

35TH ANNUAL REPORT OF THE CANADIAN EGG
MARKETING AGENCY FOR PRESENTATION
MARCH 27, 2008, AT THE 35TH ANNUAL MEETING
AND TO THE MINISTER OF AGRICULTURE AND
AGRI-FOOD, THE HONOURABLE GERRY RITZ,
AND THE NATIONAL FARM PRODUCTS COUNCIL



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MESSAGE FROM THE CHAIRMAN	2
MESSAGE FROM THE CHIEF EXECUTIVE OFFICER	3
BOARD OF DIRECTORS	4

key result area

1	MANAGING THE NATIONAL EGG SUPPLY	7
	INTERNATIONAL TRADE AND GOVERNMENT RELATIONS	11
2	MARKETING	14
	MANAGING RISK	18
	MANAGING ISSUES	23
3		
4		
5		

organizational development priorities

GOVERNANCE, HUMAN RESOURCES AND INFORMATION MANAGEMENT	25
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AUDITORS' REPORT	29
FINANCIAL STATEMENTS	30



MESSAGE FROM THE CHAIRMAN

Canada's regulated egg industry thrives when all producers work together in a spirit of openness and co-operation. This was the vision for our industry when we agreed to operate our farms under supply management in 1972, and I've seen the benefits on countless occasions since. As egg farmers, we're strongest when we're of one mind and speak with one voice. That being said, if there was ever a time when we needed to work together for what we think is best for the future of our industry, that time is right now.

Egg producers appreciate that Canada's main political parties have voiced their support for supply management and its three pillars. We need to keep our issues front and centre with Canadian politicians, and I know many of you have been working with your provincial boards to this effect. As long as the possibility for a new trade deal exists, we will continue to closely monitor the World Trade Organization (WTO) negotiations in Geneva.

In 2007, we were delighted to see supply management recognized by the federal and provincial agriculture ministers as a Business Risk Management Program under *Growing Forward*, the new agriculture and agri-food policy framework. I would also like to extend my sincere thanks to our federal agriculture minister, the Honourable Gerry Ritz, for taking the steps necessary to operationalize the agriculture Special Safeguard for table eggs. This mechanism will prevent import surges and is an important tool for our industry.

Meanwhile, we continue our efforts to secure adequate compensation for producers if a layer flock is ordered destroyed under the *Health of Animals Act*. New regulations have established an \$8 maximum per layer, an amount that fails to recognize a hen's production value over its lifetime. As such, we are working with government and our colleagues in the other poultry sectors to narrow this deficiency. On animal care, we refined our policies on cage density and in 2008 producers will need to meet established guidelines to pass the Animal Care Program rating. Canadians trust egg farmers to take good care of our hens, and they need to know that we raise our flocks responsibly.

The National Egg Supply Team continues to do great work. It functions well because it's truly a cross-section of our industry: it has national and provincial involvement as well as grader and breaker representatives. Everyone has a say about what the future of egg supply management will look like. In 2008, I hope to see similar collaboration in our efforts to negotiate a new contract with the processors.

In 2008, we're teaming up with a few of our agriculture partners and moving to a new home. This is a major milestone for our industry and brings together several agriculture organizations under one roof. Not only will this be cost-saving for our industries, but it creates outstanding and ongoing opportunities for collaboration with our national partners.

I'll also be working with every producer across the country and with our customers as we continue to build an egg industry we're proud to leave to the next generation.

In closing, I would like to thank all the producers and staff who expressed concern during my illness in the fall. At that time, Vice Chairman Peter Clarke stepped up and completed my duties with excellence. I'd also like to thank Tim Lambert and CEMA staff for ensuring the Board's direction is carried out efficiently and effectively. To everyone at the national and provincial boards and across the industry, your support and friendship will always be treasured.

Laurent Souigny, Chairman

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

I can say with certainty that tremendous success was achieved in 2007 by our egg industry team made up of Directors, provincial boards, processors and certainly not least, staff. It was a year to boast gains of which to be proud. Improved business-planning processes, enhanced consultation and a significant internal culture shift have been developed in order to respond and adapt to an unprecedented level of change within the industry.

One of my key responsibilities as Chief Executive Officer is ensuring CEMA has the right people with the right skills in the right job with the right tools. In recent years, the business of producing eggs has changed rapidly due to significant growth in specialty egg products, evolving information needs and new egg processing technologies, industry consolidation and aging baby boomers. To ensure we can respond to these rapid changes, we reviewed and strengthened employee capabilities through training, performance management and, where appropriate, change in the management team make-up.

As well, issues are becoming more complex and multi-faceted. Projects and issues no longer clearly fall within a particular area of expertise. Today, for example, industrial product is not seen to be strictly an operational domain; we understand potential marketing impacts as consumer perceptions are influenced by new products. Animal care and food safety impact our field operations, communications, policy development and marketing. The ongoing WTO agriculture negotiations must be taken into account by policy, operations and finance staff. The interdependency of various fields of expertise demands that staff see beyond their own specialties. As a result, we have strengthened our ability to work across business units.

Our improved teamwork at the office and in the field stems from the development and implementation of an effective business-planning process. In recent years, this has evolved from putting out fires almost daily to methodical consideration of strategic direction. With our Board of Directors now annually establishing strategic objectives, our strengthened staff team developed formal unit workplans this year upon which performance may objectively be assessed. The Agency has also focused on consulting closely with colleagues at the provincial boards prior to developing policy. As such, Directors are fully informed about issues upon which they must provide direction.

Increased demand for processed product has considerably changed the nature of our business since CEMA's inception in 1972, and this requires a close partnership with processors. Today, processed egg products enjoy a considerable market share including, more recently, a share of retail sales. Producers and breakers appreciate that pricing must recognize the growing importance of these new products. We have agreed to a new negotiating process so we can move forward in 2008 to secure a new contract.

As I look forward to next year's opportunities and challenges, I want to solidify the processes we began in 2007. This includes the development of policies that will be rigorously applied to ensure fairness and consistency in all our business arrangements. We must remain focused on the WTO negotiations and their implications for supply management. In the year ahead, we will be introducing integrated risk management into the business-planning process and will proceed to develop a shell egg traceability system. We will also look for new ways to support Canada's poultry researchers.

I am confident that with the team in place and with co-operation at all levels of the industry, CEMA will move forward to capitalize on each of these challenges and opportunities.



Tim Lambert, Chief Executive Officer



BOARD OF DIRECTORS

The Board of Directors works on behalf of all producers to ensure a prosperous Canadian egg industry today and for future generations.







Claude Barnabé and Stéphan Langevin

Brothers-in-law Claude and Stéphan have been raising laying hens for nearly 10 years on their wives' family farm in Quebec.

key result area

MANAGING THE NATIONAL EGG SUPPLY

Continue the improvement of the Industrial Product Program

Sustain the table egg market

Ensure the effective management of industrial product

Ensure all stakeholders share in the costs and benefits of managing the Canadian egg industry

Throughout this past year, the Canadian Egg Marketing Agency continued to make significant strides toward its goal of a truly national, fully integrated and streamlined Industrial Product Program (IPP). As part of this quest, the Agency identified new areas for improvements in operations and began developing its new National Production Management Program. We finalized Standard Operating Procedures for IPP staff, carried out process mapping to identify supply chain inefficiencies and implemented new pricing formulas with our provincial partners to reduce the buyback price. Among some other highlights in 2007, we also approved a new Vaccine Egg Policy and secured additional cost-effective storage. These focused efforts are part of a long-term strategy to increase the efficiency of the IPP, which now accounts for roughly 30% of the Canadian egg business and continues to grow.

Continue the improvement of the Industrial Product Program

In 2007, CEMA successfully completed the Industrial Product (IP) Pricing Options project in collaboration with provincial egg board managers. Carried out by the IPP and Economics, Statistics and Pricing (ESP) Units, the project enabled us to identify approximately \$1.8 million in efficiencies by the end of the year. It also helped adjust price spreads while minimizing the effect on producers and the marketplace.

Since the inception in 2005 of the National Egg Supply Team (NEST), national and provincial team representatives have

been mandated to review the policies governing Canada's egg industry and the procedures that enable us to supply our markets. This group has been instrumental in helping the industry move forward on several key initiatives, including IP blended pricing. When the NEST identifies an opportunity to strengthen the national egg supply system, it develops a business case for CEMA's Board of Directors.

One important NEST initiative was our work on the new National Production Management Program (NPMP), a trio of complementary projects covering Flock Placement, Quota Credits and Early Fowl Removal (EFR). Anchored by the Flock Placement project, the NPMP will eventually help to manage all aspects of egg production in Canada with the aim of eliminating the need for other flock management programs. The IPP Unit, NEST Team and our provincial and industry partners will be working on these projects throughout 2008.

Sustain the table egg market

Managing the national egg supply requires open lines of communication between CEMA and its provincial egg board partners. Two or three times each year, members of CEMA's IPP Unit visit provincial board offices. These sessions enable provincial board staff to bring forward any issues of concern arising from the IPP. CEMA's relationship with its provincial and industry partners remains a critical aspect of the overall efforts to increase efficiency in supplying Canada's table egg market and processing sector.

