | — | 1,215 | 1,223 |
| Other | 37 | — | 37 | 44 |
| | 167,598 | — | 167,598 | 182,913 |
| Advertising and promotion | — | 8,711 | 8,711 | 7,884 |
| Salaries and benefits (Note 12) | — | 4,117 | 4,117 | 4,235 |
| Professional fees and consulting | 546 | 1,035 | 1,581 | 1,952 |
| Meetings and travel | 5 | 1,520 | 1,525 | 1,660 |
| Public affairs and communications | — | 949 | 949 | 1,138 |
| Office and other administrative | — | 941 | 941 | 897 |
| Marketing and nutrition research | — | 483 | 483 | 889 |
| Rent | — | 12 | 12 | 377 |
| Per diems | — | 541 | 541 | 547 |
| Donations | 170 | — | 170 | 183 |
| Restricted expenses (Note 10) | 11 | 561 | 572 | 1,961 |
| Interest on long-term loan | — | 163 | 163 | 65 |
| Amortization of capital assets | 17 | 307 | 324 | 183 |
| Amortization of intangible assets | — | 38 | 38 | 17 |
| Uncollected levy, service fees and contributions | 72 | 9 | 81 | (458) |
| Transfer of administration expenses (Note 11) | 2,258 | (2,258) | — | — |
| | 3,079 | 17,129 | 20,208 | 21,530 |
| TOTAL EXPENSES | 170,677 | 17,129 | 187,806 | 204,443 |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES | \$ (25,438) | \$ (276) | \$ (25,714) | \$ 26,919 |

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Fund Balances

for the fifty-two week period ended December 26, 2009
(in thousands of dollars)

| | Pooled Income Fund | | | Administration Fund | | | 2009 | 2008 |
|--|---------------------------------|--------------|-----------|---------------------------------|--------------|----------|-----------|-----------|
| | Internally Restricted (Note 10) | Unrestricted | Total | Internally Restricted (Note 10) | Unrestricted | Total | | |
| BALANCE, BEGINNING OF PERIOD | \$ 5,802 | \$ 66,407 | \$ 72,209 | \$ 5,932 | \$ 1,926 | \$ 7,858 | \$ 80,067 | \$ 53,148 |
| Excess (deficiency) of revenue over expenses | 6,530 | (31,968) | (25,438) | (523) | 247 | (276) | (25,714) | 26,919 |
| Interfund transfers | 931 | — | 931 | (931) | — | (931) | — | — |
| BALANCE, END OF PERIOD | \$ 13,263 | \$ 34,439 | \$ 47,702 | \$ 4,478 | \$ 2,173 | \$ 6,651 | \$ 54,353 | \$ 80,067 |

Statement of Cash Flows

for the fifty-two week period ended December 26, 2009
(in thousands of dollars)

| | Pooled Income Fund | Administration Fund | 2009 | 2008 |
|--|--------------------|---------------------|-------------|-----------|
| NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES: | | | | |
| OPERATING | | | | |
| Excess (deficiency) of revenue over expenses | \$ (25,438) | \$ (276) | \$ (25,714) | \$ 26,919 |
| Items not affecting cash: | | | | |
| Amortization of capital assets | 17 | 307 | 324 | 183 |
| Amortization of intangible assets | — | 38 | 38 | 17 |
| Loss on disposal of equipment | — | 8 | 8 | — |
| | (25,421) | 77 | (25,344) | 27,119 |
| Changes in non-cash operating working capital items | 4,766 | 110 | 4,876 | 3,505 |
| | (20,655) | 187 | (20,468) | 30,624 |
| INVESTING | | | | |
| Purchase of investments | (37,579) | — | (37,579) | (84,579) |
| Proceeds from matured investments | 36,889 | — | 36,889 | 57,982 |
| Purchase of capital assets | (53) | (335) | (388) | (2,221) |
| Purchase of intangible assets | — | — | — | (345) |
| | (743) | (335) | (1,078) | (29,163) |
| FINANCING | | | | |
| Payments on long term loan | — | (59) | (59) | (55) |
| NET CASH (OUTFLOW) INFLOW | (21,398) | (207) | (21,605) | 1,406 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 30,025 | 5,345 | 35,370 | 33,964 |
| INTERFUND TRANSFERS | 931 | (931) | — | — |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 9,558 | \$ 4,207 | \$ 13,765 | \$ 35,370 |

The accompanying notes form an integral part of these financial statements.

