

This year's annual report is, in almost all respects, a success story. We entered the year with an \$88,000 deficit in our Pooled Income Fund, used for market operations, and ended with a surplus of close to \$24 million. We wrestled with excess supplies and reaped the benefits of a 1.5% increase in table disappearance.

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>> **Report of the Chairman**



Laurent Souigny
CHAIRMAN

Our success can be attributed to the desire to tackle problems head-on for the benefit of Canada's whole egg industry. Certainly, there were positive financial trends, such as the unexpected strengthening of the U.S.-based industrial product price, to which we can claim no responsibility. Nonetheless, the capacity for all sectors in our industry to work together resulted in several accomplishments.

Provincial egg boards and the egg board in the Northwest Territories worked well among themselves and with the CEMA Board of Directors and agreed to provide loans to CEMA at very favourable rates. This got us through the traditionally difficult first few months of high supplies. They also agreed to producer contributions of \$7 million to ensure CEMA could effectively operate its programs throughout the year.

National and provincial staff worked together to develop marketing and promotional initiatives, communications resources, new releases of our Egg Information Management System and an animal care program. Regular market meetings among provincial and national operations staff identify problem areas quickly so they can be resolved quickly, too.

The cooperative spirit among national, provincial and territorial representatives was also seen in the progress made renewing the Federal-Provincial Agreement. I would like to thank all who worked so hard on the renewal committee to come up with an excellent draft that was forwarded to all of the marketing boards and to the provincial-territorial supervisory boards as well. We are waiting for their comments before we can proceed any further. With the level of progress made in renewing this Agreement in 2003, I am hopeful we will be able to sign and implement it in 2004.

Collaboration was seen in our relationships with our customers as well. Together with our colleagues in the Canadian Poultry and Egg Processors Council, we began a yield study so we can create an equitable, science-based approach to pricing industrial eggs. We reached a new contract with customers so breaker prices are updated weekly, rather than every second week, and supply volumes are adjusted semi-annually, instead of annually. We've expanded third-party verification capacity in several breaking plants.

At the government level, we've worked closely with officials, both federal and provincial. We met twice with representatives of the National Association of Agri-food Supervisory Agencies (NAASA) and invited a NAASA representative to serve on our Cost of Production Committee. We held several meetings with National Farm Products Council (NFPC) officials to keep them abreast of our operations and administrative programming.

Our briefings with government officials on the progress of agricultural trade negotiations at the World Trade Organization have been ongoing. Together with our partners in the other supply management organizations, we participated in meetings with our Members of Parliament to ensure our politicians understand the value of supply management to the Canadian economy, consumers and rural communities. We also participated in several technical missions to meet with government officials in other countries to share our understanding of the Canadian position and to learn more about their positions. In this way, we developed new collaborations upon which we can work together to secure our common requirements in a WTO agreement.

Though we've had so many accomplishments in 2003, we face very serious challenges in 2004. The collaboration of the past year will be

Our briefings with government officials on the progress of agricultural trade negotiations at the World Trade Organization have been ongoing.

needed again throughout this new year with at least as much intensity, perhaps even more.

Our first challenge will be in securing levy and quota orders for 2004. Extensive preparations will be required for the NFPC hearings scheduled in March regarding the complaints of Saskatchewan and British Columbia signatories. I truly wish we had been able to reach agreement among our signatories without these hearings being required. I remain committed to discussions among all signatories to resolve difficulties.

Secondly, we must work hard with our processor colleagues. We must work with them to reach agreement on end-use pricing once and for all, so the benefits of the growth in demand for processed product in the hotel, restaurant and institutional sectors can be shared by producers, too. We will also need to work with them to complete a yield study

begun in 2003 so we can use the results to find equitable pricing for eggs being sold to breakers.

Thirdly, I see a long-range challenge in the agricultural trade negotiations at the World Trade Organization. Our supply management system is built on three pillars — import control, producer pricing and production discipline. It is important that we maintain the legal mechanisms to sustain these pillars. As 2004 progresses, and into 2005, we and our colleagues in the other supply management organizations will be proposing to our federal negotiators and politicians text that is required in a new agriculture agreement so these pillars will continue to function in Canada. All egg producers should be prepared to work within their farm organizations to seek support for a fair and equitable world trade deal. You, as egg producers, will be called upon to participate in meetings with your Members of Parliament and the elected officials to your provincial legislatures.

I know we can, as an egg industry, have a very successful year in 2004. The difficulties we overcame in 2003 make this very clear to me.

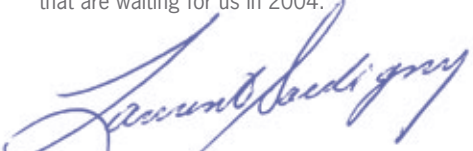
I also remember 2003 as the year we lost our dear friend Ernie Unger. Ernie sat on our Board of Directors as the representative of the hatchery sector and he always considered the well-being of the whole Canadian egg industry. He was respected by his colleagues at the Board table. He was a kind and gentle man.

The success achieved in 2003 would not have been possible without the dedication and hard work of CEMA's directors. They gave up significant amounts of time away from their businesses and homes to direct this Agency. I was honoured to serve as their chair.

I'd like to extend my thanks to our new Executive Director, Tim Lambert. He is a welcome addition to the CEMA

team, providing stability to our office administration. Coming from the red meat sector, he has quickly learned about our egg marketing and egg production system. He is bringing new ideas to our business and is actively involved in moving our industry forward so all sectors work collaboratively together.

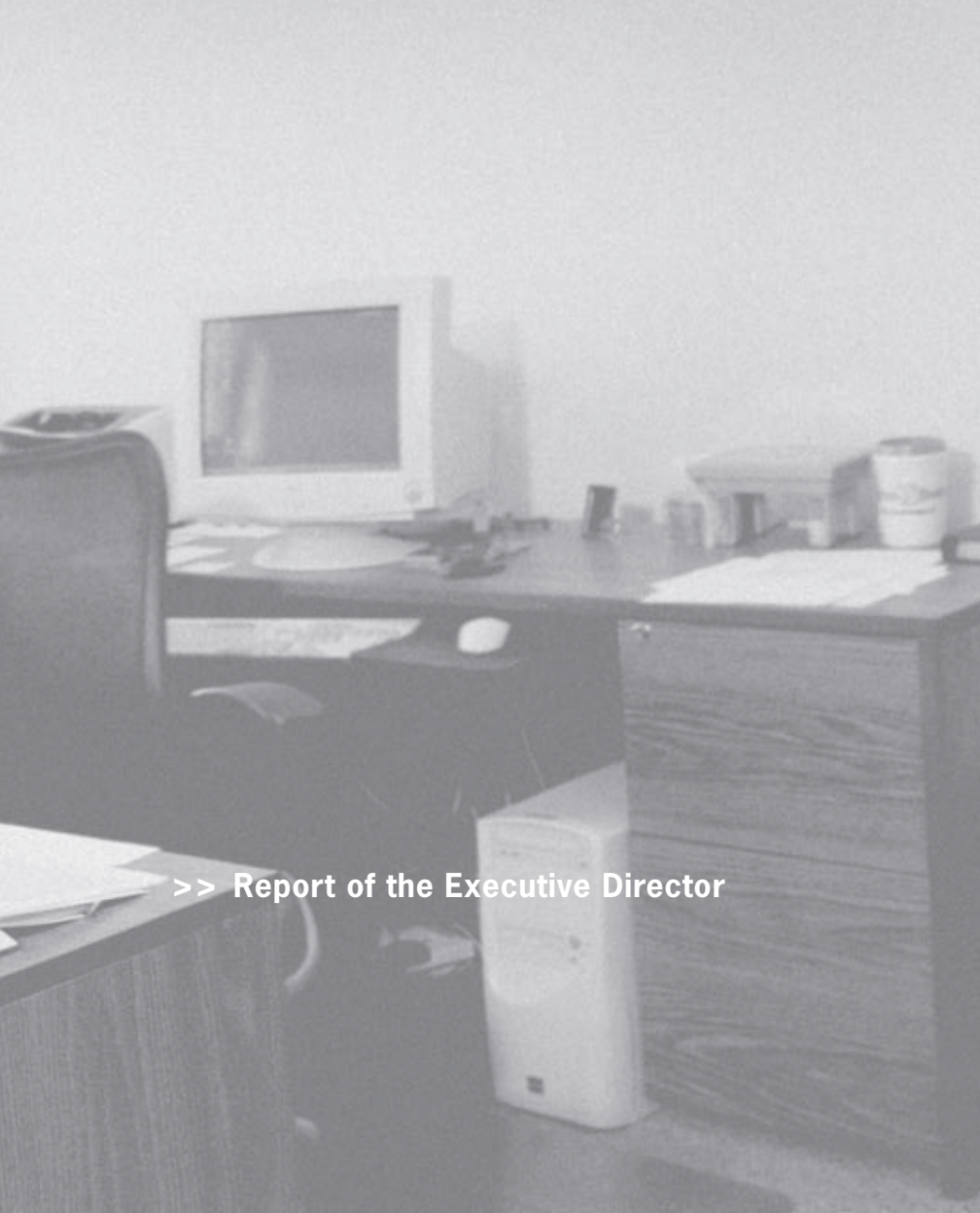
Finally, I would also like to thank all of our CEMA employees. As usual, they carried out their duties with diligence and dedication to Canada's egg industry. CEMA has always been fortunate to have a skilled and committed team of staff, who continues to serve CEMA well. Our egg team of directors and staff is well on the road to resolving the challenges and taking advantage of the opportunities that are waiting for us in 2004.



Laurent Souigny; Chairman



Tim Lambert
EXECUTIVE DIRECTOR



>> Report of the Executive Director

In June 2003, I was very pleased to join the CEMA team as Executive Director.

I have spent my entire career working in agriculture with government, the private sector and with several livestock commodity organizations, including beef and pork. As a career agriculturalist, I have a deep-rooted confidence in the Canadian farmer, the Canadian farm and all that they represent.

As a newcomer to the business of supply management, I came with the perspective that supply management is a very critical and successful component of Canadian agriculture. After seven months in the egg industry, I am convinced this viewpoint is accurate. Not only do Canadians benefit from high quality, wholesome and safe products at a fair price, but Canadian producers benefit from stable markets and fair returns on their investment and labour. Supply management is a “win-win” for all involved.

What we have is a unique system to be proud of, a system that works and a system that is worthy of being defended, actively and enthusiastically. I look forward to serving as part of this team for many years to come.

The issues that impacted our industry in 2003, whether positive or not so positive, will shape our future. There are a few common threads to be considered, certainly issues that are cause for reflection. The challenges and opportunities demonstrated the need for solidarity. We must not take for granted the system that producers, processors and consumers enjoy.

During my first few months at CEMA, trade issues pertaining to the World Trade Organization were on the front burner. Supply management was being challenged by outside forces as many countries would see an end to this uniquely Canadian system or, at a minimum, see radical changes imposed. At the end of the year, we were facing challenges from provincial signatories to our quota and levy orders, challenges that have us entering a new year without such orders in place. Our challenges are now also from inside forces.

Ironically, these challenges come at a time when U.S. breaker prices have never been stronger and when industry finances have never been better. The message is simple: the challenges we face from outside our system are far too important and make it absolutely critical that we function effectively and efficiently inside our own house.

TRADE

The Cancun Ministerial meeting for the World Trade Organization was a turning point for the global negotiations on agricultural trade. It was clear there would be little in the resulting text that would be good for supply management. “No deal is better than a bad deal” and from that perspective, the collapse of the talks provided a window of opportunity

for supply management to continue to push our story to government officials, both elected and staff.

To this end, we have remained very active in conjunction with the other national supply management organizations. We held a conference of all the supply management provincial managers to build on efforts nationally and in each province. This was followed by a meeting of the Executive Committees of the five national supply management organizations to discuss plans for continuing to put forth technical arguments in favour of our trade position and ways to deliver the “good news” story that is Canadian supply management.

In the fall, we organized several technical missions to present our ideas to foreign governments. CEMA participated in missions to Europe, India and the U.S. Our ideas for moving the

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talks forward and our concepts around improving market access and eliminating export subsidies were positively received.