2007 Interprovincial Movement of Eggs

SELLERS	BUYERS												TOTAL SALES
	YT	BC	AB	NT	SK	MB	ON	QC	NB	NS	PE	NL	
YT		0	0	0	0	0	0	0	0	0	0	0	0
BC	0		864	0	0	0	0	0	0	0	0	0	864
AB	31,146	169,020		50,236	53,462	3,680	0	0	0	0	0	0	307,544
NT	0	0	0		0	0	0	0	0	0	0	0	0
SK	0	0	399,689	0		17,276	1,025	0	0	0	0	0	417,990
MB	0	216,343	311,975	0	149,067		231,863	3,360	0	30,459	0	0	943,067
ON	0	19,683	1,620	0	0	31,620		628,910	0	0	0	0	681,833
QC	0	0	0	0	0	11,227	459,149		29,304	15,309	0	1,543	516,532
NB	0	0	0	0	0	0	0	359		10,541	1,371	4,023	16,294
NS	0	0	0	0	0	0	0	0	2,498		3,896	12,079	18,473
PE	0	0	0	0	0	0	0	0	0	0		0	0
NL	0	0	0	0	0	0	0	0	0	0	0		0
TOTAL PURCHASES	31,146	405,046	714,148	50,236	202,529	63,803	692,037	632,629	31,802	56,309	5,267	17,645	2,902,597

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

Federal Quota Allocation

(dozens)

PROVINCE	PROPOSED 2008 ALLOCATION	2007 ALLOCATION	2006 ALLOCATION JUL 1 TO DEC 30	2006 ALLOCATION JAN 1 TO JUN 30
BC	66,213,800	66,213,800	33,288,806	32,206,028
AB	46,820,109	46,820,109	23,538,681	22,782,605
NT	2,896,491	2,896,491	1,456,203	1,406,283
SK	24,428,395	24,428,395	12,281,309	11,885,697
MB	58,366,811	58,366,811	29,343,754	28,366,851
ON	203,397,677	203,397,677	102,257,623	98,924,124
QC	96,886,293	96,886,293	48,709,318	47,115,117
NB	11,288,839	11,288,839	5,675,433	5,486,461
NS	20,031,119	20,031,119	10,070,590	9,736,189
PE	3,315,857	3,315,857	1,667,038	1,611,239
NL	8,878,198	8,878,198	4,463,490	4,311,389
TOTAL	542,523,590	542,523,590	272,752,245	263,831,983

The 2006 allocation reflects the implementation of the updated COP rate of lay on July 1, 2006. (24.99 dozens per bird/per annum).

To manage peak periods when IP egg volumes are highest, the IPP Unit worked throughout 2007 to determine the best combination of egg storage and Early Fowl Removal options. As part of this project, the Unit established storage facilities strategically in Quebec, Ontario and Manitoba, where third-party logistics providers are equipped to handle cold and dry storage needs. In addition, these companies are also handling all egg transport requirements between processing plants, grading stations and storage facilities.

In the event eggs are stored in January or February when industrial product volumes are traditionally highest, CEMA can request that eggs be graded and trucked back to the storage facility where they will be ready for breaking. Pallets and dividers can also be washed, dried, picked up and put back into storage. Our efforts to simplify storage logistics and increase transport efficiency across the country can be viewed as a working triangle among graders, processors and the storage company.

Vaccine Quota Allocation

(layers)

PROVINCE	PROPOSED 2008 ALLOCATION	2007 ALLOCATION JUN 17 TO DEC 29	2007 ALLOCATION DEC 31/06 TO JUN 16/07	2006 ALLOCATION JAN 1 TO DEC 30
ON	200,783	190,000	77,777	77,000
QC	522,720	522,720	100,000	100,000
NB	60,000	60,000	—	—
TOTAL	783,503	772,720	177,777	177,000

Number of Vaccine Producers per Province*

PROVINCE	2007	2006
ON	2	1
QC	6	3
NB	1	—
TOTAL	9	4

* One US producer is supplying eggs to hatcheries involved in the vaccine egg program.

Vaccine Eggs to IP Pool

PROVINCE	2007	2006
ON	117,215	85,110
QC	312,815	102,836
TOTAL	430,030	187,946

Data in boxes of 15 dozen.

Ensure the effective management of industrial product

It is also worth noting that in 2007 CEMA purchased 200,000 trays, with a corresponding number of pallets and dividers. This equipment is being used strictly for storage and will be maintained and tracked electronically. Further, a third-party verification software system was installed at all major processing plants in Canada. In the coming year, we are looking to create a data system at CEMA to centralize the information.

In collaboration with the provinces, the IPP Unit continued work in 2007 on a reliable industrial product projection model to improve the Agency's short-term and long-term forecasting capabilities. When estimating future Early Fowl Removal and storage requirements, CEMA can use its forecasting model to see how the forecasted egg supply meets the forecasted demand for table and processed markets. Prior to the development of our forecasting model, historical data for a given period was used which on its own was not as reliable.

Entering 2008, the long-term projection model CEMA uses to forecast two months to one year in advance is working well; however, we believe it can be improved and this will be a priority for us in the coming year.

Vaccine Egg Policy

In July 2007, the Board approved a new Vaccine Egg Policy to help manage a part of the business that has expanded rapidly over the past couple of years. The new policy covers issues such as vaccine quota allocation for producers, newcomers to the vaccine egg program and provinces who may set up eggs for vaccine production. Currently, the majority of vaccine egg production

is carried out in Quebec, with some production in Ontario and New Brunswick. The policy affects both types of vaccine production in Canada: regular production, produced at certain times of the year for the manufacture of cold and flu vaccine, and pandemic vaccine egg production, which is produced year-round as part of the Health Canada Pandemic Program.

The Agency also implemented a New Entrants Policy for egg processors this year. This national policy details the requirements for new entrants to gain a guaranteed supply of industrial product eggs from CEMA, based on market share.

Standard Operating Procedures

CEMA also finalized formal Standard Operating Procedures (SOP) for the IPP Unit. This procedural document details the core actions required for the successful operation of the IPP to ensure a consistent and orderly supply of eggs to Canada's egg processing sector. The new SOPs are based on the Unit's detailed flowcharts outlining all functions including storage, imports and claims. The document also outlines the roles and responsibilities of individual IPP Unit team members to help ensure efficiency in unit operations.

Another important feature of the documents is their use as a step-by-step guide for employees to undertake additional tasks. This is extremely important as it enables staff to become cross-trained on various jobs, essential in the event of absence due to illness or business travel. The SOPs also serve as a resource for preserving corporate knowledge. Beginning in 2008, Standard Operating Procedures and process maps will be reviewed every six months to see if minor adjustments are required. Should significant internal or external changes occur that impact IPP processes, the documents will be updated immediately to reflect

Eggs for Processing (EFP) Quota

(dozens)

PROVINCE	PROPOSED 2008 ALLOCATION	2007 ALLOCATION	2006 ALLOCATION JULY 1 TO DEC 30	2006 ALLOCATION JAN 1 TO JUN 30
BC	2,499,000	2,499,000	1,256,365	1,213,297
AB	624,750	624,750	314,091	303,324
SK	4,998,000	4,998,000	2,512,731	2,426,593
MB	9,996,000	9,996,000	5,025,462	4,853,187
ON	17,493,000	17,493,000	8,794,558	8,493,077
QC	2,499,000	2,499,000	1,256,365	1,213,297
NB	0	0	0	0
NS	0	0	0	0
PE	0	0	0	0
NL	0	0	0	0
NT	0	0	0	0
TOTAL	38,109,750	38,109,750	19,159,572	18,502,775

The 2006 allocation reflects the implementation of the updated COP rate of lay on July 1, 2006. (24.99 dozens per bird/per annum).

Average Number of Layers per Producer

PROVINCE	2007	2006	2005
BC	18,101	18,312	15,424
AB	9,794	9,854	9,763
SK	13,433	13,445	13,332
MB	12,732	12,803	12,729
ON	20,837	20,275	19,321
QC	33,443	32,969	32,294
NB	24,444	24,185	23,190
NS	31,299	31,268	31,003
PE	11,499	10,160	9,663
NL	30,656	30,966	30,470
NT	76,955	62,627	33,736
CANADA	18,583	18,368	17,596

Audited data for 2005 and 2006. Reported data for 2007.

Excludes inventory for EFP, Stand Down, Special Permits, and Early Fowl Removal.

The average number of egg layers per producer in 2007 rose approximately 1% nationally over 2006.

Number of Registered Egg Producers per Province

PROVINCE	2007	2006
BC	128	126
AB	167	167
SK	64	64
MB	168	168
ON	351	359
QC	104	105
NB	17	17
NS	23	23
PE	11	12
NL	11	11
NT	1	1
CANADA	1,045	1,053

Audited data as reported December 31, 2007.

In 2007, the number of registered producers per province remained fairly consistent with 2006 levels. There were eight fewer producers nationwide from the previous year, or a 1% decrease.

those changes. With the work on the Industrial Product Program SOPs complete, the Agency will now develop a similar document for the Field Operations Unit. We expect to complete work on this initiative sometime in 2008.

Ensure all stakeholders share in the costs and benefits of managing the Canadian egg industry

As a team, we have accomplished a great deal together in 2007. We remain confident that our efforts to streamline and standardize the IPP and its supply chain are helping to strengthen our industry and make it efficient and economically viable. As we strive to modernize the business, we are pleased with the continued co-operation we see among our producers, the provincial boards, processors and graders. To realize our goals as a national industry, this valuable teamwork must remain an essential element of every process.

INTERNATIONAL TRADE AND GOVERNMENT RELATIONS

Improve collaboration with other key stakeholders in supply management

Continue development of lobbying activity and meetings with the Minister of Agriculture, Minister of Trade and other members of federal and provincial parliament

Ensure a communications strategy related to elections at the federal level

Ensure that CEMA's messages on behalf of the producer and consumer are positioned with all levels of decision-makers able to influence national and international policies

Our communications, technical and lobbying efforts on the trade file produced some solid results for supply management in 2007. Together with our national and provincial supply management partners, CEMA worked to convey to Canadians the value of our industries to Canada's economic and rural life, stressing the importance of the three pillars that make orderly marketing possible: import controls, producer pricing and production discipline. We made presentations before government standing committees, hosted our annual Parliament Hill Breakfast for politicians, devised new strategies and attended the federal-provincial-territorial agriculture ministers' meeting in Whistler, British Columbia.

In return, we witnessed the government's statement of support for supply management in the Throne Speech and stood proudly by as our orderly marketing approach to agriculture was recognized by government as a Business Risk Management Program in the new Agriculture Policy Framework. We also kept a close eye on the progress of World Trade Organization (WTO) talks in Geneva, where the pace of negotiations on a new agriculture trade deal picked up speed toward the end of the year.