1. ACTIVITIES OF EFC

Objective of EFC

In 1972, Parliament enacted the Farm Products Marketing Agencies Act. The Canadian Egg Marketing Agency c.o.b. Egg Farmers of Canada (“EFC”), a Statutory Corporation, was then established by proclamation and incorporated pursuant to the Farm Products Agencies Act. It, along with a Federal-Provincial Agreement, identifies EFC’s responsibilities, including: to effectively manage the production, pricing, distribution and disposition of eggs in Canada and to promote the sale of eggs. EFC is exempt from income taxes under section 149(1)(e) of the Income Tax Act.

As of August 25, 2008, the Canadian Egg Marketing Agency operates under the name “Egg Farmers of Canada”.

Levy, service fees and contributions

The provincial and territorial egg marketing boards have agreed to act as agents of EFC for the collection, control and remittance of the levy, as recommended by EFC and prior-approved by the Farm Products Council of Canada. Further amounts are paid to EFC by the provincial and territorial boards to finance the national industrial product removal system pursuant to the supplementary Federal-Provincial Agreement and, in the case of Quebec and Alberta, through service fees payable pursuant to a commercial contract.

Removal activities

EFC purchases, at specified buy-back prices, all eggs that meet EFC specifications that have been declared as excess to provincial table market requirements. These eggs are then sold to domestic processors.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for not-for-profit organizations and reflect the following accounting policies:

Fund accounting

EFC reports under the fund accounting method to ensure the observance of limitations and restrictions placed on the use of resources available to EFC. The accounts of EFC are classified for reporting purposes into funds in accordance with activities or objectives specified by the members or in accordance with directives issued by the Board of Directors. For financial reporting purposes, the Fund balances have been classified into two funds consisting of the following:

- (i) The Pooled Income Fund includes the industrial product removal levy, service fees, contributions and related professional fees and consulting. All transactions involving the buying and selling of eggs are recorded in this Fund.
- (ii) The Administration Fund includes the administration levy, service fees and contributions and all administrative expenses.

Foreign currency translation

Revenue and expense items are translated using average monthly rates. Any resulting foreign exchange gains or losses are charged to miscellaneous income or other expense of the Administration Fund. Foreign currency monetary assets and liabilities are translated at the exchange rates in effect at the statement of financial position date.

for the fifty-two week period ended December 26, 2009
(in thousands of dollars)

Revenue recognition

EFC follows the deferral method of accounting.

Egg sales revenue is recognized on the date eggs are delivered to the customer.

Levy, service fees and contributions are recognized in the period of issuance, production or provision of service as applicable.

Levy revenue is calculated based on the weekly provincial bird issuance and a weekly per bird levy rate.

Cash and cash equivalents

Cash and cash equivalents, which include cash and short-term investments with maturities of three months or less from the date of the balance sheet, are considered to be held-for-trading and carried at fair value.

Investments

Investments in government bonds and restricted investments are classified as held-to-maturity and are recorded at amortized cost. Interest on interest-bearing investments is calculated using the effective interest rate method.

The fair values of investments are based on quoted market prices at the date of the statement of financial position. Transaction costs related to investments are expensed as incurred.

Accounts receivable

Accounts receivable are classified as loans and receivables and carried at amortized cost, net of the allowance for doubtful accounts. Because of the short-term nature of accounts receivable, amortized cost approximates fair value.

Inventory

Inventory consists of eggs which are valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis.

Capital assets

Capital assets are recorded at cost. Amortization is calculated using the straight-line method over their anticipated useful lives once placed in service as follows:

| | |
|--------------------------------|------------------------------|
| Buildings | 40 years |
| Office equipment | 10 years |
| Computer hardware and software | 3–5 years |
| Leasehold improvements | over remaining term of lease |

Carrying costs associated with the buildings are capitalized until the buildings are ready for productive use.