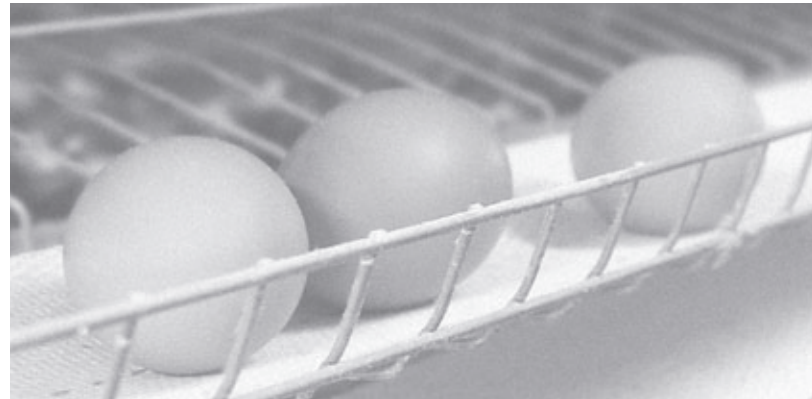
Our trade activities will continue to escalate into 2004. With the spring federal election in Canada, we will need to be diligent at both the national and provincial levels to ensure our message is being heard. It will be critical that grassroots producers be active in their local communities, seeking out opportunities to talk to government officials.

FINANCIAL SITUATION — WHAT A DIFFERENCE A YEAR MAKES

Throughout 2003, tightening supply and a shift towards increased cage space per hen in the U.S. in response to animal care concerns resulted in significant

increases in the U.S. egg prices. This, coupled with the cooperation and support of the provinces and Northwest Territories, which included loans of nearly \$3 million to the Agency, enable us to move from an opening deficit in the Pooled Income Fund (PIF) to a closing surplus of \$24.4 million.

The lesson learned was that factors beyond our control, such as the exchange rate between the U.S. and Canadian dollars and the U.S. price have huge financial implications for the Agency. As a result, the Board re-established “trigger points” for the PIF balance, moving the upward trigger point to \$25 million and the minimum trigger to \$15 million. The trigger points indicate the need for the CEMA Board to review the Agency’s financial circumstances and to revisit the levy order. In addition, our financial strength has enabled us to



Challenges will always abound but along with the challenges are opportunities. We expect prices to stay strong in the U.S. With this strength, we anticipate a very positive and healthy bottom line.

enhance our risk management fund and has allowed us to provide stable support for research of benefit to egg producers.

In 2004, the U.S. price is expected to remain strong at least through the early part of the year and so we expect a strong financial position for the Agency as we move into the new year.

MARKETING OF EGGS

In 2003, the Harvard Medical School released a study that related egg consumption in teenage girls to a reduced risk of breast cancer later in life. This study contributed to a growing body of evidence that eggs are a very important component of a healthy lifestyle. Eggs are rapidly becoming the “food of choice”. Whether it is the high quality of eggs as a protein source,

or the micronutrients of eggs such as choline that is linked to memory, or folic acid and its connection to healthy fetal development, eggs are in! We are excited about the implications for increasing egg consumption that this nutrition information and research provide to the industry.

Our marketing and nutrition teams have been actively continuing their work in the promotion and marketing of eggs. This year, our *So good. Anytime.*™ theme continues with television advertising promoting eggs as a great dinner alternative. Our Eggmark was the grand prize winner among over 4,000 entries submitted to the American Institute of Graphic Arts.

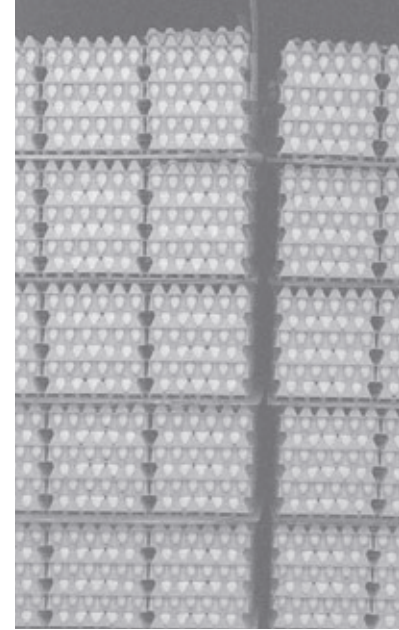
START CLEAN — STAY CLEAN™

Food safety was on the front pages of most newspapers in 2003. The discovery of one cow with Bovine Spongiform Encephalopathy (BSE) has been devastating to our Canadian beef industry and created ripples felt throughout agriculture. This serves as a reminder to everyone in food production to continually focus on improving our systems.

Late in 2003, the Agency received notification from the Canadian Food Inspection Agency that our *Start Clean — Stay Clean*™ on-farm food safety program was technically complete as a HACCP-based program. This was a significant accomplishment for the egg industry which has long been a world leader in food safety.

NATIONAL FARM PRODUCTS COUNCIL (NFPC)

As we moved into the final quarter of 2003, CEMA submitted quota and levy orders to Council. NFPC did not



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approve them and it received two formal complaints, one from British Columbia signatories and the other from Saskatchewan signatories. Council has scheduled hearings into these complaints for March of 2004. Unfortunately, Council also decided not to consider an extension of the 2003 quota and levy orders. This leaves the Agency without orders in place. Fortunately, the provincial Boards have all agreed to continue to remit levies at 25 cents per dozen and to assign individual producer quotas according to the 2003 allocations.

OUTLOOK FOR THE UPCOMING YEAR

As we move into 2004, I am excited and optimistic about our industry. Challenges will always abound but along with the challenges are opportunities. We expect

prices to stay strong in the U.S. With this strength we expect to have a very positive and healthy bottom line. Demand for eggs and egg products is increasing with the good news concerning the nutritional benefits of eggs and we expect the trend towards increasing egg consumption to continue in Canada.

Even the challenges we face with the formal complaints to Council and the current lack of quota and levy orders will ultimately create opportunity for the Agency. We need to emerge from these hearings with a renewed sense of commitment to work together across this country and to continue to build a system that sustains and supports the national supply management system.

We are organizing a strategic planning session for CEMA directors in the spring. Our goal coming out of this session is to continue to improve our ability to develop effective programs and policies that will enable us to work together more effectively, resolve issues and focus on the task of building our industry and

building demand for our product. With the producers, graders, breakers and other stakeholders in this industry, we have the collective capability and strength of purpose to successfully tackle any challenge.

One of the main considerations in my decision to relocate to Ottawa was the obvious sense of team and community that exists at CEMA. I felt very comfortable with the Directors of the Board and realized very quickly that they are very dedicated and knowledgeable. As well, the Board spoke highly of the calibre of the staff and I have not been disappointed. My thanks go to both the Board and staff. I am proud to be part of this team and this industry and I look forward to a successful year in 2004.



Tim Lambert, Executive Director

In 2003, the Harvard Medical School released a study that related egg consumption in teenage girls to a reduced risk of breast cancer later in life.



Peter Clarke
NOVA SCOTIA

Bonnie Goguen
ECONOMETRICS MANAGER



>> Rapid change in market conditions highlights 2003

The Canadian Egg Marketing Agency identified and met several challenges in 2003. We reviewed several aspects of our operations to ensure efficiency and successfully grappled with our opening deficit of \$88,000 in the Pooled Income Fund (PIF), used for operating the Industrial Products Program (IPP).

Several economic factors — such as the value of the Canadian dollar and egg prices in the United States — were beyond the Agency's control and were, in large part, responsible for the deficit in 2002. Similarly, an increase in the United States egg prices, somewhat offset by a stronger Canadian dollar, were responsible for our surprising surplus of approximately \$24 million in the PIF at the end of 2003.

The success of 2003, however, would not have been possible without the cooperation of the provincial egg marketing boards and producers in every province and the Northwest Territories who assisted financially for the sake of their national egg supply management system.

LEVY ORDER SECURED IN FIRST QUARTER

Our request at the end of 2002 for a 27-cent national levy in 2003 was denied by National Farm Products Council (NFPC). CEMA met with Council representatives to review the many economic factors placing pressure on the PIF, including the 9.4% increase in national industrial product volumes in 2002 over 2001 and continuing growth of volumes in the early part of 2003. Low prices received from breakers by CEMA for eggs sold and increasing production costs made the situation even more difficult. While NFPC was sympathetic to the difficulties being faced by the egg industry, it rejected our second request for a 27-cent national levy.

With it clear that a solution other than increased levy revenue had to be found, several conference calls of CEMA's Board of Directors were held in December and January and a special, facilitated seminar

was also held in Ottawa for our directors. Our subsequent proposal — unanimously accepted by all directors — was then accepted by Council:

- a) a levy order that included a national levy of 25 cents a dozen.
- b) a producer contribution based on provincial quota shares would total \$7 million and make up the shortfall. The contributions would be collected on a weekly basis through reductions to the industrial product claims.

FINANCIAL TURNAROUND

The revenue plan, together with internal loans from our Administration Fund and loans from provincial egg marketing boards at minimal interest, secured the Agency through the very difficult first four

months. The financial difficulties were created in part by increasing levels of industrial product and a Canadian dollar that surpassed the 70-cent U.S. mark. At Week 16, national industrial product declarations ran 3% higher than the same period a year earlier.

In total, seven provincial boards loaned close to \$3 million to the Agency. Had it not been for this assistance, the Agency would have had to borrow substantially more on its line of credit than it in fact had borrowed.

A financial turnaround was signalled, however, shortly after the first quarter as springtime sales strengthened the market. In addition, there was an unexpected increase in United States prices upon which prices paid to CEMA by Canadian breakers are based. In fact, CEMA was called to source several loads of table product during the Easter period as supplies tightened due to increased demand and several large flock changes.

The success of 2003, however, would not have been possible without the cooperation of the provincial egg marketing boards and producers in every province and the Northwest Territories.

The changing financial factors required a mid-year review of the Pooled Income Fund and the projected year-end fund balance. Continued strengthening of U.S. breaker prices necessitated regular revision of our projections for the remainder of the year. It became increasingly evident that the PIF would end the year in a financially secure position as Canadian breaker prices reached a peak of \$1.13 late in 2003.

EFFICIENCIES INCREASED

At the end of 2002 and early in 2003, CEMA launched several initiatives to streamline operations and increase the level of efficiency of the IPP. These initiatives were kept in place despite improved market conditions, as history has demonstrated strong prices are a temporary phenomenon.

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The United States reduction in supplies, which ultimately is what strengthened U.S. and Canadian breaker prices, occurred in 2003 for largely two reasons: Exotic Newcastle Disease in the southwest resulted in the loss of millions of layers and new animal care guidelines increased cage space per bird and, therefore, decreased layer numbers. As the U.S. industry recovers from the disease, and if new facilities are built to produce the shortfall created by the animal care program, surplus may again cause prices to fall.

In 2003, it cost approximately \$170 million to run the IPP. CEMA recognizes its responsibility to continually review and improve on those factors within its control.

EARLY FOWL REMOVAL

As 2002 came to a close, CEMA instituted an Early Fowl Removal (EFR) Program for the first time since 1994. The purpose was to reduce

Federal Quota Allocation (in dozens)			
	PROPOSED ALLOCATION FOR 2004	ALLOCATION 2003	ALLOCATION 2002
BC	63,961,064	63,961,064	63,961,064
AB	44,879,943	44,879,943	44,879,943
NT	2,806,000	2,806,000	2,806,000
SK	23,732,805	23,732,805	23,732,805
MB	56,620,562	56,620,562	56,620,562
ON	197,018,490	197,018,490	197,018,490
QC	91,775,995	91,775,995	91,775,995
NB	10,860,745	10,860,745	10,860,745
NS	19,434,122	19,434,122	19,434,122
PE	3,215,858	3,215,858	3,215,858
NL	8,603,244	8,603,244	8,603,244
TOTAL	522,908,828	522,908,828	522,908,828
Industrial product (IP) declarations	110,304,450*	110,997,270	112,501,365

*(estimate)

Note: Does not include EFP and special market development

The Federal Quota Allocation has remained the same in recent years. An early spike in industrial product volumes in 2003 did not signal a trend. In fact, volumes declined in 2003 over 2002 and are estimated to decline again in 2004.

egg supplies in 2003 during two of the traditionally highest supply times in the year. Approximately 120,000 birds were removed from production during the first phase in January and February. Discussions among CEMA and the provincial boards identified several modifications in program administration to encourage participation during the second phase of May, June and July when another 173,956 birds were removed.