Improve collaboration with other key stakeholders in supply management

CEMA reaps significant benefits by working in a coalition with our national (SM-5) and provincial supply management partner organizations. Our streamlined approach to communications ensures Canada's politicians and media are hearing a strong, consistent and unified voice from our sector. As well, the Agency is strengthened by the cost-effective advantages of sharing resources across the coalition. As part of our joint government relations work in 2007, the national SM-5 appeared before the Senate Standing Committee on Forestry and Agriculture to assist their study of the issue of rural poverty. Our coalition also appeared before the House of Commons Standing Committee on Agriculture and Agri-Food in an effort to influence Canada's new Agriculture Policy Framework, *Growing Forward*, and to promote supply management as a Business Risk Management Program.

As a team, we developed a positive relationship with the new Minister of Agriculture and his staff. The national SM-5 Chairs met with the Honourable Gerry Ritz shortly after he assumed the agriculture portfolio from the Honourable Chuck Strahl in August and again in early January 2008. We also enjoyed contact with Canada's Chief Agriculture Negotiator Steve Verheul, whom we met on several occasions for technical discussions. While meetings with Minister Ritz provide our industry leaders an opportunity to convey concerns about the ongoing negotiations at the WTO, the meetings with Mr. Verheul are an occasion to



Jean-Guy and Carole L'Ecuyer

To thrive in rural Canada, farm families like the L'Ecuyers in Ontario rely on hard work. They also count on the Canadian government to support supply management and strengthen its three pillars at home and abroad.

exchange technical information. These efforts yielded dividends with a reference to supply management in the government's Throne Speech in October and a letter from Minister Ritz to the Chair of the WTO agriculture negotiations Crawford Falconer, emphasizing Canada's growing concern over the direction of the negotiations in Geneva.

This support was also unequivocally stated before the House of Commons Standing Committee on Agriculture and Agri-Food. In addition, we were pleased to note the continuing support for supply management among all of Canada's main political parties.

Ensure that CEMA's messages on behalf of the producer and consumer are positioned with all levels of decision-makers able to influence national and international policies

Working with five commodities at the national and provincial level can be a logistical challenge, making close collaboration across the dairy, poultry and egg sectors absolutely essential. To ensure consistency in our communications and government relations strategies, the national SM-5 General Managers (GMs), Technical and Communications Committees met regularly throughout 2007. CEMA Chief Executive Officer Tim Lambert

and his counterparts held weekly conference calls to determine trade strategy. Our International Trade Policy Manager Judi Simmons represented egg producers in Geneva on a regular basis, prepared trade updates and worked closely with colleagues on the Technical Committee to assess WTO documents. As well, our Corporate and Public Affairs Manager Bernadette Cox chaired the Communications Committee—tasked with conveying messages about trade and supply management to domestic audiences. It is worth noting that the Communications Committee benefits from the involvement of provincial supply management coalitions. Their direct participation strengthens our ability to communicate key messages to our grassroots producers, which occurred on a quarterly basis in 2007.

Ensure a communications strategy related to elections at the federal level

Among other accomplishments, the Communications Committee revamped the farmsandfood.ca Web site to feature a new design, updated key messages and current economic data. Members of this committee also produced a key riding database to enable quick contact with local media should the need arise.

National supply management organizations must work closely with their provincial counterparts to remain unified. In CEMA's

case, conference calls among provincial chairs, general managers and national staff are held frequently to discuss the latest news from Geneva. The national and provincial groups use these sessions to share news of upcoming activities in order to prevent duplication in our government and media relations work.

In 2007, CEMA and provincial egg board collaboration resulted in effective communication and lobby activities in each province. As an example, we distributed a government relations toolkit to our provincial boards and the British Columbia provincial SM-5 coordinated opportunities for our producers to meet politicians at the June federal-provincial-territorial agriculture ministers' meeting in Whistler. As well, the provincial SM-5 coalitions in British Columbia, Ontario and Nova Scotia issued news releases, extending national messages and showing that partners working in support of a common goal can have a significant impact.

Continue development of lobbying activity and meetings with the Minister of Agriculture, Minister of Trade and other members of federal and provincial parliament

Although we share many trade priorities with other supply management commodities, there are many issues unique to our industry. In the CEMA Business Plan, one of our objectives is to establish more contact with government officials specifically on our issues.

In May, we hosted our annual eggs-cellent Parliament Hill Breakfast, one of CEMA's central government relations events and certainly a highlight of our calendar year. While CEMA Directors prepare delicious omelets made from fresh shell eggs, Members of Parliament and Senators casually mingle with national and provincial egg industry representatives. In attendance on this occasion were 53 MPs and six Senators, including the Secretary of State for agriculture Christian Paradis, the agriculture critics from each of the opposition parties and the chairs of key Senate and House of Commons Standing Committees. We feel the event was an overall success and look forward to the 2008 edition.

During breakfast, Chairman Laurent Souigny took the opportunity to deliver remarks on supply management and the WTO negotiations, disease compensation and biosecurity. To complement a presentation he made that month about the agriculture Special Safeguard (SSG) before the House of Commons standing Committee on Agriculture and Agri-Food, Mr. Souigny also underscored the urgency for Canada to operationalize the SSG — a need that was recognized by Agriculture Minister Gerry Ritz. CEMA was delighted to learn

that the Minister is taking the steps necessary to ensure the SSG is operationalized for table eggs and thanks the government for moving forward on this important matter.

Trade Updates

CEMA's International Trade Policy Manager works closely with her national SM-5 Technical Committee colleagues to prepare daily updates for national supply management staff whenever committee members are present in Geneva. She also circulates egg-specific updates to CEMA's national and provincial membership. These reports are a valuable source of current information and keep our industry aware of what is happening in the meeting rooms, backrooms and corridors at the WTO.

When a technical paper is issued in Geneva, which occurred frequently in the second half of 2007, the Technical Committee prepares an assessment to determine the impact draft WTO agreements could have on Canada's ability to maintain the three pillars of supply management. The national SM-5 also retains the services of a full-time trade specialist in Geneva to ensure we have a WTO presence at all times.

International Presence

CEMA was well represented at international conferences in 2007. Our presence at these gatherings provides a forum to discuss supply management's success in Canada and how it could be adopted by developed and developing countries.

These international outreach efforts saw some of our Executive Committee members attend the North America-European Union agriculture conference and the International Federation of Agricultural Producers conference. Both events provided opportunities to strengthen relationships and build alliances with like-minded agriculture organizations pushing for governments to represent their interests in agriculture trade negotiations.

CEMA staff also attended the Cairns Group conference in support of Bob Friesen, president of the Canadian Federation of Agriculture (CFA). CEMA is a member of the CFA Trade Committee and our Director, Harold Froese, sits on the Federation Executive. This past year, Mr. Froese also represented CEMA at the WTO Symposium.

The Way Forward

Barring unforeseen circumstances, we believe that a trade deal will eventually be reached at the WTO based on all the technical discussions that will have occurred throughout the process. Egg farmers require concrete action at the highest levels of the Canadian government to secure an outcome with no negative economic impact for Canada's supply management industries. In 2008, we will continue to monitor the negotiations and lend our voice to the important discussions happening on both sides of the Atlantic.

key result area

3

MARKETING

Grow the shell egg category

Work collaboratively with the provinces on marketing efforts

Measure the performance of national marketing through market and consumer research

Explore new areas of growth for shell eggs

This past year, we proved again that teamwork can produce some truly positive results. Thanks to the collective efforts of our national and provincial egg marketing team, 2007 will be remembered as a very successful year for Canadian shell eggs. After a slight decline in retail sales the past couple of years, we successfully increased consumption by 1%. With that growth in hand, we are aiming for 1% year-over-year growth again in 2008. We also achieved our highest-ever television ad awareness levels.

In 2007, CEMA diversified the media mix beyond television to include retail promotion, sports marketing sponsorships, magazine advertising and direct mail. In addition, we gained valuable insight from consumer focus groups to fine-tune our Healthy Energy and Cholesterol Concerned strategies, while spearheading a first-ever North America-wide Usage and Attitude survey on eggs. Our achievements this past year are the result of a forward-looking, nationally consistent marketing strategy founded on consumer research, developed with our provincial partners and aimed successfully at our various target markets.

Measure the performance of national marketing through market and consumer research

After many months of intense planning, consulting with Canadian consumers, developing appropriate messages and conveying information to our target audiences, the efforts of our national-provincial marketing team have helped reverse a slight decline in retail egg sales nationally. Canadians showed this past year they are continuing to embrace the “Eggs Provide Healthy Energy” message. In fact, a mid-year consumer survey showed awareness of our *Nudge* television ads reaching unprecedented recall levels of nearly 80%. The two ads, which feature a weary power walker and tired cyclist receiving a friendly, energetic nudge from a giant rolling egg, helped realize early growth that was sustained throughout the course of the year. A year after the ad launch, Nielsen data showed growth at retail and the ads enjoyed the highest recall of any *Get Cracking* campaign in our history. This suggests Canadians are making the connection between eggs and healthy energy.

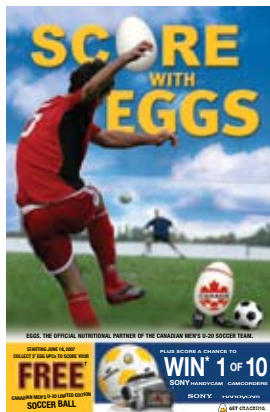


Bonnie Cohen, CEMA Marketing and Nutrition Manager

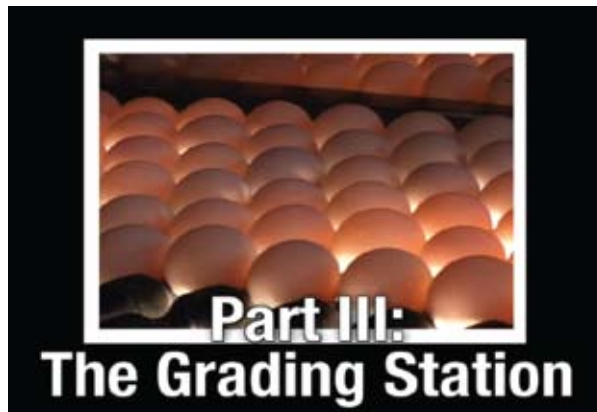
Bonnie is spearheading the Agency's efforts to understand Canadian consumers and communicate that eggs provide healthy, lasting energy.