Intangible assets

Intangible assets, which include the design and related expenses of EFC's corporate identity, are recorded at cost and amortized over their estimated useful life, which is ten years. Intangible assets are assessed annually for impairment.

Accounts payable, accrued liabilities and long-term loan

Accounts payable and accrued liabilities are classified as other liabilities and carried at amortized cost. Because of the short-term nature of accounts payable and accrued liabilities, amortized cost approximates fair value.

Long-term loan is classified as other liabilities and carried at amortized cost using the effective interest rate method.

The fair value of the loan is estimated using quoted market prices of similar loans or based on models and other valuation techniques that include prices sourced from observable data. Transaction costs related to the loan are expensed as incurred.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the periods in which they become known.

The estimated useful lives of capital assets and intangible assets, the amount of accrued liabilities, the allowance for doubtful accounts and the assessment of contingent liabilities are the most significant items where estimates are used.

3. CHANGES IN ACCOUNTING POLICIES**Financial instruments**

In June 2009, EFC adopted EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* issued by the Emerging Issues Committee. This abstract requires that an entity's own credit risk (for financial liabilities) and the credit risk of the counterparty (for financial assets) should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this abstract did not have a material impact on the financial statements.

EFC also adopted the changes made to the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3862, *Financial Instruments — Disclosures* whereby an entity shall classify and disclose fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The required disclosures are included in Note 13.

4. CAPITAL MANAGEMENT

EFC's objectives when managing capital are to safeguard EFC's ability to continue as a not-for-profit organization while keeping levy rates at a minimum. EFC's capital consists of a long-term loan and net assets. EFC sets the levy rates at a rate to meet its projected cash flow requirements for restricted and unrestricted funds, which are reviewed periodically by management and the Board of Directors. The levy rates per dozen marketed were set at 20.25 cents effective December 28, 2008.

EFC is not subject to externally imposed capital requirements with the exception of being permitted to invest only in securities of or guaranteed by the Government of Canada. EFC has complied with its capital objectives and policies throughout the period.

NOTES TO THE FINANCIAL STATEMENTS

for the fifty-two week period ended December 26, 2009
(in thousands of dollars)

5. ACCOUNTS RECEIVABLE

| | 2009 | | | 2008 |
|--------------------------------------|--------------------|---------------------|------------------|------------------|
| | Pooled Income Fund | Administration Fund | Total | Total |
| Levy, service fees and contributions | \$ 5,170 | \$ 1,168 | \$ 6,338 | \$ 8,165 |
| Egg sales | 3,508 | — | 3,508 | 4,749 |
| Other | 266 | 365 | 631 | 1,270 |
| Interfund receivable | 158 | (158) | — | — |
| Allowance for doubtful accounts | (157) | — | (157) | (157) |
| | <u>\$ 8,945</u> | <u>\$ 1,375</u> | <u>\$ 10,320</u> | <u>\$ 14,027</u> |

Management assesses the recoverability of accounts receivable on a regular basis and records an impairment loss when it believes that a receivable is impaired, based on the expected amount to be recovered.

At the period-end date, the accounts receivable are aged as follows:

| | Less than 30 days | 31–60 days | More than 60 days |
|--------------------------------------|-------------------|--------------|-------------------|
| Levy, service fees and contributions | \$ 6,229 | \$ 10 | \$ 99 |
| Egg sales | 3,342 | — | 166 |
| Other | 589 | 10 | 32 |
| Allowance for doubtful accounts | — | — | (157) |
| | <u>\$ 10,160</u> | <u>\$ 20</u> | <u>\$ 140</u> |

Information about the allowance for doubtful accounts, measured at the period-end date, is as follows:

| | 2009 | 2008 |
|------------------------------|---------------|---------------|
| Balance, beginning of period | \$ 157 | \$ 720 |
| Write-offs | (81) | (105) |
| Expense (reversal) | 81 | (458) |
| Balance, end of period | <u>\$ 157</u> | <u>\$ 157</u> |