CEMA and its provincial board partners are looking forward to even more active participation in the EFR Program established for 2004. Discussions began in September so the availability of the program could be communicated to producers well before birds need to be taken out of production. We plan to remove 650,000 layers during January and February.

CEMA and its provincial board partners are looking forward to even more active participation in the EFR Program established for 2004.

In addition to our EFR Program, CEMA implemented a stand down of 26,262 layers from production for five years in the Northwest Territories.

YIELD STUDY

Together with the Canadian Poultry and Egg Processors Council, CEMA conducted a study to review the current industrial product pricing formulas for both nest run grade and graded, sized product. The outcome of this project will result in a scientifically based approach to pricing of all industrial eggs. The new equitable pricing formula will consider yield, solids and productivity factors for all breakers in Canada regardless of locations. We are scheduled to implement pricing based on the study results in June 2004.

EGGS FOR PROCESSING

In 2003, CEMA assessed the Eggs for Processing (EFP) Program and the way it is being administered in the provinces that have EFP quota. The program allows producers to provide product directly to breakers at a price negotiated

between the breaker and the producer. The Program was designed four years ago to fill the increasing requirements of breakers for eggs with Canadian product, rather than having breakers rely on imported eggs from the United States. However, there is concern that

the program is increasing the availability of breaking eggs at certain times of the year that need to be sold by CEMA.

Regional meetings were held with provincial egg boards in May to standardize administration across the country and to determine the best ways to manage the program. Following extensive discussions with provincial boards, CEMA proposed to cut back

Eggs For Processing (EFP) Quota Allocation (in dozens)		
	PROPOSED ALLOCATION FOR 2004	ALLOCATION FOR 2003
BC	0	2,440,000
AB	610,000	0
NT	0	0
SK	2,440,000	4,880,000
MB	4,880,000	9,760,000
ON	17,080,000	17,080,000
QC	2,440,000	2,440,000
NB	0	0
NS	0	0
PE	0	0
NL	0	0
TOTAL	27,450,000	36,600,000

CEMA proposes to cut back on EFP allocations in 2004.

complaint was filed by British Columbia Egg Producers and NFPC was scheduled to hear the complaint early in 2004.

TRANSPORTATION

To further increase efficiencies, we explored with the Atlantic egg boards new transportation arrangements to reduce CEMA's costs for moving

50% of the EFP quota in two provinces and to cut back all of the EFP quota in British Columbia. Subsequent to this, a

industrial product to breaking plants. A Request for Proposals was forwarded to seven freight carriers in Atlantic Canada to study the ways CEMA could enhance our freight logistics in

the region. Two provided proposals addressing the full Atlantic region. CEMA is working with the Atlantic boards to implement the results of the work.

COSTS OF PRODUCTION

Cost of Production (COP) pricing is a fundamental tenet of the national egg supply management system. The price

2003 Interprovincial Movement (Data in boxes of 15 dozen. CEMA table movement of 201,436 boxes included.)													
SELLERS	BUYERS												TOTAL SALES
	YK	BC	AB	NT	SK	MB	ON	QC	NB	NS	PEI	NL	
YK		0	0	0	0	0	0	0	0	0	0	0	0
BC	0		1,288	0	0	0	0	0	0	0	0	0	0
AB	22,231	297,798		20,234	15,862	19,792	325	0	0	0	0	0	0
NT	0	0	0		0	0	0	0	0	0	0	0	0
SK	0	0	571,181	0		21,634	1,563	0	0	0	0	0	0
MB	0	171,967	365,629	0	175,916		188,473	0	0	0	0	0	0
ON	0	0	0	0	0	484		578,451	14,724	0	0	0	0
QC	0	0	0	0	0	0	239,799		13,927	2,822	0	411	0
NB	0	0	0	0	0	0	3,000	411		21,079	1,317	6,665	0
NS	0	0	0	0	0	0	56,519	36	43,128		5,688	24,391	0
PE	0	0	0	0	0	0	0	384	0	0		0	0
NL	0	0	0	0	0	0	0	0	0	0	0		0
TOTAL PURCHASES	22,231	469,765	938,098	20,234	191,778	41,910	489,679	579,282	71,779	23,901	7,005	31,467	2,887,129

Most interprovincial movement of eggs is handled by the egg industry's businesses but CEMA is required to transport some eggs interprovincially. The table above shows interprovincial movement handled by CEMA and by private egg businesses.

CEMA pays provincial boards for eggs that are subsequently sold to breakers are based on a COP formula derived from a large field survey of producer costs every three to five years. Cost components of the formula are updated monthly or quarterly, depending on the component, relying on external sources for information. As a fair return to producers for the eggs they supply is a cornerstone of supply management, it is necessary that cost components in the formula are updated using the most accurate data possible.

CEMA commissioned a study to examine the feasibility of gathering updated cost data from producers themselves, as these are the individuals most affected and familiar with the costs. A producer panel was set up to test this updating methodology and whether or

not it will be feasible and economical to use it will be determined in 2004. In addition, CEMA will proceed with a new large field survey of producer costs in 2004, based on 2003 data.

THIRD PARTY VERIFICATION

Traditionally, the Canadian Food Inspection Agency has completed third party verification services for CEMA at breaking plants on a user-pay basis. However, CFIA's mandate is one of food safety and its personnel are increasingly burdened by new demands to ensure safe food and healthy farm animals in all sectors.

Consequently, CEMA has searched for contracted inspection services with private companies to verify commercial transactions at breaking plants. This broader, independent verification system will result in an effective program that includes the examination of, among other things, shell egg receipts, nest run weights, load documents, incident reporting and daily inventory reconciliations. In 2003, independent

third party verification was placed in all breaking facilities in Manitoba, was expanded to additional plants in Ontario and was begun in Quebec. These services are in addition to the independent service that was already being provided to CEMA in Alberta. Further progress is anticipated in 2004 and our goal is to have contracted inspection services at all of the country's 16 breaking plants.

NEW CHALLENGES FOR 2004

As we enter yet another year of national egg supply management in Canada, we are faced with some of the same operational challenges dealt with in 2003. Again absent a levy order in the early part of the year, NFPC also did not approve a quota order upon which provincial shares of production

are based. Council received two formal complaints, one each from British Columbia Egg Producers and Saskatchewan Egg Producers. Panel hearings for these complaints have been scheduled by Council for late winter, 2004.

Fortunately, provincial egg boards have provided assurances they will continue to remit monies at 25 cents a dozen and will act responsibly in issuing individual producer quotas.

PARTNERSHIPS IMPORTANT

As CEMA increases efficiencies at all levels of its operations, we want to continue to work closely with our government partners. Several concerns, many of them stemming from the financial difficulties early in the year, were brought to CEMA's attention by the National Association of Agri-Food Supervisory Agencies (NAASA), which consists of senior personnel from the provincial governments' marketing board supervisory bodies as well as NFPC.

In 2003, independent third party verification was placed in all breaking facilities in Manitoba, was expanded to additional plants in Ontario and was begun in Quebec. These services are in addition to the independent service that was already being provided to CEMA in Alberta.



CEMA instituted regional operational review meetings in 2003 to encourage all stakeholders of the IPP within that region to discuss program operations.

We dealt directly with these concerns in several meetings, fully explaining the national egg supply management system, the operations of our IPP and the fundamental importance of COP pricing to the success of our Canadian industry. As a result, NFPC agreed once again to have representation on our Cost of Production Committee. CEMA's Board of Directors also accepted a Committee recommendation to have representation from the NAASA group on the Committee.

We also met with officials from the Department of Foreign Affairs and International Trade to discuss the administration of imports.

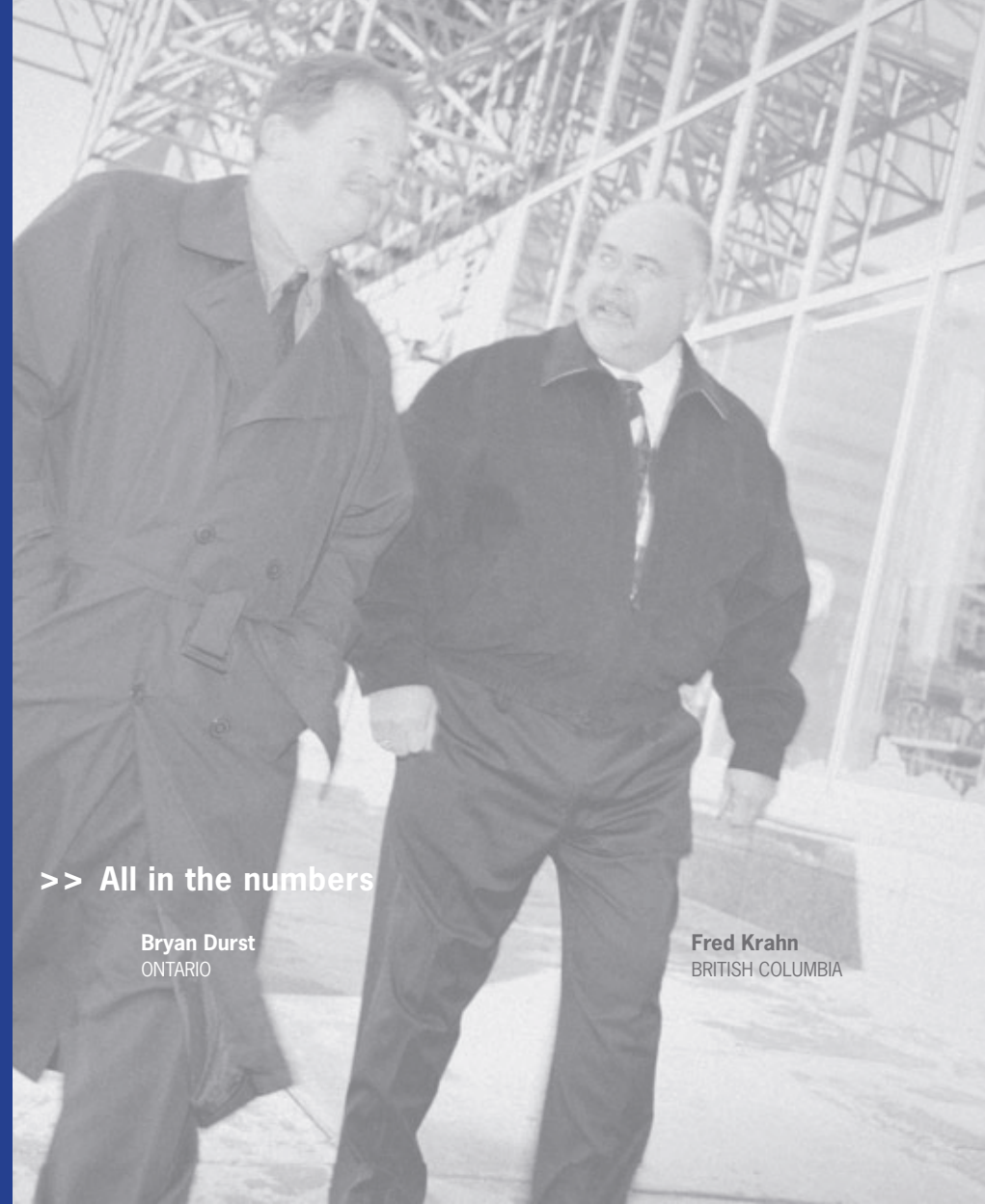
REVIEW MEETINGS

CEMA instituted regional operational review meetings in 2003 to encourage all stakeholders of the IPP within that region to discuss program operations. The meetings involved graders forwarding product to breakers, provincial boards, CEMA and transporters. Two such meetings were held in Atlantic Canada and at year's end, meetings were being organized for Ontario and Quebec.

The review meetings have proved valuable in identifying program strengths as well as improvements that could be made. CEMA hopes to regularly assemble regional forums of provincial industry partners in order to communicate and operate the IPP as effectively as possible.

Several initiatives were undertaken by CEMA in 2003 to improve the accuracy of data collected. Having accurate egg information is central to CEMA's operations and the data is used to assess levy requirements, monitor industry trends and develop projections. It is important as an industry that we understand the marketplace so we can monitor changes in consumption and meet consumer demands.

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>> **All in the numbers**

Bryan Durst
ONTARIO

Fred Krahn
BRITISH COLUMBIA

With the cooperation of the Canadian Poultry and Egg Processors Council, we continued attempts to gather sales information from graders to better be able to examine trends of shell eggs at the retail level and to the hotel, restaurant and institutional sector. Graders filed information with KPMG for presentation of the aggregated data to CEMA.