(From left to right) Hayley Wickenheiser (national women's hockey team all-time leading scorer), Laurent Souigny, Tim Lambert and Craig Forrest (former men's national soccer team goalkeeper) mark the signing of CEMA's four-year sport marketing partnership with Hockey Canada and the Canadian Soccer Association.



CEMA's Score With Eggs in-store promotion coincided with the FIFA men's Under-20 World Cup 2007, which took place in several Canadian cities. Eggs are the official nutritional partner of the Canadian Soccer Association.



From Farm to Table, our new virtual tour of Canada's egg industry, can be seen online anytime at eggs.ca.

Grow the shell egg category

In July, the Canadian Egg Marketing Agency announced new sponsorship agreements with the country's top two participation sports for families with children. The four-year sponsorships with Hockey Canada and the Canadian Soccer Association will inject more than \$1 million into national team and grassroots programs in both sports. In the lead-up to the 2010 Vancouver Olympics and men and women's soccer World Cup, the egg industry is banking on the mass appeal of hockey and soccer to promote healthy nutrition and spread the Healthy Energy message. Undoubtedly, these partnerships will help increase eggs' visibility at mini-soccer festivals and minor hockey tournaments and through various promotional tie-ins.

As the sizeable baby boomer demographic becomes increasingly aware of health issues, the overall number of Canadians concerned about high blood cholesterol and limiting egg consumption as a result continues to increase. As we know, however, more recent research shows no significant link between cholesterol in eggs and the level of blood cholesterol. We know also that consumers love eggs and want to be encouraged by their doctors to make them part of a healthy diet. In 2007, CEMA marketers developed a dual strategy to reduce the percentage of cholesterol-concerned Canadians who say they are limiting egg consumption along with the percentage of physicians recommending that patients reduce egg intake.

As part of our strategy to link with organizations promoting heart health, CEMA has signed a new five-year agreement with the Heart & Stroke Foundation's Health Check™ program. This renewed agreement enables egg graders across Canada to continue placing the Health Check™ logo on egg cartons. For

CEMA, the program ensures continued cost-effective third-party credibility for eggs. For Canadians, Health Check™ represents the most reliable healthy-eating endorsement in the country. Incidentally, eggs are enjoying a higher profile in the newly-updated *Canada Food Guide*, the country's premiere healthy-eating reference. Not only are egg images featured more prominently on the front page and inside the guide, two eggs per day are now considered a single serving in the Meat and Alternatives category—an increase from one egg or two eggs, which had been the recommendation since 1992.

Explore new areas of growth for shell eggs

As part of our proactive approach to marketing, we seek out and talk with Canadians to better understand their deep connection with eggs. Before launching a program, CEMA runs concepts through consumer focus groups so our marketing decisions are based on solid research.

In 2007, as part of our long-term strategy to increase weekday breakfast egg consumption, we conducted focus groups with mothers of school-aged children aged six to twelve. With parents pressed for time in the morning, these mothers agreed that serving eggs to kids for breakfast was healthier than serving sugar cereal. To determine potential messaging and tactics, we tested some concepts in focus groups later in the year with a view to launching a mental energy campaign in 2008.

To gain a better understanding of how the Canadian and U.S. markets compare, CEMA spearheaded a first-ever Usage and Attitude (U&A) study in both Canada and the United States. Respondents on both sides of the border shared many similarities:

the number of eggs eaten per week; the number of eggs eaten per serving; and concerns about blood cholesterol. Interestingly, the most marked difference was in the specialty egg market, where 17% of Canadians indicated they purchased Omega-3 eggs most often compared with only 2% of U.S. consumers.

Work collaboratively with the provinces on marketing efforts

This past year, national and provincial marketers once again took part in a pair of three-day marketing workshops: a strategic planning session in May and a subsequent gathering in October to review programs and strengthen messages. As part of these meetings, the provincial marketers exchanged ideas and provided updates on recent activities in their respective provinces. In addition, staff from the Corporate and Public Affairs Unit led half-day communications workshops on key issues such as animal care and trade. Organized by our Marketing and Nutrition Unit, these bi-annual marketing workshops are a good example of collaboration between the national and provincial egg boards as well as across CEMA units.

Our entire industry benefits by promoting innovation through small-scale pilot projects. All provinces are eligible for funding through the Provincial Innovation Fund, where CEMA covers 70% of an innovative program up to a maximum of \$20,000. To be considered, the project must have the potential to be launched either nationally or in another province. In 2007, applicants to the Provincial Innovation Fund successfully offered a blend of unique and innovative programming. In Quebec, provincial marketers developed an exciting Healthy Energy football training camp for children in collaboration with Université Laval. Meanwhile, further east, Prince Edward Island and Newfoundland and Labrador combined funds to produce a high-quality video on cooking with eggs aimed at culinary arts and foodservice institutions throughout the Maritimes.

CEMA's Provincial Promotion Fund, which assists our five smallest partners in carrying out promotional work, is being increased by \$5,000 in the coming year to a total of \$20,000 per province. As part of Promotion Fund activities in 2007, Egg Producers of Newfoundland and Labrador organized an on-carton Hockey Canada promotion in collaboration with graders that pushed egg sales up by 8%, with no noticeable decline in retail sales following the promotion. With these results, CEMA approached graders across the country to participate in a national on-carton promotion, featuring a grand prize trip for four to the International Ice Hockey Federation World Championship in Quebec City in May 2008 and \$1,000 spending money. A total of 24 graders are expected to participate in the February 2008 promotion, when industrial product volumes are highest.

Research Partnerships

In the long-run, CEMA believes any effective strategy for long-term growth requires messaging based on scientific research. One of our primary sources for research data is our partnership with the Egg Nutrition Center (ENC). Based in Washington, D.C., the Centre conducts research with health professionals and scientists that enables us to convey the latest nutrition information to key stakeholders in a very cost-effective way. This past year, we adapted the ENC's *Nutrition Close-Up* newsletter into a Canadian version for doctors and dietitians in English and French Canada.

In 2007, CEMA also provided an educational grant to Memorial University in St. John's to create an online, on-demand version of the Continuing Medical Education Program. After completing the requirements of the latest course, *The Role of Diet, Exercise and Healthy Living in Cardiovascular Health*, participants should be able to identify the link between diet, blood lipids and the risk of heart disease. The program enables any medical professional, no matter their location in Canada, to participate.

Looking ahead, CEMA will continue working to grow the shell egg category with its Healthy Energy, Cholesterol Concerned and other promotional strategies. Where we once focused all advertising dollars on reaching consumers through television, we are now seeing a real diversity in our marketing approach. In 2008, tactics will include a new promotion program with Curves fitness studios, bicycle lane ads, radio spots and the new *Moment of Truth* kits doctors can give to patients. As well, our successful *Nudge* campaign will continue the first half of the year and new television ads are planned for a fall launch. We are aiming for another 1% increase in retail sales in 2008.

4 | key result area

MANAGING RISK

Ensure that the egg industry is prepared for emergency outbreaks

Ensure CEMA considers the risk of any decision taken on behalf of producers and consumers

In 2007, the federal government recognized supply management as a Business Risk Management (BRM) Program, agreeing that our orderly marketing approach is a viable way for egg, poultry and dairy producers to mitigate market volatilities and manage risk. Like industry, the government now views supply management not as a production tool, but as an effective program for stabilizing prices for consumers and incomes for producers.

Over the long-term, the recognition will help supply management producers re-affirm their commitment to their business. The government's decision to recognize the three pillars of supply management as a BRM Program could also open the door in future to potential disease compensation and risk management assistance. The government's recognition of supply management as a BRM Program is a victory for our leadership and for every single producer. It was made possible by the collaborative efforts of national and provincial supply management representatives who made presentations to various House of Commons and Senate standing committees and spearheaded letter-writing and media campaigns targeting politicians.

In early 2007, egg, poultry and dairy producers along with staff from provincial boards participated in the federal government's consultation hearings on the new agriculture and agri-food policy, *Growing Forward*. As an industry, our objective was and is to ensure the recognition of supply management as a BRM Program

in agricultural agreements between the federal government and the provinces. Coming out of the federal-provincial-territorial agriculture ministers' meeting in Whistler this past summer, the ministers were extremely supportive of our position. In the months ahead, we will continue our insistence that supply management and its three pillars be recognized and clearly defined within the BRM pillar of *Growing Forward*, and in all implementation agreements between the federal government and the provinces.

Ensure that the egg industry is prepared for emergency outbreaks

On the morning of September 27, 2007, the Canadian Food Inspection Agency (CFIA) confirmed the presence of the H7N3 strain of avian (AI) influenza in a broiler breeding flock near Silton, Saskatchewan. This was not the H5N1 Asian strain harmful to humans, which has not been found in North America. Nevertheless, this particular highly pathogenic strain required the flock be immediately quarantined and humanely euthanized.

Although limited to a single, isolated Saskatchewan farm, we learned that avian influenza impacts not only the directly affected commodity or province. CEMA was forced to make significant adjustments to egg movement. For example, eggs



Susan Schafers

Across the country, egg producers like Susan in Alberta follow strict on-farm biosecurity measures to protect their flocks from disease.

leaving the control area were segregated to prevent them from exiting the province, affecting graders and processors that would under normal circumstances have received Saskatchewan eggs. The Industrial Product Program Unit moved quickly to fill any sourcing gaps.

Since 2004, the national and provincial poultry boards, in collaboration with the CFIA, have been mobilizing for precisely this type of event. In the lead-up to Sifton, our work to develop an AI scenario manual, conduct tabletop simulations, run industry workshops and consult with CFIA's *AI Hazard Specific Plan* helped ensure a rapid response that achieved disease containment. The broiler breeder knew whom to alert; the provincial poultry groups worked closely with the CFIA to determine the extent of the situation; and our provincial and national poultry groups delivered consistent messages to media, and by extension to all Canadians, that poultry products remained safe for human consumption.

Ensure CEMA considers the risk of any decision taken on behalf of producers and consumers

In case they were needed, CEMA had earlier in the year produced two full-page contingency newspaper ads for consumers. Our market research in the days and weeks following discovery of the virus told us consumers remained confident in Canadian eggs. Science has demonstrated that avian influenza is a disease of poultry and does not affect the safety of food. We must be prepared to communicate to consumers during an avian influenza incident to assure them of the safety of the food supply.