6. INVESTMENTS

| | 2009 | | 2008 | |
|--|------------------|------------------|------------------|------------------|
| | Cost | Fair Value | Cost | Fair Value |
| Short-term Government guaranteed investments | \$ 28,886 | \$ 28,359 | \$ 35,494 | \$ 35,725 |
| Long-term Government guaranteed investments | 7,602 | 7,476 | — | — |
| | <u>\$ 36,488</u> | <u>\$ 35,835</u> | <u>\$ 35,494</u> | <u>\$ 35,725</u> |

The rate of return on investments ranges from 0.55% to 4.05% (2008 — 1.05% to 3.90%). Long-term government guaranteed investments mature in 2011.

for the fifty-two week period ended December 26, 2009
(in thousands of dollars)

7. RESTRICTED INVESTMENTS

Restricted investments held by EFC represent funds which have been restricted by the Board of Directors for the purposes described in Note 10. The cost and fair values of the investments are as follows:

| | 2009 | | 2008 | |
|-----------------------------------|----------|------------|----------|------------|
| | Cost | Fair Value | Cost | Fair Value |
| Government guaranteed investments | \$ 3,234 | \$ 3,186 | \$ 3,538 | \$ 3,553 |

The rate of return on investments ranges from 0.75% to 3.95% (2008 — 2.25% to 5.50%).

8. CAPITAL ASSETS

| | 2009 | | | 2008 |
|--------------------------------|----------|--------------------------|----------------|----------------|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Land | \$ 416 | \$ — | \$ 416 | \$ 416 |
| Buildings | 4,440 | 158 | 4,282 | 4,383 |
| Office equipment | 474 | 206 | 268 | 278 |
| Computer hardware and software | 1,641 | 1,194 | 447 | 279 |
| Leasehold improvements | 94 | 23 | 71 | 72 |
| | \$ 7,065 | \$ 1,581 | \$ 5,484 | \$ 5,428 |

In 2008, cost and accumulated amortization amounted to \$6,784 and \$1,356, respectively.

In November 2007, EFC purchased 43.04% of a building and its land located on Florence Street in Ottawa at a cost of \$2,205 and relocated its operations to this building in August of 2008. EFC also purchased, in November 2007, 50% of a building and its land located on James Street in Ottawa at a cost of \$1,028. EFC is leasing this facility to other organizations.

9. LONG-TERM LOAN

In November 2007, EFC entered into a loan agreement with a financial institution to finance the acquisition of two buildings. The loan amount at inception was \$2,956. The loan bears interest at an annual rate of 5.68% and is payable in monthly installments of capital and interest of \$18.5. The loan payments are amortized over a 25-year period and the loan is renewable in 2017. The loan is secured by the Florence Street and James Street buildings. All owners of the buildings are jointly and severally liable for the total amount outstanding of the loan (\$6,288 as at December 26, 2009) should an owner default on payment.

As well, EFC has a revolving demand loan facility with a total approved limit of \$5,000 at an interest rate of prime. The facility is secured by a general assignment of book debts and a demand debenture agreement. As at December 26, 2009, loans under this facility were \$NIL (2008 — \$NIL).

NOTES TO THE FINANCIAL STATEMENTS

for the fifty-two week period ended December 26, 2009
(in thousands of dollars)

Future payments of the loan are as follows:

| | Capital | Interest | Total |
|--------------------------|-----------------|-----------------|-----------------|
| 2010 | \$ 62 | \$ 160 | \$ 222 |
| 2011 | 66 | 156 | 222 |
| 2012 | 70 | 152 | 222 |
| 2013 | 74 | 148 | 222 |
| 2014 | 78 | 144 | 222 |
| Years thereafter | 2,488 | 1,483 | 3,971 |
| | <u>2,838</u> | <u>2,243</u> | <u>5,081</u> |
| Less: short-term portion | 62 | 160 | 222 |
| | <u>\$ 2,776</u> | <u>\$ 2,083</u> | <u>\$ 4,859</u> |

10. FUND BALANCES

Restricted fund balance — Pooled Income Fund

EFC has been directed by the Board of Directors to restrict the use of certain funds in the Pooled Income Fund. The use of the funds is at the discretion of the Board of Directors. There are currently two restrictions in the Fund:

- (i) In 1995, a trust account was set up to administer transactions for the National Quota Exchange (“NQE”) Program.
- (ii) In 2001, a Risk Management Fund was set up to self-finance potential costs related to its risk management activities.