CEMID OVERHAUL STARTED

We also began an overhaul of our Canadian Egg Market Information Database (CEMID). CEMID was evaluated by staff at the Agency, provincial boards and Agriculture and Agri-Food Canada with several excellent recommendations put forward. There was agreement that CEMA needed to be the central repository for egg information in Canada but that the business purposes for such a database need to be better defined so we can know what kind of data to

compile and how to streamline the collection process. The overhaul has been included in our budget plans for 2004.

In the meantime, processes are in place to improve the accuracy of grading data which will eventually be stored on a renewed database. We are capturing current data, obtaining verification from the provincial egg boards and updating previous grading information. We will continue to do so until the automated information system is updated and functioning as required.

GRADING DATA TO BE STANDARDIZED

Getting good production information is central to our ability to determine table disappearance. It is also challenging because some provincial egg boards continue to report their production

information differently to CEMA. This leads to inconsistent results on table disappearance and makes year-over-year comparisons difficult. CEMA, in concert with the provincial boards, began working on common definitions for each category of grading data to ensure consistency of the data. This work will continue in 2004.

NEW VERSION OF EIMS RELEASED

The Egg Information Management System (EIMS) is a computer based information system that is used by eight provincial egg marketing boards and CEMA. It provides support for the daily operation of many important business functions carried out by these organizations.

In 2003, CEMA continued to make improvements to the system in response to requests by the provincial boards. We have changed some of the existing functions of the software and added some new functionality, largely reflective

of changing business requirements and the need to enter and extract new information. In addition, updates were required because of the evolving PC/Windows desktop environment upon which the EIMS is based. We will continue to issue updates in 2004 to ensure EIMS reflects the most current requirements of the boards and CEMA.

There was agreement that CEMA needed to be the central repository for egg information in Canada but that the business purposes for such a database need to be better defined so we can know what kind of data to compile and how to streamline the collection process.



>> Collaboration with customers
essential for industry well-being

Carl Bouchard
QUÉBEC

>> 22
Egg. So good. Anytime.
eggs.ca



Stan Fehr
SASKATCHEWAN

Among CEMA's most important partners are its customers, the breakers who purchase shell eggs, break them and turn them into processed products for use in the foodservice sector or in the manufacture of foods such as mayonnaise and bakery goods.

In 2003, CEMA and its customers worked collaboratively to address the continued trend of processed eggs taking up a greater share of sales to the hotel, restaurant and institutions sectors. The implications of continued erosion of the market for fresh shell eggs in this sector are serious because as this higher priced market shrinks, so too do revenues from egg sales.

Several factors pointed to erosion occurring within the hotel, restaurant and institutions sectors. In 2002, AC Nielsen reported strong sales at retail while Statistics Canada data released in May,

2003, pointed to a decline of 0.4 dozen in 2002 per capita egg consumption with a larger 0.6 dozen decline in per capita consumption of fresh shell eggs. In addition, AC Nielsen increases recorded at retail in 2003 were strong, stronger than the increases in disappearance being indicated by the data collected by CEMA.

CEMA, therefore, commissioned a study to identify issues and trends in the foodservice industry, assess the importance of those factors in influencing decisions to use eggs and to provide

possible strategies to increase the use of shell eggs. CEMA wanted to better understand the nature of the demand for eggs in the foodservice sector.

SALES SHIFTING TO PROCESSED PRODUCT

The study revealed that between 1997 and 2002, the share of shell eggs sales into the foodservice sector decreased by 22% (159.7 million dozen to 123.7 million dozen). This change represented 37 million dozen eggs or 8% of production.

The study confirmed that sales at retail were strong, indeed so strong they had masked the decreases of shell egg sales by hotels, restaurants and institutions. Had some of this loss not been offset by a strong retail market, an over-supply may have occurred and additional levies may have been required.

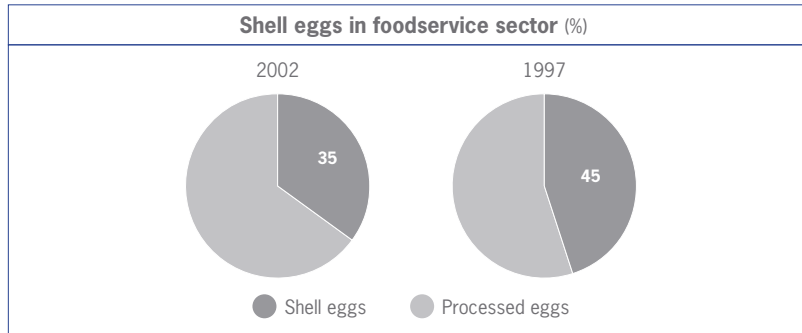
One of the reasons for the shifting markets, according to the study, is the larger financial return in processed egg products compared to shell eggs for

distributors. In addition, the foodservice sector cited labour cost savings when using processed product and operators also liked using pasteurized product. However, shell eggs were recognized as out-performing processed eggs on quality and the number of egg presentations that could be served to customers.

The consultant put forward four recommendations to increase the demand of shell eggs and all were acted upon.

RECOMMENDATION: continue with our overall promotions to consumers that eggs are part of a healthy diet.

We examined ways to increase our promotions of eggs as a nutritious food and developed a media relations strategy, for implementation in 2004, to increase media coverage about the nutritional merits of eggs.



The share of shell eggs in the foodservice sector decreased from 1997 to 2002, a study commissioned by CEMA in 2003 revealed.

RECOMMENDATION: provide information, including recipes, to the foodservice sector to show how to handle and cook with shell eggs.

A foodservice working committee was established among national and provincial marketers. The committee is examining ways to increase provincial egg promotions to hotels, restaurants and institutions.

RECOMMENDATION: provide support to foodservice operators, including the distribution of point of sale material, and provide accurate background information to counter any negative or inaccurate information about shell eggs.

To encourage efficiency and avoid duplication, provincial egg boards are sharing their printed and point of sale material to the foodservice sector among each other.

CEMA, therefore, commissioned a study to identify issues and trends in the foodservice industry, assess the importance of those factors in influencing decisions to use eggs and to provide possible strategies to increase the use of shell eggs.

RECOMMENDATION: develop more competitive pricing to counteract the supply-push by food distributors.

CEMA and a poultry advisory committee of the CPEPC held several discussions throughout the year on developing end-use pricing. While breakers expressed reservations about such a significant change in the way eggs are priced, there was good recognition that change is required. At year's end, breakers acknowledged the need to proceed with a study to examine ways eggs sold to them could be priced according to their intended end use.

CONTRACT NEGOTIATIONS DIFFICULT

Agreement was reached with breakers to increase all industrial product sales by 0.05 cents a dozen starting at the first of 2003. Two attempts later in the year to negotiate price increases or to change pricing differentials failed. Nonetheless, on September 27, a new 18-month contract came into effect.

While it did maintain the existing price schedule and differentials, it will cause a revised pricing formula for graded and Nest Run Industrial Product eggs to be implemented by June 2004, based on the results of our 2003 yield study being conducted by the University of Guelph. In addition, the contract calls for updating breaker prices weekly, rather than once every two weeks, and adjusting commitment levels twice a year based on reconciliation of the processor sales data.


GRADERS KEPT INFORMED ABOUT NUTRITIONAL LABELLING REGULATIONS

CEMA is pleased to work closely with, and provide assistance to, stakeholders within the egg industry and has done so on several occasions. In 2003, CEMA facilitated dissemination of information regarding new nutritional labelling requirements to the country's egg graders.

CEMA is pleased to work closely with, and provide assistance to, stakeholders within the egg industry and has done so on several occasions.

All graders must implement new Nutrition Facts tables on their cartons over the next few years. CEMA worked with Health Canada, the Canadian Food Inspection Agency and CPEPC to put together information to help graders understand their responsibilities according to the regulations. CEMA distributed the information to all graders and carton manufacturers in the country. The information described the new labelling regulations, nutrient content claims and health claims and shows what the new Nutrition Facts table must look like.

Because of size restrictions, some pulp cartons will not have to display the table but instead will have to have a toll free number to provide nutrition information to those who want it. CEMA has made that line available so all graders can display the same number on their egg cartons.



>> **Food safety and animal care:
priorities for Canada's egg producers**

>> 26

Bonnie Cohen
NUTRITION PROGRAM
MANAGER



John Richter
ALBERTA

Ian McFall
CANADIAN POULTRY AND
EGG PROCESSORS COUNCIL

In 2003, unprecedented events in Canada and elsewhere put animal agriculture on the front pages of most newspapers and on the news broadcasts of national television and radio networks. These same events were reminders to all in agriculture and agri-food that they must remain uncompromising when it comes to producing a safe food supply.

The finding of one cow with Bovine Spongiform Encephalopathy in the spring of 2003 had profound ramifications for Canada's beef industry. It also had a ripple effect throughout all of Canadian agriculture. Many Canadians who had never given much thought about where food came from became familiar, overnight, with animal agriculture generally, and particularly with the way feed is manufactured using rendered animal products.

An outbreak of Avian Influenza in Belgium and the Netherlands and an outbreak of Exotic Newcastle Disease in California were also reminders that any country's poultry sectors are vulnerable to events that are often not within individual producer control. The bird losses in these two disease outbreaks were larger than the total number of layers in production in Canada!

Canada's egg farmers are responding to these new realities.

START CLEAN — STAY CLEAN™ CONTINUOUSLY IMPROVED

Canadian egg farmers are world leaders when it comes to introducing measures to ensure food safety. *Start Clean — Stay Clean™*, CEMA's program of on-farm food safety, was started in 1990 and was the first program in Canada to introduce biosecurity measures at the primary level of commercial food production. As part of egg producers' ongoing commitment to food safety, the program has been continuously improved. Recently, it was modified to become HACCP-based, adopting principles recognized by the food safety committee of the United Nation's Food and Agriculture Organization.

Providing a secretariat and technical expertise to the Canadian Egg Producers Council, CEMA submitted *Start Clean — Stay Clean™* early in 2003 for

technical review by specialists within the Canadian Food Inspection Agency (CFIA) and provincial governments' agriculture departments. We continued working with these experts, in consultation with CEMA's Production Management Committee, a HACCP team made up of national and provincial egg industry representatives and CEMA's Board of Directors. *Start Clean — Stay Clean™* was modified to document the everyday measures producers take to ensure that the eggs and the by-product of egg production, fowl meat, are safely produced.

By the end of the year, CEMA had completed the technical review and we were awaiting a letter from CFIA acknowledging that our program is a technically sound, HACCP-based program. CEMA appreciates the support

and leadership shown by CFIA in helping us and other commodity organizations enhance these programs.

In 2004, we will issue a new egg producer manual which incorporates the most recent program changes. We will continue attending regional producer meetings across Canada so producers become familiar with program changes. Another goal for 2004 is implementation of the protocol for auditing *Start Clean — Stay Clean™* production practices on-farm.

NATIONAL COORDINATION SUPPORTED

In 2003, CEMA maintained its membership in the Canadian Animal Health Coalition. The coalition coordinates the activities of national commodity groups in promoting healthy farm animals and is developing risk management recommendations to guide

In 2004, we will issue a new egg producer manual which incorporates the most recent program changes. We will continue attending regional producer meetings across Canada so producers become familiar with program changes.

industry and government in the event of a major disease in the nation's herds or flocks.

TESTING PROTOCOL REFINED

Salmonella Enteritidis (SE) is a bacteria of concern because it can, though this is rare, be passed on from the hen to the interior contents of the egg. CEMA and provincial egg boards developed

a set of standardized procedures for taking environmental samples in barns and testing them for the presence of SE.

When a positive sample is found in the environment, all eggs from the barn in question are immediately diverted to egg breakers as a precautionary measure. At the breaking plant, these eggs are broken and pasteurized. Appropriate

government authorities and grading stations in receipt of the eggs are notified.

ANIMAL CARE PROGRAM MOVES FORWARD

The new Code of Practice for the care and handling of pullets, layers and spent fowl was delivered to producers early in 2003. This science-based

Code was developed by a broad base of egg industry stakeholders including scientists and professionals with CFIA, Agriculture and Agri-Food Canada, the Canadian Veterinary Medical Association and the Canadian Federation of Humane Societies.