In order to maintain consumer trust in our products in case of an AI emergency, CEMA worked closely this past year with the National Poultry Group to produce an AI scenarios binder. Each of the ten scenarios was accompanied by key messages, a news



Don MacAllister, CEMA Field Inspector

Don and his fellow field inspectors rate Canada's 1,045 regulated egg producers on CEMA's on-farm food safety and animal care programs.

release and guidelines for gathering and releasing information to the public. This project complemented a fall workshop where our four poultry industries looked at control area scenarios and the impact of movement controls.

CFIA AI Hazard Specific Plan Updated

Also in 2007, CEMA worked closely with the processors and CFIA to review the government's *AI Hazard Specific Plan*, which outlines the responses when there is an outbreak or suspicion of notifiable avian influenza. Specifically, we wanted to clarify what protocols need to be enacted before and after the Minister of Agriculture announces a control area. We distributed a summary of these protocols to our provincial boards to help producers and other stakeholders understand what restrictions could be expected in an AI emergency.

AI Compensation

Farm animal health, like public health and food safety, is a public good for which responsibility is shared by federal, provincial and territorial governments. Despite CEMA's best efforts to secure adequate compensation for egg producers in the event flocks are culled, the government moved forward with regulations which significantly lowered the maximum compensation available under the *Health of Animals Act* for laying hens ordered destroyed. The CFIA continues to press forward with AI surveillance for commercial poultry which, if H5 or H7 strains are found, will result in depopulation.

Surveillance is a good idea in principle and a useful precaution, yet we remain perplexed that egg producers are expected to bear the financial impact of any depopulation order with minimal assistance from government. Egg producers need to be compensated when flocks are destroyed as the demands placed on them are often international in nature and out of their control. They are the first line of defence in keeping their hens free from disease and Canada's food supply safe for the greater public good. Producers must not fear for their livelihoods by coming forward with a problem.

This is an issue we will continue to address, especially with current government programs continuing to fall short of industry needs. In meetings and correspondence with government, we were informed compensation gaps would be filled by what was referred to as a “Phase II” program. Toward the end of 2007, there was still no indication this would occur. In our future discussions with government on these issues, we will continue to focus on the funding gaps that needlessly place our industry at risk.

Draft Risk Management Framework

This past year, CEMA completed a draft risk management framework to assist management in identifying potential events that could impact our ability to achieve strategic objectives outlined in the CEMA Business Plan. The framework will allow us to use a consistent process for identifying and mitigating risk within the Agency. Accountability for managing identified risks will be assigned according to the level of responsibility.

Field Inspectors Enhancing On-Farm Food Safety

To enhance on-farm food safety and animal welfare on Canada's regulated egg farms, CEMA field inspectors carry out annual Start Clean-Stay Clean™ (SC-SC) and Animal Care Program inspections. Our inspectors are continually striving to sharpen their skills and further their own knowledge on the latest developments in egg production. Depending on particular skill sets and areas of interest, CEMA inspectors have gained extensive knowledge in a variety of subject areas: on-farm biosecurity, egg grading and processing, food safety, hen medication and vaccination, pest control and chemical use. At the semi-annual field operations workshop in November, inspectors shared new information they had gleaned from their study and in-field experience.

During their May workshop in Quebec City, inspectors focused on improving the uniformity of the SC-SC program across Canada. The decision was made to review the program in 2008 to ensure it continues to be founded on science and meets the expectations of Canadian consumers for high quality, safe eggs. In particular, we will be looking to standardize the record-keeping used by producers. Meanwhile, CEMA's Production Management Committee has taken SC-SC to Technical Review 2, a program-management distinction recognized by the CFIA. As we work toward uniform on-farm food safety standards across the egg industry, consumers can now be assured the same level of food-safe production practices across the country.

Insurance Options

The Project Management Team (PMT) comprised of provincial and national representatives worked throughout 2007 examining options for an insurance program for losses due to Salmonella enteritidis (Se) in the breeding pullet and laying hen table egg sectors. Earlier, various insurance options were under consideration for separate pullet and layer insurance programs. The Board of Directors felt it was more appropriate to combine our resources on a single insurance vehicle for all sectors within the industry instead of competing policies. In 2008, the PMT will further explore options and in particular, the development of a reciprocal insurance mechanism.



Ken and Emily Krahn

Like other young Canadian egg farmers, Ken and Emily of Manitoba strive to produce the best eggs possible.

5 key result area

MANAGING ISSUES

Build into the national egg supply system the means for effective resolution of issues arising from its operation

Ensure that stakeholders commit to the discipline of issues management aimed at reducing the costs and resources required to resolve issues

Strengthen the concept of a Canadian shell egg brand

Anyone who has ever tossed a pebble into a pond knows about the ripple effect. Likewise, decisions reached beyond our shores or changes in a single province can have far-reaching implications for our Agency. This makes our ability to assess the changing landscape a critical element of egg supply management.

Build into the national egg supply system the means for effective resolution of issues arising from its operation

To strengthen consumer confidence in Canadian eggs, the CEMA Board of Directors passed a motion in 2007 making compliance on cage density a must for a passing score on the Animal Care Program. The Board also approved a cage density policy that goes into effect in April 2008. Meanwhile, the Agency approached Canada's post-secondary education foodservice providers with information about hen housing and also arranged media training for producers and industry staff. We worked actively on traceability and worked with our partners in the poultry sector on biosecurity guidelines. Furthermore, CEMA funded a number of research projects and continued to monitor developments in animal cruelty legislation.

In November 2007, CEMA's Board of Directors unanimously approved a motion to make 85% the passing grade for the Animal Care Program as of April 2008, increasing to 90% a year later. A passing score will depend on meeting the cage density requirements set out in the new policy.

Starting April 1, 2008, the policy calls for producers with older cages to house white and brown leghorns at 64 and 70 square inches per hen respectively; for housing installed after 2003, white and brown leghorns must be housed at 67 and 75 square inches. As part of the policy's phased-in approach, house average is not permitted for calculating density in facilities with housing installed after 2003; with older cages it will be permitted until April 1, 2010. In 2007, the Animal Care Communications Committee made up of CEMA and provincial board communications specialists developed and distributed information on a new policy to field inspectors and producers. CEMA Chairman Laurent Souigny followed up with a letter to producers to explain the issues at hand and encourage compliance.

On average, the egg industry saw a primarily static demand for free-range or organic specialty eggs in 2007. In fact, we experienced a first-ever surplus in organic eggs that required redirection to the industrial product pool. CEMA recognizes that pockets of demand for eggs from hens not raised in cages do exist. Consistent with our mandate as a national industry, our goal is to meet that demand. In 2008, we will be conducting focus groups across the country with Canadians concerned about animal care to better understand their views on this issue.

Outreach to Foodservice

In 2007, CEMA's Corporate and Public Affairs (CPA) Unit prepared and delivered a live Internet-based seminar, or webinar, to university and college campus foodservice representatives. The objective of the project was to provide individuals making food-purchasing decisions at post-secondary educational institutions with factual and science-based information about hen housing and the Canadian egg industry. The webinar featured presentations by industry leaders and poultry scientists and comprised four components: a general overview of egg production in Canada, a guided virtual tour of the industry, a science-based presentation on the advantages and challenges specific to hen housing in Canada, and a brief question and answer session.

To get this issue on the radar of our target audience and provide a credible source of information about eggs, CEMA ran a half-page advertisement in a number of publications directed at the Canadian foodservice industry. The ad included a link to a newly-updated CEMA hen housing fact sheet and invited those with any questions to call our toll-free number. Altogether, eleven participants representing Canadian universities and third-party campus foodservice providers attended the webinar. The presentation will remain accessible as an archive on the Internet throughout 2008.

In addition to our work on the webinar, the CPA Unit provided media training to national and provincial board staff in Ottawa and worked with the British Columbia Egg Marketing Board to train a Speak-up Team comprised of BC egg producers.

Parliamentary Bills

CEMA continued monitoring two bills before Parliament proposing amendments to the animal cruelty section of the Criminal Code. For egg producers, it is critical that the current defences in Section 429 (2) of the Criminal Code are explicitly stated in any Criminal Code changes related to animal care. The CPA Unit, in collaboration with the provincial boards, continuously monitors national, provincial and municipal developments in animal care and ensures our stakeholders are apprised of new developments.

Strengthen the concept of a Canadian shell egg brand

As the Agency mandated to produce and market Canadian eggs, we know it is important to develop a consistent national traceability system for our product.

CEMA has been an active participant in the Industry-Government Advisory Group (IGAC) on traceability ever since the Minister of Agriculture announced the government's intention in 2006 to establish a phased-in National Agriculture and Food Traceability System. This past year, the federal-provincial-territorial ministers of agriculture agreed provincial governments would take the lead in the implementation process for multi-commodity premises identification, while poultry and livestock groups would lead the work on animal identification and animal movement.

Ensure that stakeholders commit to the discipline of issues management aimed at reducing the costs and resources required to resolve issues

Due to significant inter-provincial trade of eggs, it is also desirable that a uniform traceability mechanism be used across the country to ensure product can be traced along the supply chain. In 2007, CEMA entered into discussions with graders and breakers on the need for such a system and we look forward to working with them further in 2008. In the meantime, the Agency has reaffirmed traceability as a priority and a traceability work program is scheduled for implementation in 2008.

Avian Biosecurity Advisory Committee

In 2007, CEMA participated in the Avian Biosecurity Advisory Committee made up of representatives from government and the various poultry sectors. The Avian Biosecurity Advisory Committee (ABAC) continues to develop an Avian On-Farm National Biosecurity Standards Reference Guide and will explore avenues to ensure its implementation. Going forward, CEMA will examine the implication of the guidelines on our Start Clean-Stay Clean™ program.