The transactions in the Fund are for the following purposes:

| | 2009 | | | 2008 |
|--|------------------|---------------|------------------|-----------------|
| | Risk Management | NQE Program | Total | Total |
| Beginning balance | \$ 5,458 | \$ 344 | \$ 5,802 | \$ 2,194 |
| Interest income | 140 | 9 | 149 | 208 |
| Levy income | 6,392 | — | 6,392 | — |
| Risk management activities | (11) | — | (11) | (1,600) |
| Transfer from Restricted Research Fund | 931 | — | 931 | — |
| Transfer from Unrestricted Fund | — | — | — | 5,000 |
| Ending balance | <u>\$ 12,910</u> | <u>\$ 353</u> | <u>\$ 13,263</u> | <u>\$ 5,802</u> |

In 2009, funds of an amount of \$931 were transferred from the Restricted Research Fund to the Risk Management Fund to finance future costs related to risk management activities.

Restricted fund balance — Administration Fund

In 1997, EFC was directed by the Board of Directors to set up a restriction in the Administration Fund to fund research. The lower and upper limit thresholds for this restricted fund are of \$2,000 and \$5,000 respectively; should the balance fall outside this range, EFC would adjust the levy rate on a prospective basis. Use of the funds is at the discretion of the Board of Directors.

for the fifty-two week period ended December 26, 2009
(in thousands of dollars)

The transactions in the Fund are as follows:

| | 2009 | 2008 |
|----------------------------------|----------|----------|
| Beginning balance | \$ 5,932 | \$ 4,869 |
| Interest income | 38 | 153 |
| Research activities | (561) | (361) |
| Income from levies | — | 1,271 |
| Transfer to PIF restricted funds | (931) | — |
| Ending balance | \$ 4,478 | \$ 5,932 |

11. TRANSFER OF ADMINISTRATION EXPENSES

In 2009, EFC made an allocation of administrative expenses of \$2,258 (2008 — \$2,235) from the Administration Fund to the Pooled Income Fund. This transfer provides for the full cost, including administration and overhead, of operating EFC's industrial product program.

12. PENSION PLAN

EFC sponsors and administers The Pension Plan for the Employees of EFC (the "Plan"), which is a defined contribution plan registered under the Ontario Pensions Benefit Act.

EFC contributes an amount equal to the employee's required contribution under the Plan. In the 2009 fiscal period, EFC contributed \$150 (2008 — \$147) to the Plan, which is included in salaries and benefits expense in the statement of operations.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

EFC's financial instruments consist of cash and cash equivalents, investments, restricted investments, accounts receivable, accounts payable and accrued liabilities and the short-term and long-term portions of the loan.

Fair value

a) Establishing fair value

The fair value of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximates their carrying values due to their short-term maturity.

The fair value of investments and restricted investments included in Notes 6 and 7 are based on quoted bid prices.

The fair value of a long-term loan is determined using the present value of future cash flows under current financing agreements, based on EFC's current estimated borrowing rate for loans with similar terms and conditions. The fair value of the long-term loan is \$2,950 at December 26, 2009 (2008 — \$3,168).

NOTES TO THE FINANCIAL STATEMENTS

for the fifty-two week period ended December 26, 2009
(in thousands of dollars)

b) Fair value hierarchy

Financial instruments recorded at fair value on the Statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 — valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 — valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);

Level 3 — valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. Cash is a level 1 fair value.

Liquidity risk

Liquidity risk refers to the adverse consequence that EFC will encounter difficulty in meeting obligations associated with financial liabilities, which are comprised of accounts payable and accrued liabilities, and a long-term loan.