The Code is the base of the Canadian egg industry's animal care rating and inspection system, developed by provincial egg marketing boards and CEMA. A pilot inspection program was launched in Alberta during the spring and then was expanded nationally in June. Following the collection of data on-farm, the program was modified slightly to better recognize improvements as they are made on Canada's 1,101 regulated egg farms.

So those who are directly in contact with consumers are familiar with the work the Canadian egg industry is doing promoting good animal husbandry, CEMA met with representatives of the Canadian Council of Grocery Distributors and the Canadian Restaurant and Foodservices

	Number of registered producers per province (as of December 31, 2003)										
	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
BC	132	133	138	132	133	136	140	142	144	144	147
AB	168	169	180	170	167	171	176	186	192	196	202
SK	66	66	67	68	74	74	76	76	77	76	78
MB	167	171	174	178	181	194	208	207	211	214	218
ON	394	408	404	407	430	446	466	499	541	570	589
QC	107	111	109	111	115	117	128	129	136	144	144
NB	18	18	18	18	18	18	18	18	18	18	18
NS	24	24	24	24	24	25	27	30	30	34	35
PE	12	14	15	19	18	18	18	18	18	19	19
NL	11	12	15	15	15	17	18	18	20	20	21
NT	2	2	2	5	2	0	0	0	0	0	0
CANADA	1,101	1,128	1,146	1,147	1,177	1,216	1,275	1,323	1,387	1,435	1,471

Association. We also provided them with briefs so they could highlight the development of our animal care program when meeting with their members.

Several voluntary Codes of Practice for the care and handling of farm animals have been produced since 1989, most recently under the Canadian Agri-Food Research Council. However, funding for

the development and revision of Codes has been halted as government examines the potential for a new generation of animal welfare programs to be funded under the Agricultural Policy Framework.

CEMA has reservations about this recent turn of events. Our animal care program is fully operational, based on an up-to-date Code of Practice which is based on science and developed by

several renowned experts in the field of animal care. We do not think it would be appropriate to revamp our program so it can fit into a national model. In the meantime, the one model that has worked in Canada — development of voluntary Codes of Practice by a broad group of stakeholders — has stopped.

BILL C-10 DIES

CEMA was disappointed to see the proposed legislation amending the animal cruelty sections of the Criminal Code die on the order paper. While CEMA had serious reservations about portions of the Bill, both House of Commons and Senate had agreed to amendments to ensure farmers' traditional defences would still be available. Unfortunately, the two houses of Parliament could not settle on the precise wording. CEMA is hopeful similar legislation, with changes ensuring traditional defences are available, will once again come before Parliament.

RESEARCH SUPPORTED

As part of its commitment to consumers, CEMA actively supports research in food safety, animal welfare and egg enhancement. In 2003, we contributed a total of \$67,000 toward two projects that could enhance eggs to boost important nutrients.

This science-based Code was developed by a broad base of egg industry stakeholders including scientists and professionals with CFIA, Agriculture and Agri-Food Canada, the Canadian Veterinary Medical Association and the Canadian Federation of Humane Societies.

Average number of layers per producer (as of December 31, 2003)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
BC	17,667	18,163	17,233	17,798	17,067	16,814	16,277	16,019	15,750	15,513	15,123
AB	9,251	9,467	8,918	9,342	8,742	8,695	8,289	7,844	7,599	7,444	7,296
SK	11,975	12,504	12,405	12,160	11,103	10,913	10,273	10,274	10,140	10,274	10,010
MB	12,673	12,866	12,560	16,243	12,134	11,271	10,213	10,263	10,068	9,927	9,745
ON	17,981	17,962	18,140	18,504	16,272	15,644	14,642	13,674	12,608	11,945	11,553
QC	30,719	31,226	31,704	29,828	27,905	26,146	23,657	23,467	22,112	20,883	20,883
NB	22,494	23,544	23,383	22,816	22,279	21,999	21,639	21,369	21,639	21,639	21,639
NS	29,610	31,344	31,344	31,197	29,854	29,479	27,356	24,621	24,621	22,965	22,309
PE	10,554	8,957	8,245	5,767	6,941	6,854	6,641	6,641	6,641	6,292	6,292
NL	30,934	27,651	21,066	20,698	22,466	19,584	18,496	18,497	18,103	18,103	17,241
NT	42,368	57,500	57,500	23,000	57,500	0	0	0	0	0	0
CANADA	17,104	17,340	17,026	17,596	15,821	15,126	14,176	13,658	13,028	12,589	12,281

Note: Eggs for Processing and Special Permit Allocation are not included.

One at the University of Guelph is trying to find ways to enrich eggs with lutein, a micronutrient important to eye health and believed to prevent age-related macular degeneration in the eye. The other at the University of Manitoba is enhancing the folic acid in eggs. Folic acid is an important vitamin for fetal health and if consumed in proper quantities by women of child-bearing age, will reduce the incidence of neural tube defects in newborns in Canada. Both of these projects could result in significant advancements in the health of Canadians and CEMA has committed further funds to these projects in 2004.

In addition, CEMA provided \$15,000 to the University of Saskatchewan to study the welfare implications of beak trimming of pullets and approximately \$82,000 to the Canadian Poultry Research Council (CPRC). We will continue to actively support CPRC in 2004 as it has made significant

progress in the past year encouraging the development of research programs involving its priorities:

- food safety, with a focus on antimicrobial resistance and bird immune system enhancement;
- environmental initiatives relative to nutrient management and rendering of carcasses;
- sustainable production systems including functional food products.

PROVIDING CREDIBLE INFORMATION

CEMA supports educating Canadians of all ages about nutrition, the appropriate handling of food and the many kinds of eggs available today. Eggs are a valuable part of any healthy diet and are an excellent source of high quality protein. In addition, they contain many vitamins and minerals important to health and it is important consumers are aware of the many choices available to them.

In 2003, we developed a pamphlet on the variety of eggs available on store shelves. The advent of a wide selection of specialty eggs from free run eggs to free range eggs to omega-3 enhanced eggs has given consumers choices in eggs that they have never seen before. The pamphlet *Eggs...So Many Choices* outlines what makes these individual specialty eggs special.

Enhancing our relationships with health professionals, we co-sponsored the Dietitians of Canada annual conference along with Alberta Egg Producers and co-sponsored a conference on primary care along with Ontario Egg Producers. Both of these conferences provided us with excellent opportunities to distribute information about egg nutrition.

We also undertook several initiatives in support of educators. Our catalogue listing all of our education resources

about eggs was updated by CEMA and then distributed by provincial boards to educators. We surveyed teachers across the country to evaluate the educational resources about eggs available to them and began the development of a resource for pre-school teachers to help them plan activities involving eggs.

In 2003, we developed a booklet about eggs and allergies with the Allergy/Asthma Information Association. It describes allergies in children and adults and the best ways, and times, to introduce eggs to youngsters. It also offers important safety tips on reading labels.

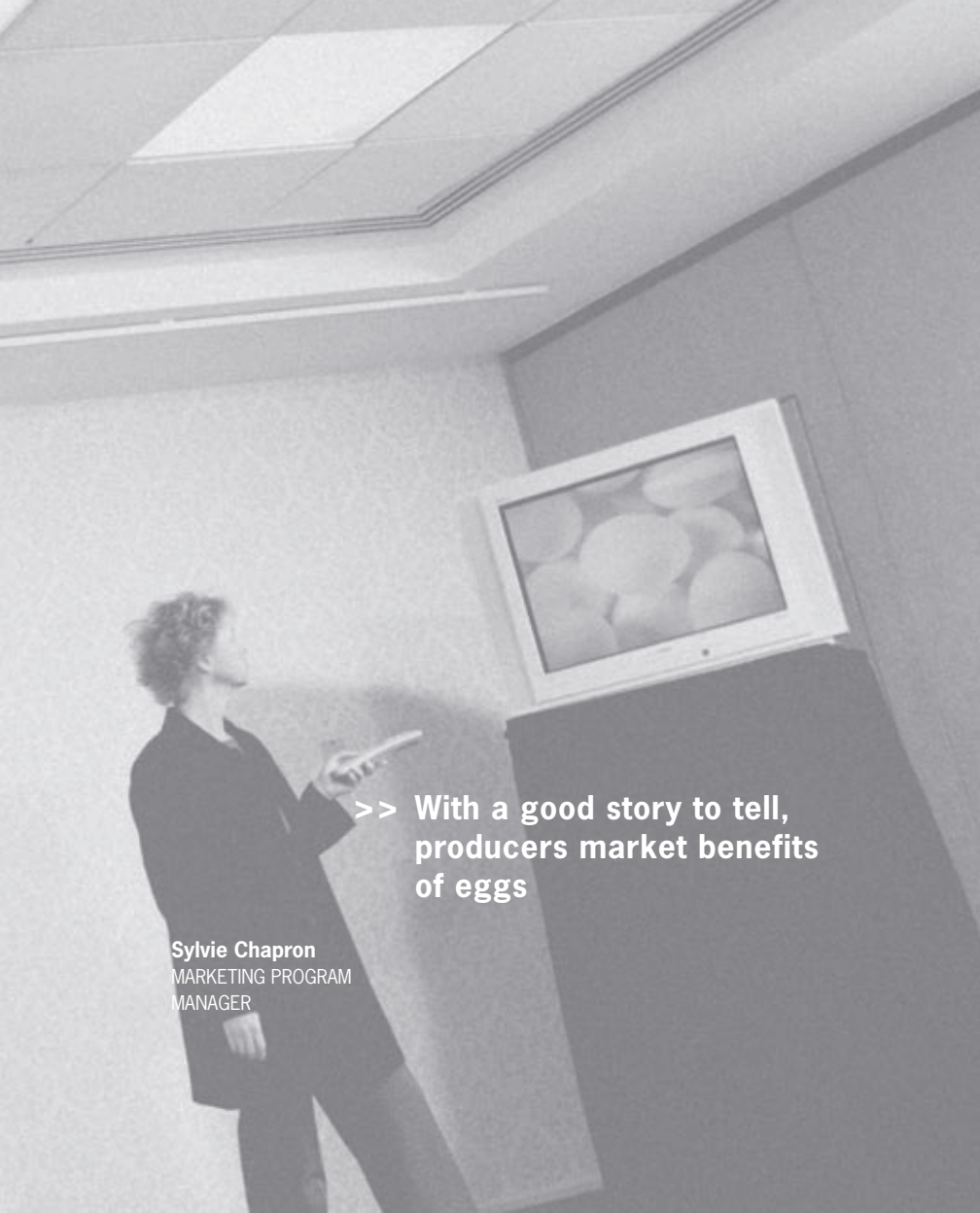
CEMA is dedicated to ensuring the interests of consumers are being met. Whether enhancing production practices, supporting research for new product development or publishing information to help consumers make informed choices, meeting the needs of consumers is what keeps Canada's egg industry growing.

CEMA supports educating Canadians of all ages about nutrition, the appropriate handling of food and the many kinds of eggs available today.



Joseph R. Smallwood II
NEWFOUNDLAND

Robert Sexty
CONSUMERS' ASSOCIATION OF CANADA



>> **With a good story to tell,
producers market benefits
of eggs**

Sylvie Chapron
MARKETING PROGRAM
MANAGER

Canada's egg industry is continuously making improvements. We're developing innovative nutrient-enhanced products and developing world-leading production practices. Canada's egg farmers know they have a good story to tell about the product they produce.

CEMA has consistently demonstrated its ability to market eggs using an integrated approach that includes television, retail promotions and nutrition education. That approach is also dependent on the working committees developed with our provincial egg producer organizations. Through these committees, national and provincial marketers ensure consistency in messages across the country while allowing for regional and local messaging to meet specific provincial targets.

In 2003, the goal of our advertising and promotions programs was to have people eat eggs for dinner. The year was the second of a five-year marketing vision to grow eggs from a fallback meal alternative to a meal that people want.

Historically, eggs have remained rooted in long-standing traditions. Consumers saw them as a breakfast food and this was entrenched by

traditional means of preparing them. The greatest potential for sales growth lay beyond breakfast and promoting eggs as a good food for any time of day.

A new look for eggs began to take shape with our 2002 omelette advertisements on television, our Operation Omelette national egg cook-off marketing event and other promotions. We shifted attitudes so consumers would recognize eggs as simple, versatile and appealing for eating occasions other than breakfast.