Research

Throughout 2007, a number of CEMA-funded research projects were carried out in response to the issues that impact the industry. At the University of Guelph, in Ontario, work continued on the 18 versus 19-week pullet project to determine the optimum age for flock placement in the layer barn. A final report is expected from the researchers in spring 2008. Further west, the University of Manitoba has been carrying out a nutrition study on plant sterols, while in Saskatchewan, CEMA teamed up with Saskatchewan Egg Producers to provide a funding grant enabling the University of Saskatchewan to purchase new cages and upgrade its layer facility. In Quebec, the University of Montreal is examining *Salmonella enteritidis* (Se). Meanwhile, south of the border, CEMA continues to benefit from its information-sharing partnership with the Egg Nutrition Center, communicating the latest science to Canadian dietitians and physicians.

organizational development priorities

GOVERNANCE, HUMAN RESOURCES AND INFORMATION MANAGEMENT

Continue the improvement of CEMA's Business Planning Cycle

Continue the improvement in managing issues, making decisions and communicating and managing information

Ensure that CEMA is supported by human resources with the most appropriate knowledge and skills, and efficiently employs these assets

Ensure that CEMA is supported by the best possible information management systems

Again this past year, CEMA made considerable headway in becoming a more efficient and accountable business. With continuous and measurable improvement as our goal, we achieved a number of the objectives outlined in the CEMA Business Plan. Among the highlights, we strengthened the link between Board goals and unit workplans and acquired a new building. The Agency also updated Terms of Reference for committees, upgraded team skills and made further progress on the path toward a paperless future.

Continue the improvement of CEMA's Business Planning Cycle

CEMA's annual planning cycle is an ongoing consultation process with the Board of Directors to determine strategic priorities for the upcoming year. Each step of the way, we seek input from staff members, our committees and provincial board partners.

In 2007, CEMA managers worked closely with Directors to strengthen this planning process by identifying areas for refinement and making necessary adjustments. Last year also marked the Agency's first complete run through the cycle.

In addition, we continued our efforts to solidify accountability within the Agency by firmly linking the Board's strategic priorities with clear objectives in unit workplans, making it possible to connect the Board's vision with staff objectives and the Agency's own internal operations.

Because CEMA's planning for the coming year begins a full twelve months in advance, documents usually come before Directors and provincial staff on more than one occasion in the course of a year. As a result, when agenda items are discussed around the Board table, Directors already have a good understanding of the policy options and solutions available to them. This has improved the Board's overall efficiency, engendering trust and establishing a greater level of confidence within the Agency.

In 2007, we made a lot of progress working with the provinces on policy development. As a matter of business, managers and staff continue their direct consultations with provincial staff to solve problems and complete projects. With everyone sharing a stake in the policy development process, it has contributed to an environment of increased trust and co-operation. A good example of this can be seen on the National Egg Supply Team (NEST), where stakeholders from across the country offer their insight and feedback before proposed policies go before the Board.



In 2008, CEMA will be moving to a brand new home in Ottawa. Office space will be shared with Dairy Farmers of Canada, Canadian Hatching Egg Producers and the Canadian Federation of Agriculture.

Continue the improvement in managing issues, making decisions and communicating and managing information

Our goal remains to measure, monitor and continuously improve. To reach that goal, we conducted a strategic audit early in the year and presented the results to Directors and staff at a day-long strategic planning session in January. The strategic audit launched our annual planning cycle by highlighting the past year's achievements and emphasizing what remained to be accomplished in the year ahead. It also provided the Board with a starting point to prioritize issues in the Strategic Insights document, finalized in March with input from Directors and provincial staff. This document ultimately forms the basis of the CEMA Business Plan, unit workplans and goal-setting for the year.

Building Acquisition

In 2007, CEMA spearheaded efforts to acquire and renovate new office space in Ottawa. Together with Dairy Farmers of Canada, Canadian Hatching Egg Producers and the Canadian Federation of Agriculture, we have assumed ownership of a building and are set to move in August 2008. To realize our vision of an agriculture campus in the heart of the city, a building committee with representation from each organization met weekly to configure the layout, interior finishes, and telecommunications. The working space will be open-concept, enabling staff from each organization to freely interact. It is worth noting that CEMA managers worked intensively this past year to secure financing, obtain building permits and settle all legal agreements. Land acquisition is a new frontier for the Agency, and it should serve us well in making the Agency that much more financially stable. With rental rates continuing to rise in Ottawa, this is not only a good long-term initiative but one that immediately pays dividends by reducing our occupancy costs.

Committee Terms of Reference

In 2007, CEMA reviewed and updated the Terms of Reference for its various committees to ensure proper governance. Working with individual managers and committee members, we adjusted language to ensure alignment with our corporate bylaws and in the process produced a common look and feel for these documents. To provide additional clarity of mission, participants examined committee roles and responsibilities to determine the scope of their duties. We also ensured that committee members have access to unit workplans to increase efficiency and project flow. The Board approved the new Terms of Reference for committees in February 2007. Furthermore, we updated the Business Expense Policy to include a receipt system, modernized our Guidelines for the Use of Restricted Funds to clarify authority around fund usage and established a standard application form for research funding.

Staff members also worked this past year to archive our vast collection of historical documents. Every annual report was scanned along with Board documents dating from the early 1990s. These are now fully electronic and searchable using optical character recognition technology.

Electronic Updates

Following each Board meeting, we circulate a document recapping Board decisions to staff, Directors, government stakeholders and our partners in the processing sector. Some of our provincial board partners use it as a reference to update their members. Meanwhile, CEMA Directors are becoming more efficient with their time through the use of the latest communications technology. As a result, the pace of meetings has increased as Directors are usually up to speed on the latest developments. Our objective is to move toward a paperless future where Directors will access their documents, wherever possible, on laptop computers via wireless Internet. The boardroom in the new building is being designed to make this possible.

Ensure that CEMA is supported by human resources with the most appropriate knowledge and skills, and efficiently employs these assets

Our executive team has a directive from the Board of Directors to make the Canadian egg business run efficiently and smoothly. The stakes are very high, and we have a mandate to support an entire industry in Canada. For any organization to meet the goals set out by its leadership, it is essential to have the right people in the right positions with the right skills. When Board priorities are set at CEMA, the Chief Executive Officer must provide his staff with the tools they need to achieve success.

**Nancy Clark, Vice-President
Human Resources and Organization Development**

Joining the Agency this past year, Nancy has been working to refine CEMA's annual business planning cycle and achieve the organization's human resource goals.



In 2007, we made a lot of organizational progress strengthening skill sets and the team's overall capabilities. This represents a big step forward in our philosophy and also in terms of culture change. Our objective is to strengthen accountability and responsibility within the Agency and to create a successful environment by providing the appropriate tools, working conditions and compensation, and a host of challenging opportunities. As such, new employees were welcomed to fill skill gaps and staff took part in training sessions to upgrade abilities. In 2008, we will continue our efforts to solidify the team and improve the work we do across units.

Meanwhile, the Human Resources Unit introduced a new Web-based performance management software application. We are moving toward a more proactive performance management approach to empower people with the right skills to do their jobs. When managers identify a gap, corrective action can be taken to improve process, and training options can also be investigated. We are aiming to complete all staff appraisals by the end of December each year.

Ensure that CEMA is supported by the best possible information management systems

For Agency staff to carry out their duties in a rapidly evolving digital environment, reliable communication is an absolute must. Every member of the team relies on technology in one way or another, making information management a major key to our success as an organization. Charged with this responsibility is CEMA's Information Services (IS) Unit, which works to ensure a secure and up-to-date technology infrastructure while simultaneously assessing all knowledge management needs.

In 2007, the Agency brought in a knowledge management consultant to devise a plan for acquiring the necessary information tools for our industry and staff needs. As part of these efforts, work was completed on CEMA's Web-based e-mail system. By outsourcing our e-mail system to an external server, it became possible for users to access their entire e-mail archive using a browser on any computer with Internet access. Meanwhile, we also made progress on a Virtual Private Network (VPN), which allows employees on an as-needed basis to connect to CEMA's computer environment over the Internet using encrypted data technology.

CEMA also experimented with workflow technology on a trial basis, with a full launch of a new Web-based application expected in 2008. This technology is an all-in-one document storage, list management and community billboard tool that supports workflow — more efficient collaboration among team members and external contacts, no matter where they are in the world. With the arrival of this technology, plans are under way to eliminate CEMA's employee Intranet site. CEMA staff and the Board of Directors will be making full use of its many features beginning in 2008.

This past year, the IS Unit established an online security awareness program. Set for a 2008 launch, we will be running weekly network vulnerability assessments to identify potential weaknesses in our system and circulating notices outlining acceptable standards for online behaviour and best practices for using e-mail. To identify areas for improvement, IS will be circulating an awareness survey to staff within the next year. As well, we plan to update and launch a revamped Security and Acceptable Use Policy in 2008.

CEMA managers also worked on a Business Continuity Plan to identify risks and scenarios that could impede staff in their carrying out of day-to-day activities. This is not a one-year project, but rather a continuous goal taking into account everything from severe weather to fire, data loss, pandemic illness and more. In 2008, we will be taking a closer look at our in-house financial information system from a business continuity perspective.

We enhanced the software provincial boards use for handling Industrial Product Program information and made it possible for CEMA to make Electronic Funds Transfers directly. Finally, the IS Unit worked with the Economics, Statistics and Pricing (ESP) Unit to design an online producer feed survey to gather information for Cost of Production calculations.

As CEMA moves increasingly toward a paperless future, more processes will be making their way online. Fortunately, there has been enthusiasm for these changes and many early adopters are embracing the new technology.

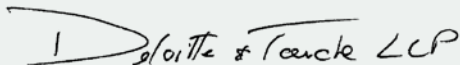
AUDITORS' REPORT

To the Members of the Canadian Egg Marketing Agency

We have audited the statement of financial position of the Canadian Egg Marketing Agency (the "Agency") as at December 29, 2007 and the statements of operations, of changes in fund balances and of cash flows for the fifty-two week period then ended. These financial statements are the responsibility of the Agency'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 the Agency as at December 29, 2007 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.

A handwritten signature in dark ink, appearing to read "Deloitte & Touche LLP", with a stylized flourish at the beginning.