EFC manages its liquidity risk by regularly reviewing its projected future cash flows and adjusting levy income levels to meet its financial obligations. EFC believes its overall liquidity risk to be minimal as EFC's financial assets are considered to be highly liquid, and due to the fixed term of payments of the long-term loan as detailed in Note 9.

EFC's objective is to have sufficient liquidity to meet its liabilities when due. EFC monitors its cash balances and cash flows generated from operations to meet its requirements. EFC has the following financial liabilities as at December 26, 2009:

| | Net book value | 2010 | 2011 | 2012 and after |
|--|------------------|------------------|--------------|-----------------|
| Accounts payable and accrued liabilities | \$ 12,927 | \$ 12,927 | \$ — | \$ — |
| Long-term loan | 2,838 | 62 | 66 | 2,710 |
| Commitments | 2,361 | 2,361 | — | — |
| | \$ 18,126 | \$ 15,350 | \$ 66 | \$ 2,710 |

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. EFC's cash and cash equivalents earn interest at prevailing market rates. Investments in short-term government bonds and a long-term loan bear interest at fixed rates and are exposed to changes in fair values due to fluctuations in market interest rates.

NOTES TO THE FINANCIAL STATEMENTS

for the fifty-two week period ended December 26, 2009
(in thousands of dollars)

The following table details EFC's exposure to interest rate risk as at December 26, 2009 by the earliest maturity:

| | Rate of Return | | | | Total |
|--|------------------|------------------|------------------|-----------------|------------------|
| | 0% | 0–2% | 2–5% | More than 5% | |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ — | \$ 13,765 | \$ — | \$ — | \$ 13,765 |
| Accounts receivable | 10,320 | — | — | — | 10,320 |
| Investments | — | 21,115 | 15,373 | — | 36,488 |
| Restricted investments | — | 200 | 3,034 | — | 3,234 |
| TOTAL ASSETS | \$ 10,320 | \$ 35,080 | \$ 18,407 | \$ — | \$ 63,807 |
| LIABILITIES | | | | | |
| Accounts payable and accrued liabilities | \$ 12,927 | \$ — | \$ — | \$ — | \$ 12,927 |
| Long-term loan | — | — | — | 2,838 | 2,838 |
| TOTAL LIABILITIES | \$ 12,927 | \$ — | \$ — | \$ 2,838 | \$ 15,765 |

A 200 basis point change in interest rates would result in an annual difference of approximately \$1,224 (2008 — \$2,194) in EFC's excess of revenue over expenses.

Currency risk

As EFC operates primarily in Canadian dollars, EFC is not significantly exposed to currency risk.

Other price risk

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

EFC is not exposed to significant other price risk at period end.

Credit risk

The risk relates to the potential that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. EFC's maximum exposure to risk represents the total amount of accounts receivable and investments. No financial assets have been offered as collateral.

Credit risk concentration exists where a significant portion of the portfolio is invested in securities which have similar characteristics or similar variations relating to economic, political or other conditions. EFC monitors the financial health of its investments and restricted investments on an ongoing basis with the assistance of its investments advisors. EFC only invests in securities of or guaranteed by the Government of Canada.

As described in Note 5, EFC's receivables are from two main sources: egg sales to egg processors and levy, and service fees and contributions collected by Provincial and Territorial Boards. EFC mitigates credit risk through credit evaluations and monitoring of the outstanding balances and the financial conditions of EFC's customers.

Egg sales are dependent upon four groups of related companies. In 2009, these customers purchased 86% (2008 — 87%) of the eggs sold by EFC.

for the fifty-two week period ended December 26, 2009
(in thousands of dollars)

14. COMMITMENTS

EFC is committed under contract for the purchase of advertising and other services in fiscal 2010 for an amount of \$2,361 (2009 — \$2,768).

15. CONTINGENT LIABILITIES

A legal claim has been made against EFC claiming damages of \$17,000 which has been inactive for several years. This potential liability may become an actual liability when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in the financial statements.

It is EFC's view that the outcome of this legal process is not determinable at this time. As a result, no recognition of any liability has been included in the 2009 financial statements.

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.