The 2003 campaign moved the marketing focus to the variety offered by egg dishes and our slogan *So simple. So good.*[™] evolved to *So good. Anytime.*[™] We remained committed to television as the primary medium for advertising because its possibilities as

a creative medium are unmatched. It is the best medium to target an emotional involvement in trying to change consumer behaviour. It creates a tie to the product and increases the impact of, and therefore value of, our other promotional initiatives.

In 2003, we launched two advertisements celebrating eggs as the “star” of the meal, encouraging consumption among our target group at dinner time. Our advertising research indicated that consumers received the 30-second spots *Your Dinner Starring Eggs* positively, stating the television ads encouraged them to eat more eggs. They recalled that the Western Omelette and Pizza Frittata advertisements were saying eggs are versatile, meant for occasions other than breakfast and that eggs bring variety to a meal. Viewers said the ads showed eggs as a “good” food anytime and “good” was perceived to mean both “delicious” and “good for you”.

The advertisements will air again in the early part of 2004, along with three, 60-second promotional spots on specialty television stations with cooking shows. Additional 30- and 10-second flashes will promote a CEMA-sponsored contest and the nutritional benefits of eggs. The creative concept links to the viewer’s awareness of our advertising campaign, highlights the dinner theme, directs consumers to our websites eggs.ca and lesoeufs.ca and demonstrates egg preparation using recipes from our booklets distributed at the retail level.

EGGMARK EVALUATED

CEMA’s television advertisements over the past two years, and several of our other promotional endeavours, have been accompanied by a new icon — the Eggmark, a logo designed to provide a visual identity that consumers can

One of the best ways to promote eggs to consumers is by highlighting their nutritional value. Research shows that consumers are very aware that eggs are an excellent source of protein and that they are nutrient-dense.

readily relate to. CEMA and its provincial partners established a committee to review the impact being made by the Eggmark. Millward Brown and Goldfarb Consultants was commissioned to design and conduct an on-line survey.

The results were indeed encouraging as they concluded the Eggmark is performing well and should be used consistently in marketing activities at a national level. The report also called for continued research to track awareness of the Eggmark. We continue to measure its awareness in research pertaining to our advertisements and other promotions.

NUTRITION SELLS EGGS

One of the best ways to promote eggs to consumers is by highlighting their nutritional value. Research shows that consumers are very aware that eggs are an excellent source of protein and that they are nutrient-dense. Armed with this information, we designed

our 2003 nutrition advertisements for consumer magazines to provide consumers more detailed messages about the nutritional value of eggs.

All of our promotions using nutrition are science-based. Research results released from the Harvard Medical School in 2003 added to the growing body of evidence of the many health benefits of eggs. That research, studying the dietary habits of 121,707 women, concluded that teenage girls who had regularly eaten eggs were less likely to develop breast cancer later in life. Protective effects of other foods, particularly those with unsaturated fat and fibre, were also demonstrated. The Harvard research was featured in the second edition for the year of our *Nutrition in Your Practice* newsletter.

The newsletter was distributed to health professionals through their professional publications.

During the Nutrition Month of March, we mailed a package to dietitians that included our most recent *Nutrition in Your Practice* newsletter, a new booklet on allergies and a new booklet on the many kinds of eggs available on today's store shelves. The dietitians were also provided an order form so they could request copies of these resources for their clients.

With increasing recognition about the health benefits of eggs, CEMA continued its partnership with the Heart and Stroke Foundation's Health Check™ program in 2004. The Health Check™ symbol can be put on all cartons of shell eggs, signifying that eggs are a nutritious food and part of a balanced diet. At the end of 2003, 26 graders had signed Health Check™ contracts and more are expected to sign on next year as graders change their cartons to include

Egg recipes were also distributed through our retail promotions. These promotions remain an important component of our marketing activities as they extend a consistent message from the television advertisements right into the store, where consumers are making their purchasing decisions.

the Nutrition Facts table, consistent with the phase-in of new mandatory labelling regulations.

Baseline research was completed in 2003 with 750 consumers to determine their awareness of the relationship between Health Check™ and eggs. Results showed that egg buyers think eggs are a healthy food choice and the Health Check™ symbol reinforces this belief.

COOKBOOK HIGHLIGHTS PROMOTIONS THROUGH RECIPES

An ideal way to promote the use of eggs was the publication of the *Omelettes Perfect Anytime* cookbook in 2003. Throughout 2002, as the Operation Omelette giant balloon and team toured Canada promoting eggs at public events, we collected hundreds of omelette recipes from consumers. From these

recipes, we published our 128-page, full colour cookbook showing people's favourite omelette recipes. A section is dedicated to nutrition and tips about handling and cooking with eggs are found throughout.

Egg recipes were also distributed through our retail promotions. These promotions remain an important component of our marketing activities as they extend a consistent message from the television advertisements right into the store, where consumers are making their purchasing decisions. In 2003, CEMA conducted three in-store promotions whereby booklets with tear-away cards featuring new egg recipes, together with backer cards, were placed in over 2,000 of Canada's grocery stores for four weeks. The promotions included nutritional information, contest overlays and mail-in offers and entries were accepted by mail or on-line. On-line entry

required consumers to complete a short survey, providing us with an opportunity to gain information about how this target group cooks with eggs and what they would like to see in the future.

In 2003, we also used Sears deliveries as a vehicle for our recipe booklets. The envelope which accompanies every Sears order was used to distribute 1.4 million booklets containing recipes, nutrition information and a contest. This is an efficient distribution method to reach consumers at home.

Our surveys of those who received these recipe booklets show they are appreciated. Over 95% of respondents say they intend to try at least one recipe from the booklets and the majority of

respondents say they read the nutrition information and learned something new about eggs as a result.

Finally, in October, we issued a free standing insert which was delivered to 5.5 million homes across Canada via daily newspapers. The page featured a recipe and contest for a three-day cruise. It also promoted our consumer websites eggs.ca and lesoeufs.ca.

EGGS REALLY ARE FOR EVERYONE

Canada's egg producers were proud to sponsor our 2003 Eggs for Everyone event in 13 major markets across Canada. The event saw celebrities such as television stars, radio personalities, politicians, fashion designers, Olympic athletes, chefs, fiddlers, comedians, the Montreal Alouettes and some egg farmers participate in our celebration of eggs. A total of 108 media articles covered our story.

Besides promoting the versatility and goodness of cooking with eggs, the celebrity cookoffs also promoted our annual donation of eggs to the Canadian Association of Foodbanks. In 2003, we donated 70,220 dozen eggs to the Association as well as eight tonnes of powdered eggs to Canadian Food for Children for use in developing countries.

EGGS.CA AND LESOEUF.CA CONTINUE TO GROW

Our consumer websites eggs.ca and lesoeufs.ca continue to grow by leaps and bounds as we recorded over 3 million hits per month in 2003 for eggs.ca and 1.6 million hits a month for lesoeufs.ca. The most popular times for visits were when the television campaign aired and following deployment of our e-newsletter. Our e-loyalty club has thousands of subscribers who on

Besides promoting the versatility and goodness of cooking with eggs, the celebrity cookoffs also promoted our annual donation of eggs to the Canadian Association of Foodbanks.

a monthly basis receive either an egg recipe or a newsletter. A survey sent to our subscribers showed 53% who responded to the survey use eggs as an ingredient in dinner once a week.

To increase traffic on the sites, we placed an ad banner promoting eggs.ca and lesoeufs.ca for two weeks on other websites dedicated to our target group. New information, updates and design improvements were added to both sites in 2003 to encourage an increased number of visits and in 2004, we will add further information to include a family section for both adults and children to enjoy.

MORE THAN A LITTLE PROUD... WE WON!

Finally, our report on our marketing and promotions initiatives wouldn't be complete if we failed to brag at least a little about the recognition we

received from our peers in 2003. We were recognized by the Canadian Public Relations Society for our 2002 Operation Omelette Cookoff in their ACE (Achieving Communications Excellence) Awards competition. Operation Omelette won Gold in the *General Consumer Product Brand Development* and in the *Best Technique in Special Events* category, Operation Omelette won Silver.

In addition, our Eggmark was the Grand Prize Winner among the 4,300 entries submitted to the American Institute of Graphic Arts. The Eggmark was also selected for an Excellence Award in the *Branding and Identification Systems Design* category.

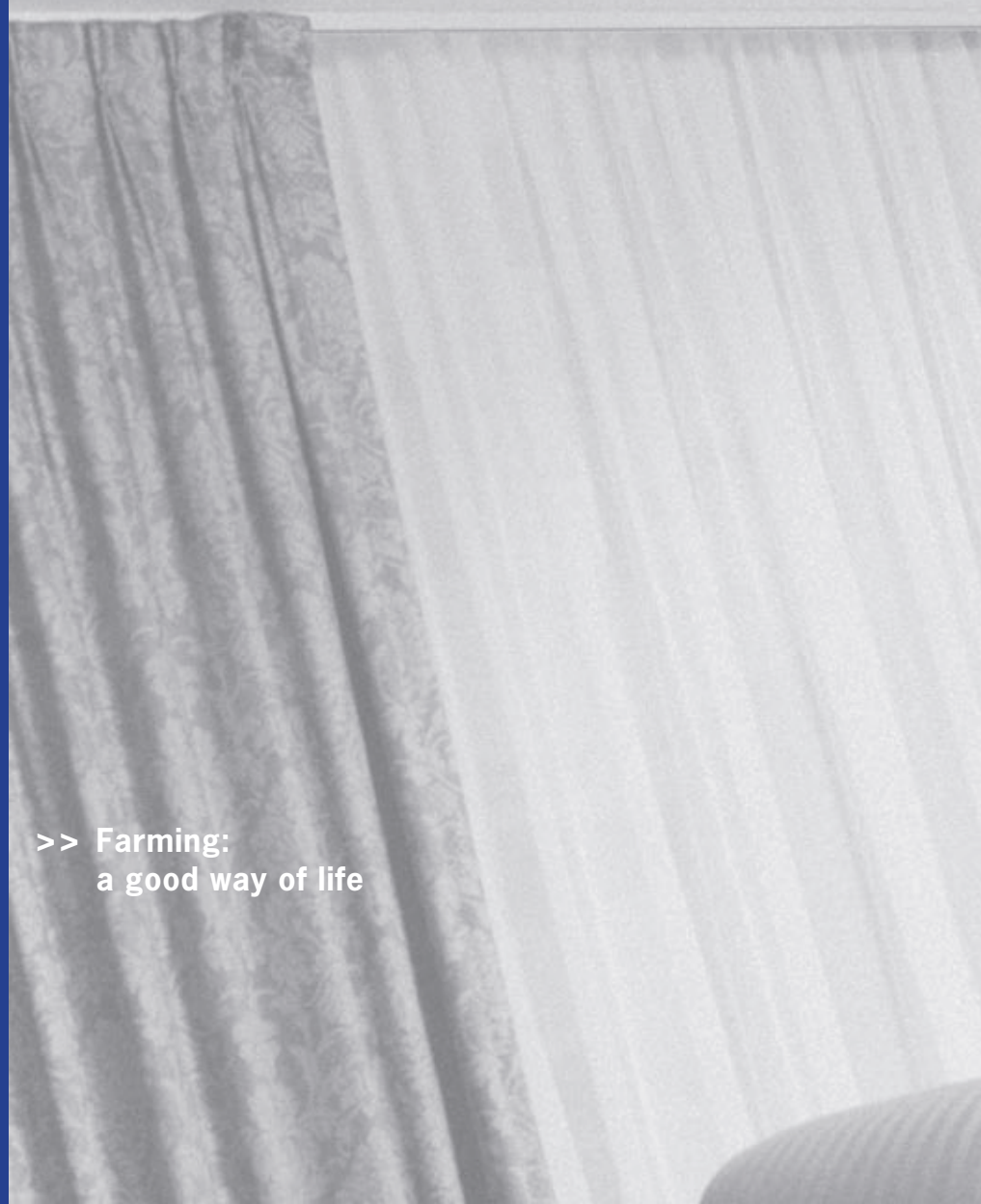


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As Canada's farm population shrinks, fewer and fewer Canadians know about agriculture or have an accurate idea how their food is produced. In fact, the only exposure many have to farming are media reports about dwindling farm incomes, droughts and diseases affecting crops or farm animals.

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>> **Farming:
a good way of life**





Bernadette Cox
MANAGER
CORPORATE AND PUBLIC AFFAIRS

Brad Lawson
CANADIAN POULTRY AND
EGG PROCESSORS COUNCIL

Roy Fabian
NORTHWEST TERRITORIES

Telling Canadians what farming is really like and about where their most important resource — food — comes from is important. Consequently, the Canadian Egg Marketing Agency initiated several projects in 2003 to bring the Canadian farm to the rest of Canada.