Chartered Accountants
Licensed Public Accountants

Ottawa, Canada
February 8, 2008

FINANCIAL STATEMENTS

Statement of Financial Position

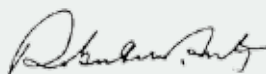
as at December 29, 2007
(in thousands of dollars)

	Pooled Income Fund	Administration Fund	Total 2007	Total 2006
CURRENT ASSETS				
Cash and cash equivalents	\$ 29,000	\$ 4,964	\$ 33,964	\$ 19,440
Accounts receivable (Note 4)	12,088	4,091	16,179	12,072
Inventory	632	—	632	264
Prepaid expenses	—	86	86	67
Investments (Note 5)	10,866	—	10,866	—
	52,586	9,141	61,727	31,843
RESTRICTED INVESTMENTS (Note 6)	1,569	—	1,569	270
CAPITAL ASSETS (Note 7)	—	3,390	3,390	508
	\$ 54,155	\$ 12,531	\$ 66,686	\$ 32,621
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 8,028	\$ 2,558	\$ 10,586	\$ 11,007
Short-term portion of long-term debt (Note 8)	—	56	56	—
	8,028	2,614	10,642	11,007
LONG-TERM DEBT (Note 8)	—	2,896	2,896	—
	8,028	5,510	13,538	11,007
COMMITMENTS AND CONTINGENCIES (Notes 14 and 15)				
FUND BALANCES				
Internally restricted (Note 9)	2,194	4,869	7,063	7,248
Investment in capital assets	—	438	438	508
Unrestricted	43,933	1,714	45,647	13,858
	46,127	7,021	53,148	21,614
	\$ 54,155	\$ 12,531	\$ 66,686	\$ 32,621

APPROVED BY THE BOARD



Laurent Souigny
Chair of the Board of Directors



Robert Sexty
Chair 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 29, 2007
(in thousands of dollars)

	Pooled Income Fund	Administration Fund	2007	2006
REVENUE				
Egg sales	\$ 68,389	\$ —	\$ 68,389	\$ 38,647
Levy, service fees and contributions	117,624	15,507	133,131	128,258
Net levy contribution (Note 10)	14,970	—	14,970	5,599
Interest and other income	1,883	204	2,087	608
Other income — restricted (Note 9)	97	202	299	364
	202,963	15,913	218,876	173,476
EXPENSES				
Trade operations:				
Egg purchases	156,804	—	156,804	155,931
Transportation and handling	5,560	—	5,560	5,509
Food safety program	160	—	160	25
Third-party verification	1,180	—	1,180	1,033
Other	62	—	62	118
	163,766	—	163,766	162,616
Advertising and promotion	—	7,274	7,274	6,267
Distribution to provinces	—	—	—	4,650
Salaries	—	4,213	4,213	3,888
Repayment of producer contributions	3,878	—	3,878	—
Professional fees and consulting	1,059	864	1,923	2,273
Meetings and travel	—	1,503	1,503	1,597
Public affairs and communications	—	1,577	1,577	1,493
Office and other administrative	—	709	709	679
Marketing and nutrition research	—	461	461	644
Research (Note 9)	—	774	774	393
Rent	—	417	417	407
Per diems	—	479	479	560
Donations	206	—	206	201
Amortization of capital assets	—	70	70	75
Uncollected levy, service fees and contributions	83	9	92	89
Transfer of administration expenses (Note 11)	1,912	(1,912)	—	—
	7,138	16,438	23,576	23,216
TOTAL EXPENSES	170,904	16,438	187,342	185,832
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	\$ 32,059	\$ (525)	\$ 31,534	\$ (12,356)

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 29, 2007
(in thousands of dollars)

	Pooled Income Fund			Administration Fund				2007	2006
	Internally Restricted (Note 9)	Unrestricted	Total	Internally Restricted (Note 9)	Invested in Capital Assets	Unrestricted	Total		
BALANCE, BEGINNING OF PERIOD	\$ 2,098	\$ 11,970	\$ 14,068	\$ 5,150	\$ 508	\$ 1,888	\$ 7,546	\$ 21,614	\$ 33,970
Excess (deficiency) of revenue over expenses	96	31,963	32,059	(281)	—	(244)	(525)	31,534	(12,356)
Amortization expense	—	—	—	—	(70)	70	—	—	—
Net acquisitions of capital assets	—	—	—	—	2,952	(2,952)	—	—	—
Long-term debt on capital assets	—	—	—	—	(2,956)	2,956	—	—	—
Repayment of long-term debt	—	—	—	—	4	(4)	—	—	—
BALANCE, END OF PERIOD	\$ 2,194	\$ 43,933	\$ 46,127	\$ 4,869	\$ 438	\$ 1,714	\$ 7,021	\$ 53,148	\$ 21,614

Statement of Cash Flows

for the fifty-two week period ended December 29, 2007
(in thousands of dollars)

	Pooled Income Fund	Administration Fund	2007 Total	2006 Total
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Excess (deficiency) of revenue over expenses	\$ 32,059	\$ (525)	\$ 31,534	\$ (12,356)
Item not affecting cash				
Amortization of capital assets	—	70	70	75
	32,059	(455)	31,604	(12,281)
Changes in non-cash operating working capital items	(2,606)	(2,309)	(4,915)	(697)
	29,453	(2,764)	26,689	(12,978)
FINANCING AND INVESTING				
Purchase of investments	(24,312)	—	(24,312)	(16,766)
Proceeds from matured investments	12,147	—	12,147	28,193
Purchase of capital assets	—	(2,952)	(2,952)	(367)
Proceeds from long-term debt	—	2,956	2,956	
Payments on long-term debt	—	(4)	(4)	—
	(12,165)	—	(12,165)	11,060
NET CASH INFLOW (OUTFLOW)	17,288	(2,764)	14,524	(1,918)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	11,712	7,728	19,440	21,358
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 29,000	\$ 4,964	\$ 33,964	\$ 19,440

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

NOTES TO THE FINANCIAL STATEMENTS

for the fifty-two week period ended December 29, 2007
(in thousands of dollars)

I. ACTIVITIES OF THE AGENCY

Objective of the Agency

In 1972, Parliament enacted the Farm Products Marketing Agencies Act. The Canadian Egg Marketing Agency (the “Agency”), 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 the Agency’s responsibilities, including: to effectively manage the production, pricing, distribution and disposition of eggs in Canada and to promote the sale of eggs. The Agency is exempt from income taxes under section 149(1)(e) of the Income Tax Act.

Levy, service fees and contributions

The provincial and territorial egg marketing boards have agreed to act as agents of the Agency for the collection, control and remittance of the levy, as recommended by the Agency and approved by the National Farm Products Council. Further amounts are paid to the Agency by the provincial 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

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

Service contract

The Agency maintains a service contract with the Quebec provincial board.

The contract allows for the operation of a provincial industrial product removal program within the national system. As a result of national programs operated by the Agency, not all provincial declarations are recorded as sales by the provincial board. In Quebec, the provincial removal program was responsible for 90% (2006 — 95%) of their province’s industrial product declarations. The difference of 10% (2006 — 5%) represents product sold interprovincially by the Agency. The excess of national levies over the cost of removal of industrial product is recorded as net levy contribution.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Fund accounting

The Agency reports under the fund accounting method to ensure the observance of limitations and restrictions placed on the use of resources available to the Agency. The accounts of the Agency 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. Monetary assets and liabilities are translated at the exchange rates in effect at the statement of financial position date.

Revenue recognition

The Agency follows the deferral method of accounting.

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

NOTES TO THE FINANCIAL STATEMENTS

for the fifty-two week period ended December 29, 2007
(in thousands of dollars)

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

Commencing December 31, 2006, 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 ("HFT") and carried at fair value.

Investments

Commencing December 31, 2006, government bonds portions of investments 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 when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities or other third-party information. Transaction costs related to investments are expensed as incurred.

Accounts receivable

Amounts receivable are classified as loans and receivables and carried at amortized cost.

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 of capital assets 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	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.

Accounts payable, accrued liabilities and long-term debt

Accounts payable and accrued liabilities are classified as other liabilities and carried at amortized cost and fair value approximates amortized cost.

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

The fair value of the debt is based on quoted market prices when available. If quoted market prices are not available, fair value is estimated using quoted market prices of similar debt or other third-party information. Transaction costs related to the debt are expensed as incurred.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets 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, 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.

NOTES TO THE FINANCIAL STATEMENTS

for the fifty-two week period ended December 29, 2007
(in thousands of dollars)

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Agency's designation of such instruments. Settlement date accounting is used.

Held for trading

Held for trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal, and unrealized gains and losses are included in other income.

Financial liabilities designated as held for trading are those non-derivative financial liabilities that the Agency elects to designate on initial recognition as instruments that it will measure at fair value through other interest expense. These are accounted for in the same manner as held for trading assets.

Other than cash and cash equivalents, no assets or liabilities have been classified as held for trading.

Held to maturity

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, that an entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method.

Investments and restricted investments have been classified as held to maturity.

Available for sale

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale, or that are not classified as loans and receivables, held to maturity or held for trading. Available for sale financial assets are carried at fair value with unrealized gains and losses included in a separate balance in the statement of changes in fund balances until realized when the cumulative gain or loss is transferred to other income.

No assets have been classified as available for sale.

3. CHANGE IN ACCOUNTING POLICY

Effective December 31, 2006, the Agency adopted CICA Handbook Section 3855, *Financial Instruments — Recognition and Measurement*; Section 3865, *Hedges*; Section 3861, *Disclosure and Presentation*; and amendments to Section 4400, *Financial Statement Presentation by Not-for-profit Organizations*. These new Handbook Sections provide comprehensive requirements for the recognition, measurement and disclosure of financial instruments, as well as standards on when and how hedge accounting may be applied. The amendments to Handbook Section 4400 require certain gains and losses to be recognized initially as direct entries to the Statement of Changes in Fund Balances for the period.

The new financial instrument standards require retrospective application as at December 31, 2006 by the Agency without restatement of comparative amounts.

The new Handbook Section 3855 provides comprehensive requirements for the recognition and measurement of financial instruments. Under these new standards, all financial instruments are included on the balance sheet and are measured either at fair value or at amortized cost depending on their classification.