FIRST STEP: RESEARCH

Our first task was to determine objectively what the picture of Canadian agriculture looked like. Independent research conducted on behalf of CEMA in 2003 showed that Canadian farmers are generally optimistic about their futures. Canadian egg farmers are among the most optimistic of all farmers and the supply management system has a lot to do with that.

CEMA commissioned Ipsos-Reid to conduct a survey of second generation farmers, or more than second-generation farmers. We asked them why they chose to farm and what kept them farming.

We found out people choose to farm because it is a good way of life, a good way to raise a family and they are free to make their own business decisions. The major conclusion of the research was that Canada has a large resource

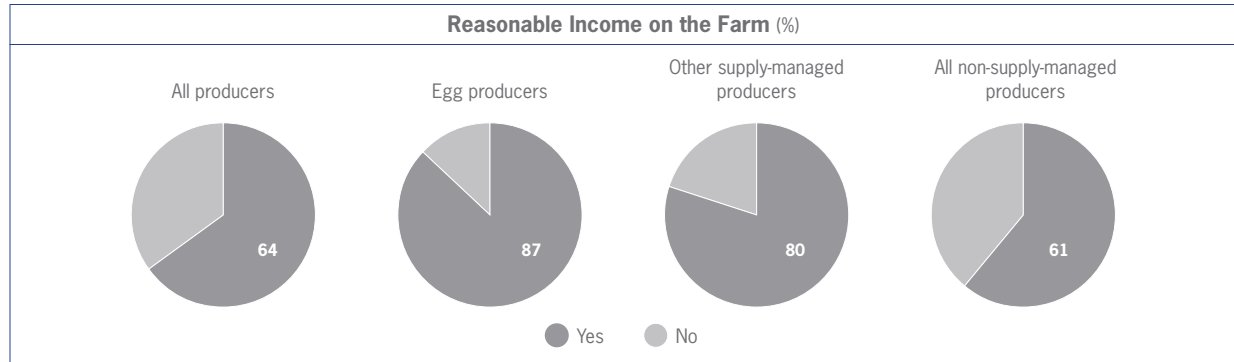
of young farmers, willing and able to continue producing food providing they can make a fair living at it.

NATIONAL SURVEY CONDUCTED

The survey of 935 second-generation farmers and more than second-generation farmers took place in the winter with results compiled in early spring. All groups of farmers tended to be very optimistic about the future with two-thirds saying they would encourage

young people to farm. This was somewhat higher among farmers of the supply-managed commodities with three-quarters saying they would encourage young people to farm.

Egg producers had the most positive economic outlook followed by other poultry farmers. Egg farmers cited their regulated egg supply management



Most producers felt they could make reasonable incomes off the farm and this was most apparent among producers of supply-managed commodities.

Sixty-four percent of all producers felt their on-farm income was enough to make a living and that level jumped to 87% for egg farmers and 80% for all other supply management farmers.

system as the top reason for their feelings of optimism. While cash crop and pork farmers were the least likely to say they felt positive about their economic futures, a large majority — 68% of cash croppers and 64% of pork producers — were positive about it.

Sixty-four percent of all producers felt their on-farm income was enough to make a living and that level jumped to 87% for egg farmers and 80% for

all other supply management farmers. Sixty-one percent of the producers of non-supply-managed commodities felt the same way.

Producers of the supply-managed commodities were the most likely to feel it made sense to reinvest in their farm. Seventy-one percent of egg farmers

felt this way; 80% of the other farmers producing a supply-managed commodity were like-minded but only 62% of those producing other commodities felt the same way.

SUPPLY MANAGEMENT SUPPORTED BY ALL TYPES OF FARMERS

Another major finding of the study was that all producers, no matter what they farmed, felt positive about marketing

boards, particularly those involved in supply management. They believed marketing boards play an important role in ensuring food self-sufficiency, food quality, reasonable prices and protecting jobs and this was especially true of the boards with supply management authorities.

A full 97% of egg farmers were positive about the supply management marketing boards and 85% of the other producers of supply-managed commodities felt the same way.

Eighty-three percent of all farmers felt it was important for Canada to be self-sufficient in food production. The vast majority of supply management producers (93%) felt supply management marketing boards ensure our country's food self-sufficiency while a strong majority of all producers — 78% — felt this way.



Seventy-eight percent of all second generation or more than second generation farmers in Canada believe supply management ensures Canada is self-sufficient in various food sectors.

With such high levels of optimism obvious among farmers and with such a strong vote of confidence in Canada's supply management system, CEMA decided it was important to bring the survey results to Canadians generally.



PHOTO: THE HAMILTON SPECTATOR

Roger Pelissero of Ontario was one of eight egg producer spokespersons who told their stories to reporters from coast to coast.

Similarly, 74% of all producers felt the supply management marketing boards protect jobs in Canadian agriculture. The percentage increased for the producers of supply-managed commodities with 96% of egg producers believing this and 86% of the other producers of supply-managed commodities agreeing.

WE TOLD CANADIANS

With such high levels of optimism obvious among farmers and with such a strong vote of confidence in Canada's supply management system, CEMA decided it was important to bring the survey results to Canadians generally. We trained eight producer spokespersons to meet with reporters from coast to coast explaining why they farmed and how their backgrounds were so similar to other

farmers. We found that reporters wanted to learn about agriculture and bring the story of supply management to other Canadians.

In addition, we prepared an Executive Briefing for key bureaucrats within Agriculture and Agri-Food Canada, the Department of Foreign Affairs and International Trade and National Farm Products Council, to provide them with the results of the Ipsos-Reid survey as well as to review key findings from our 2002 consumer survey. That survey revealed that, like farmers, the vast majority of Canadians believed Canada needed to produce enough food to

To ensure our education resources remain current, we revised our *Extraordinary Egg* booklet, describing the journey of the egg from farm to table, in 2003 for printing in 2004.

satisfy its own needs. Consumers also overwhelmingly accepted the need to defend Canadian agriculture against unfair foreign competition and believed that marketing boards provided Canada with a safe and stable supply of quality food.

CONFERENCE SPONSORED

Recognizing the importance of keeping Canada informed about agriculture, CEMA sponsored the 2003 National Agriculture Awareness Conference in Prince Edward Island. The sponsorship gave us the opportunity to promote our print resources to agriculture awareness representatives across the country. Many of these representatives consult with educators on curricula so young people

can be educated about the profession of farming and the importance of a strong agriculture and agri-food sector.

To ensure our education resources remain current, we revised our *Extraordinary Egg* booklet, describing the journey of the egg from farm to table, in 2003 for printing in 2004. The booklet was written with a general audience in mind; the latest version was changed to include additional details about egg farming, so it would be suitable for a reader in the grade 7 to 10 range.

Consumers also overwhelmingly accepted the need to defend Canadian agriculture against unfair foreign competition and believed that marketing boards provided Canada with a safe and stable supply of quality food.

>> **New agreement must recognize diversity**





Gordon Hunter
NEW BRUNSWICK

Harold Froese
MANITOBA

Multilateral trade negotiations in 2003 once again pointed to the need for Canada's politicians and government bureaucrats to fight for Canada's diverse agriculture. World Trade Organization (WTO) negotiations stalled on several fronts, likely delaying any real progress until 2005. However, it was clear that Canada has to make more headway in having its trade negotiating position accepted by WTO member countries. At stake are Canada's 23,500 egg, dairy and poultry farmers, their families and 42,000 jobs in related industries.

At the heart of the negotiations for Canada's supply-managed sectors is whether or not a new WTO Agriculture Agreement will be written to protect the three pillars of supply management: import controls, production discipline and producer pricing. To maintain supply management in the long term, the WTO agreement must:

- allow no reduction in over-quota tariffs:
- provide clean market access equal to 5% of a country's recent food consumption:
- recognize that supply management's pricing mechanisms are not trade distorting.

THE PILLARS: IMPORT CONTROLS AND PRODUCTION DISCIPLINE

Fundamental to Canada's ability to maintain supply management are import controls and production discipline. We control imports by using Tariff

Rate Quotas which are regarded as legitimate trade tools in the current WTO agreement. These Tariff Rate Quotas allow 5% of Canada's requirements for eggs, dairy and poultry to be filled by imports that come into Canada duty-free. Imports over and above this level are assigned a duty known as an over-quota tariff, unless domestic demand requires additional eggs in Canada. When this level of demand occurs, federal government officials issue supplementary import permits. These permits allow egg imports without an over-quota tariff.

Tariff Rate Quotas allow us to know how many imports are expected at any given time, which is a critical tool in establishing production quotas, the key to exercising our production discipline. Therefore, a new trade agreement must allow no reduction in our over-quota tariffs.

Controlling imports, however, doesn't mean shutting Canada's borders down. We allow greater access to our egg, dairy and poultry markets than access

offered by many other countries. Even though countries were supposed to offer 5% access to markets where imports were controlled by Tariff Rate Quotas, the average access provided by Tariff Rate Quotas around the world is closer to 3%. It's time for the rest of the world to catch up with the level of imports of supply-managed sectors in Canada! Therefore, a new agreement must provide clean market access equal to 5% of a country's recent food consumption.

THE PILLAR: PRODUCER PRICING

Supply management's pricing mechanisms allow producers to act collectively in the marketplace and obtain a fair share of what consumers spend on food. These mechanisms do not involve government financial assistance and are not trade-distorting. Consequently, a new trade agreement must recognize that supply management's pricing mechanisms are not trade-distorting.

VARIOUS TEXTS FAIL CANADA'S AGRICULTURE

Negotiators began their year in Geneva attempting to establish "modalities" or a set of procedures used to calculate trade commitments. Modalities, for example, could outline how and in what timeframe export subsidies should be reduced or eliminated. The first text to appear in the year was that of Stuart Harbinson, Chairman of the Agricultural Negotiating Committee. Almost all member countries were strongly opposed to the text, though for different reasons.

Following an informal meeting of some of the world's trade ministers in Montreal, the European Union and the United States — the world's trade superpowers — put together a joint paper under the guise of moving negotiations forward. The proposal was largely self-serving and was roundly rejected by developing countries. Unfortunately, the proposal was still used as a basis for drafting a proposed

We allow greater access to our egg, dairy and poultry markets than access offered by many other countries.

Ministerial Declaration that was discussed at the Fifth WTO Ministerial Conference held in September in Mexico where the world's trade ministers gathered to assess negotiations. The agriculture annex of that declaration contained references to potential reductions in over-quota tariffs.

During that meeting, new wording for a proposed agriculture text emerged and was a further setback. It reinforced the provisions relating to tariff reductions. It would also make it necessary for Canada to change some of its programs like crop insurance while the biggest spenders in the world would be allowed to continue their domestic support programs.

SUPPLY MANAGEMENT PARTNERSHIPS REINFORCED

Throughout 2003, the Canadian Egg Marketing Agency continued to work on trade matters with the other national supply management organizations (commonly referred to as the SM-5):

Dairy Farmers of Canada, Chicken Farmers of Canada, the Canadian Turkey Marketing Agency and the Canadian Broiler Hatching Egg Marketing Agency. Together, we organized a trade seminar in March which brought about 500 farmers from all parts of Canada to Ottawa to learn about trade and to visit their Members of Parliament. In October, the SM-5 held a workshop among general managers of all of the supply management boards in the provinces and provided them with resource fact sheets to use in their public communications and meetings with politicians. We also developed a communications plan for 2004, the major portion of which will be soliciting support for supply management from federal election candidates.

Analyses of the technical implications of the various proposals tabled in Geneva were also undertaken and international trade missions held with several countries to determine common ground



upon which to build alliances. Our initial missions were very well received and similar missions are anticipated in 2004.

Equally effective partnerships among the supply management groups are developing in the provinces. Together, egg, dairy, chicken, turkey and broiler hatching egg farmers are meeting with government leaders at the national, provincial and municipal levels to garner support for their farm enterprises. The development of broad-based coalitions with membership from both within and outside of agriculture started in 2003 and will be expanded in 2004.