As the Agency has not classified any financial instruments as either held for trading or available for sale, there is no impact on the Agency's opening fund balances as at December 31, 2006.

NOTES TO THE FINANCIAL STATEMENTS

for the fifty-two week period ended December 29, 2007
(in thousands of dollars)

4. ACCOUNTS RECEIVABLE

	2007			2006
	Pooled Income Fund	Administration Fund	Total	Total
Levy, service fees and contributions	\$ 8,623	\$ 2,081	\$ 10,704	\$ 9,185
Egg sales	4,212	—	4,212	2,768
Other	322	941	1,263	119
Interfund receivable	(1,069)	1,069	—	—
	\$ 12,088	\$ 4,091	\$ 16,179	\$ 12,072

5. INVESTMENTS

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Short-term government bonds	\$ 10,866	\$ 10,992	\$ —	\$ —
	\$ 10,866	\$ 10,992	\$ —	\$ —

The rate of return on investments range from 3.00% to 4.11%.

6. RESTRICTED INVESTMENTS

Restricted investments held by the Agency represent funds which have been restricted by the Board of Directors for the purposes described in Note 9. The cost and fair values of the investments are as follows:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 1,438	\$ 1,446	\$ 74	\$ 75
Short-term government bonds	131	136	196	199
	\$ 1,569	\$ 1,582	\$ 270	\$ 274

The rate of return on investments ranges from 3.59% to 5.95% (2006 — 3.53% to 6.00%).

NOTES TO THE FINANCIAL STATEMENTS

for the fifty-two week period ended December 29, 2007
(in thousands of dollars)

7. CAPITAL ASSETS

	2007			2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 416	\$ —	\$ 416	\$ —
Buildings	2,817	2	2,815	327
Office equipment	495	423	72	85
Computer hardware and software	1,935	1,848	87	87
Leasehold improvements	71	71	—	9
	\$ 5,734	\$ 2,344	\$ 3,390	\$ 508

Cost and accumulated amortization amounted to \$2,839 and \$2,331 respectively in 2006.

In November 2007, the Agency purchased 43.04% of a building and its land located on Florence Street in Ottawa at a cost of \$2,205. It plans to relocate its operations to this building in August of 2008. The Agency also purchased, in November 2007, 50% of a building and its land located on James Street in Ottawa at a cost of \$1,028. The Agency plans to lease this facility to other organizations.

8. LONG-TERM DEBT

In November 2007, the Agency entered into a debt agreement with a financial institution to finance the acquisition of two buildings. The debt amount at inception was \$2,956. The debt bears interest at an annual rate of 5.68% and is payable in monthly installments of capital and interest of \$18.5. The debt payments are amortized over a 25-year period and the debt is renewable in 2017. The debt is secured by the Florence Street and James Street buildings which were acquired in 2007. The fair value of the debt as at December 29, 2007 is \$3,450.

As well, the Agency has a revolving demand loan facility with a total approved limit of \$5,000 at an interest rate of prime on the first \$2,500 and prime plus 0.5% on the remainder. The facility is secured by a general assignment of book debts and a demand debenture agreement. As at December 29, 2007, loans under this facility were \$NIL (2006 — \$NIL).

Future payments of the debt are as follows:

	Capital	Interest	Total
2008	\$ 56	\$ 166	\$ 222
2009	59	163	222
2010	62	160	222
2011	66	156	222
2012	70	152	222
Years thereafter	2,639	1,774	4,413
	2,952	2,571	5,523
Less: Short-term portion	56	166	222
	\$ 2,896	\$ 2,405	\$ 5,301

NOTES TO THE FINANCIAL STATEMENTS

for the fifty-two week period ended December 29, 2007
(in thousands of dollars)

9. FUND BALANCES

Restricted fund balance — Pooled Income Fund

The Agency 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:

	2007			2006
	Risk Management	NQE	Total	Total
Beginning balance	\$ 1,787	\$ 311	\$ 2,098	\$ 9,270
Interest income	80	17	97	190
Risk management activities	(1)	—	(1)	(62)
Transfer to Restricted Funds — Administration	—	—	—	(150)
Distribution to provinces	—	—	—	(4,650)
Transfer to Unrestricted Funds — Pooled Income	—	—	—	(2,500)
Ending balance	\$ 1,866	\$ 328	\$ 2,194	\$ 2,098

Restricted fund balance — Administration Fund

- (i) In 1997, the Agency was directed by the Board of Directors to set up a restriction in the Administration Fund to fund research. Minimum and maximum fund balances for this restricted fund are of \$2,000 and \$5,000 respectively. Use of the funds is at the discretion of the Board of Directors.
- (ii) In 2005, the Agency received a settlement of \$379 as a result of the Canadian Vitamins class action suit. These funds are directed to be expensed against future research activities.

The transactions in the Fund are as follows:

	2007			2006
	Research	Canadian Vitamins	Total	Total
Beginning balance	\$ 4,812	\$ 338	\$ 5,150	\$ 4,650
Interest income	191	11	202	174
Research activities	(502)	(272)	(774)	(393)
Transfer from Restricted Funds Pooled Income	—	—	—	150
Income from levies	291	—	291	569
Ending balance	\$ 4,792	\$ 77	\$ 4,869	\$ 5,150

NOTES TO THE FINANCIAL STATEMENTS

for the fifty-two week period ended December 29, 2007
(in thousands of dollars)

10. SUPPLEMENTARY INFORMATION

Egg sales revenue and egg purchases are recorded on a net basis as net levy contribution for an amount of \$14,970 (2006 — \$5,599), in accordance with the service contract with the Quebec provincial board, and on a gross basis as egg sales and egg purchases, in the case of the other provinces.

Had all the industrial product removal operations in Quebec been recorded on a gross basis, the Pooled Income Fund Statement of Operations would be as follows:

	2007	2006
Revenue		
Egg sales	\$ 76,312	\$ 44,009
Levy, service fees and contributions	143,365	135,484
Interest and other income	1,883	437
Other income — restricted	97	190
	221,657	180,120
Expenses		
Trade operations:		
Egg purchases	175,082	177,280
Transportation and handling	5,976	5,993
Food safety program	160	25
Third-party verification	1,180	1,033
Other	62	118
Payment of contributions to provinces	—	4,650
Repayment of producer contributions	3,878	—
Professional fees and consulting	1,059	—
Donations of eggs	206	—
Uncollected levy, service fees and contributions	83	81
Transfer of administration costs	1,912	1,898
	189,598	192,279
Excess (deficiency) of revenue over expenses	\$ 32,059	\$ (12,159)

11. TRANSFER OF ADMINISTRATION EXPENSES

In 2007, the Agency made an allocation of administrative expenses of \$1,912 (2006 — \$1,898) from the Administration Fund to the Pooled Income Fund. This transfer provides for the full cost, including administration and overhead, of operating the Agency's Industrial Product Program.

NOTES TO THE FINANCIAL STATEMENTS

for the fifty-two week period ended December 29, 2007
(in thousands of dollars)

12. PENSION PLAN

The Agency sponsors and administers The Pension Plan for the Employees of the Canadian Egg Marketing Agency (the “Plan”), which is a defined contribution plan registered under the Ontario Pensions Benefit Act.

The Agency contributes an amount equal to the employee’s required contribution under the Plan. In the 2007 fiscal period, the Agency contributed \$152 (2006 — \$149) to the Plan, which is included in salaries expense in the statement of operations.

13. FINANCIAL INSTRUMENTS

The Agency’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 debt. Unless otherwise noted, it is management’s opinion that the Agency is not exposed to significant interest or credit risks arising from these instruments.

Interest rate risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Agency’s cash flows, financial positions and investment revenue.

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.

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. The Agency monitors the financial health of its investments on an ongoing basis with the assistance of its investments advisors.

As described in Note 4, the Agency’s receivables are from two main sources: egg sales to egg processors and levy, service fees and contributions collected by Provincial Boards. The Agency mitigates credit risk through credit evaluations and monitoring of the outstanding balances and the financial conditions of the Agency’s customers.

Egg sales are dependent upon four groups of related companies. In 2007, these customers purchased 86% (2006 — 95%) of the eggs sold by the Agency.

14. COMMITMENTS

The Agency is committed under the terms of an operating lease contract for the rental of premises including estimated operating costs and for the rental of office equipment in fiscal 2008 for an amount of \$254. In addition, the Agency is also committed under contract for the purchase of advertising in fiscal 2008 for \$2,174 (2007 — \$3,206).

NOTES TO THE FINANCIAL STATEMENTS

for the fifty-two week period ended December 29, 2007
(in thousands of dollars)

15. CONTINGENT LIABILITIES

- a) In 2005, the Agency received a counterclaim from a grader alleging that the Agency intentionally and wrongfully interfered with contractual relations and interprovincial marketing of eggs, delayed in allocating quota to the NWT and failed to provide proper service with the intent to force the grader from the Canadian Egg industry. The total damages being sought in the counterclaim are \$17,000.

It is the Agency's view that the outcome of the legal process is not determinable at this time. As a result, no recognition of any liability has been included in the Agency's 2007 financial statements.

- b) In 2005, a processor served the Agency with a Notice of Intent to Arbitrate. The processor claims that it was forced to close its business and that it suffered damages as a result of the Agency's conduct. Specifically, the processor alleges breach of contract, breach of fiduciary duty and conspiracy, and claims to have suffered damages in excess of \$18,000. The Arbitration hearing has been completed, with final arguments taking place in early 2008.

The Agency's view is that the outcome of the arbitration process is not determinable at this time and no liability has been accrued in the Agency's 2007 financial statements.

- c) In 2005, a producer filed a statement of claim in the Saskatchewan court against the Agency and the Saskatchewan Egg Producers totaling \$122. The statement of claim has been formally defended by way of a statement of defence. A mandatory mediation session took place on September 16, 2005 which did not result in a resolution. The plaintiff has not taken further action since that time.

It is the Agency's view that the outcome of the legal process is not determinable at this time. As a result, no recognition of any liability has been included in the Agency's 2007 financial statements.

16. COMPARATIVE FIGURES

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