ADVOCACY WITH THE CANADIAN FEDERATION OF AGRICULTURE CONTINUED

CEMA continued to work closely with the Canadian Federation of Agriculture in promoting our trade position. Through our participation on the Federation's trade committee, we received several briefings from government officials. Unfortunately, in 2003, there were few signs that our negotiators were acting aggressively and forcefully in furthering Canada's trade position among members of the WTO.

We look forward to renewed energy on the part of our negotiators in 2004. Canada can still influence the outcome of negotiations if it develops strategic alliances with other countries and works in partnership with farmers at home.

To maintain supply management in the long term, the WTO agreement must:


- **allow no reduction in over-quota tariffs**
- **provide clean market access equal to 5% of a country's recent food consumption**
- **recognize that supply management's pricing mechanisms are not trade distorting.**



Bill Gray
CANADIAN POULTRY AND
EGG PROCESSORS COUNCIL

Peter Vriends
PRINCE EDWARD ISLAND

Greg Pearce
CHIEF FINANCE AND
OPERATIONS OFFICER



>> **Financial analysis**

The Canadian Egg Marketing Agency is a body corporate established by parliamentary proclamation and the *Farm Products Agencies Act*. It is governed by a 16-member Board of Directors, including its Chairman, made up of producer representatives from the provinces and the Northwest Territories, a director from the Consumers' Association of Canada and directors representing the grading, hatching and breaking sectors.

The main story of 2003 was the significant increase in United States breaking egg prices, upon which the processed egg prices in Canada are based. This substantially improved the Pooled Income Fund (PIF) used for our market operations. The Fund began the year with an (\$88,000) deficit and after a slow start, it began to show improvement in the second quarter. Loans from provincial egg boards totaling close to \$3 million as well as \$7 million in producer contributions sustained operations during the early part of 2003. With the strengthening of the PIF, the provincial loans were repaid while the producer contributions remain as part of the balance.

The average sales price in Canada in 2003 was \$0.69 per dozen, up from the \$0.50 of 2002, positively impacting the PIF by \$20.76 million. An increased average levy rate per bird also had a positive impact on the fund

by \$15.0 million. A reduction in national declarations of industrial product by 1.4% was the third fact positively influencing the Fund, though the impact on the fund balance was smaller at \$1.21 million. Despite the negative effects of (\$7.56 million) due to increased buy-back costs caused by rising production costs and the negative impact of (\$8.71 million) due to a higher Canadian dollar relative to the United States dollar, the PIF ended the year with a \$24.44 million surplus.

The Administration Fund used for the Agency's marketing, communications, policy development, financial administration and information services was drawn down by \$1.88 million to end the year with a balance of \$4.32 million. The Agency's total fund balance closed the year at \$28.76 million of which the unrestricted portion rested at \$24.44 million.

The restricted fund used to operate a National Quota Exchange closed the year at \$280,000 while the restricted Risk Management Fund totaled \$1.57 million.

The Research Fund, used for grants to research programs or institutions of benefit to the egg industry, ended the year with \$2.17 million.

The strong U.S. prices upon which the financial stability of our market operations is dependent are expected to remain high well into 2004. In addition, table sales in 2003 have trended higher than the same periods last year with 2003 table disappearance being 1.5% greater than that of 2002. Current economic indicators point to more improvements in table disappearance in the early part of 2004 and this should ensure the maintenance of strong balances in the PIF throughout 2004.

As a result of the strong financial position, CEMA has requested prior approval of a national levy that is the same as that of last year: 25 cents a dozen. We have proposed allocation of the levy to change slightly to ensure we do not continue to draw down the surplus in the Administration Fund.

In 2004, \$0.03 a dozen is to be assigned to the Administration Fund, up from the \$0.025 cents of 2003. In addition, a quarter-cent will be assigned to the Research Fund. As in past years, a mid-year review of the PIF balance will be completed to ensure the adequacy of the levy rate. We entered 2004, however, absent National Farm Products Council's prior approval for both levy and quota orders and hearings were pending to address complaints by signatories from British Columbia and Saskatchewan. Despite this setback, stability is anticipated as provincial boards agreed to remit levies voluntarily and assign individual producer quotas according to the 2003 allocations.



Greg Pearce, Chief Finance and
Operations Officer

Auditors' report to: **The Minister of Agriculture and Agri-Food, Government of Canada; The National Farm Products Council; The Members, Canadian Egg Marketing Agency**

We have audited the statement of financial position of the Canadian Egg Marketing Agency as at December 27, 2003 and the statements of operations and fund balances and 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 27, 2003 and the results of its operations, the changes in its fund balances and its cash flows for the fifty-two week period then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Ottawa, Canada
February 13, 2004

STATEMENT OF FINANCIAL POSITION December 27, 2003, with comparative figures for 2002 (in thousands of dollars)

	POOLED INCOME FUND	ADMINISTRATION FUND	2003 TOTAL	2002 TOTAL
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 15,225	\$ 1,238	\$ 16,463	\$ 498
Accounts receivable (note 4)	15,132	1,370	16,502	11,227
Inventory	492	—	492	334
Prepaid expenses	—	169	169	581
	30,849	2,777	33,626	12,640
Restricted investments (note 5)	1,845	2,167	4,012	3,753
Capital assets (note 6)	—	307	307	533
	\$ 32,694	\$ 5,251	\$ 37,945	\$ 16,926
LIABILITIES AND FUND BALANCES				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 8,249	\$ 932	\$ 9,181	\$ 10,812
Fund balances:				
Restricted (note 5)	1,845	2,167	4,012	3,753
Investment in capital assets	—	307	307	533
Unrestricted	22,600	1,845	24,445	1,828
	24,445	4,319	28,764	6,114
Commitments (note 8)				
	\$ 32,694	\$ 5,251	\$ 37,945	\$ 16,926

See accompanying notes to financial statements.

On behalf of the Agency:


Chairman of the Board of Directors


Chairman of the Audit Committee

STATEMENT OF OPERATIONS AND FUND BALANCES

Fifty-two week period ended December 27, 2003, with comparative figures for 2002 (in thousands of dollars)

	POOLED INCOME FUND	ADMINISTRATION FUND	2003 TOTAL	2002 TOTAL
REVENUE:				
Egg sales	\$ 67,492	\$ —	\$ 67,492	\$ 49,035
Levy, service fees and contributions	98,564	12,100	110,664	92,797
Net levy contribution (note 1(d))	9,696	—	9,696	3,153
Interest and other income	226	119	345	291
Other income — restricted (notes 5(b) and 5(c))	367	61	428	483
	176,345	12,280	188,625	145,759
EXPENSES:				
Trade operations:				
Egg purchases	141,470	—	141,470	132,214
Buyback allowance	2,953	—	2,953	2,949
Transportation and handling	4,083	—	4,083	3,839
Food safety program	360	—	360	72
Third party verification	760	—	760	686
Interest	59	—	59	38
Other	486	—	486	517
	150,171	—	150,171	140,315

continued

STATEMENT OF OPERATIONS AND FUND BALANCES (continued)

Fifty-two week period ended December 27, 2003, with comparative figures for 2002 (in thousands of dollars)

Marketing and nutrition	—	7,618	7,618	6,855
Salaries	—	2,819	2,819	2,727
Professional fees and consulting	—	688	688	796
Meetings and travel	—	1,293	1,293	1,262
Public affairs and communications	—	881	881	658
Office and other administrative	—	630	630	544
Marketing and nutrition research	—	276	276	224
Research (note 5(c))	—	165	165	164
Rent	—	309	309	304
Per diems	—	511	511	390
Amortization	—	264	264	284
Uncollected levy, service fees and contributions	184	17	201	516
Transfer of administration expenses (note 3)	1,308	(1,308)	—	—
Donations of eggs	149	—	149	184
	<hr/>	<hr/>	<hr/>	<hr/>
	151,812	14,163	165,975	155,223
Excess (deficiency) of revenue over expenses	24,533	(1,883)	22,650	(9,464)
Fund balances, beginning of period	(88)	6,202	6,114	15,578
Fund balances, end of period	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 24,445	\$ 4,319	\$ 28,764	\$ 6,114

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS Fifty-two week period ended December 27, 2003, with comparative figures for 2002 (in thousands of dollars)

	POOLED INCOME FUND	ADMINISTRATION FUND	2003 TOTAL	2002 TOTAL
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:				
Excess (deficiency) of revenue over expenses	\$ 24,533	\$ (1,883)	\$ 22,650	\$ (9,464)
Amortization, which does not involve cash	—	264	264	284
	24,533	(1,619)	22,914	(9,180)
Decrease (increase) in non-cash working capital	(9,690)	3,038	(6,652)	62
	14,843	1,419	16,262	(9,118)
CASH FROM (USED IN) FINANCING AND INVESTING ACTIVITIES:				
Sale of restricted investments	—	104	104	115
Purchase of restricted investments	(363)	—	(363)	(430)
Purchase of capital assets	—	(39)	(39)	(171)
Disposal of capital assets	—	1	1	6
	(363)	66	(297)	(480)
Net change to cash and cash equivalents	14,480	1,485	15,965	(9,598)
Cash and cash equivalents, beginning of period	745	(247)	498	10,096
Cash and cash equivalents, end of period	\$ 15,225	\$ 1,238	\$ 16,463	\$ 498

The Agency considers deposits with financial institutions that can be withdrawn without prior notice or penalty and short-term deposits with an original maturity of 90 days or less as cash and cash equivalents.

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Fifty-two week period ended December 27, 2003 (in thousands of dollars)

1. ACTIVITIES OF THE AGENCY:

(a) 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. 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.

(b) Levy, service fees and contributions:

The provincial 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.

(c) 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.

(d) 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 96% (2002 — 99%) of their province's industrial product declarations. The difference of 4% (2002 — 1%) 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:

(a) Basis of accounting:

The industrial product removal levy, service fees and contributions are allocated to the Pooled Income Fund. All transactions involving the buying and selling of eggs are recorded in this fund.

The administration levy, service fees and contributions and all administrative expenses are recorded in the Administration Fund.

(b) Restricted investments:

Restricted investments consist of Government of Canada bonds and are valued at the lower of cost or market.

(c) Inventory:

Inventory consists of eggs which are valued at the lower of cost and net realizable value.

(d) Capital assets:

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

Asset	Basis
Office equipment	10 years
Computer hardware and software	5 years
Leasehold improvements	over remaining term of lease

NOTES TO FINANCIAL STATEMENTS (continued)

Fifty-two week period ended December 27, 2003 (in thousands of dollars)

(e) Revenue recognition:

Egg sales revenue is recognized on the date eggs are delivered to the customer. Levy, service fees and contributions are recognized in the period of issuance, production or provision of service as applicable.

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

(f) 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 disclosure 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.

3. TRANSFER OF ADMINISTRATION EXPENSES:

In 2003, the Agency made an allocation of administrative expenses of \$1,308 (2002 — \$1,297) from the Administrative 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.

4. ACCOUNTS RECEIVABLE:

	Pooled Income Fund	Administration Fund	2003 Total	2002 Total
Levy, service fees and contributions, net of allowances for uncollected amounts of \$939 (2002 — \$738)	\$ 6,582	\$ 1,013	\$ 7,595	\$ 6,903
Egg sales, net of allowances for uncollected amounts of \$170 (2002 — \$170)	8,539	—	8,539	3,838
Other	70	298	368	486
Interfund receivable	(59)	59	—	—
	\$ 15,132	\$ 1,370	\$ 16,502	\$ 11,227

5. RESTRICTED INVESTMENTS AND FUND BALANCES:**(a) Restricted investments:**

Restricted investments held by the Agency represent funds which have been restricted by the Board of Directors for the purposes described in notes 5(b) and 5(c). The carrying values and market values of the investments are as follows:

	Carrying value		Market value	
	2003	2002	2003	2002
Pooled Income Fund:				
Cash	\$ 1,605	\$ 1,252	\$ 1,605	\$ 1,252
Bonds	240	230	254	241
	1,845	1,482	1,859	1,493
Administration Fund:				
Cash	2,167	2,271	2,167	2,271
	\$ 4,012	\$ 3,753	\$ 4,026	\$ 3,764

NOTES TO FINANCIAL STATEMENTS (continued)

Fifty-two week period ended December 27, 2003 (in thousands of dollars)

(b) Restricted fund balance — Pooled Income Fund:

The Agency has been directed by the Board of Directors to restrict the use of certain monies 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 as follows:

	Risk Management Fund	NQE Fund	2003 Total	2002 Total
Beginning balance	\$ 1,214	\$ 268	\$ 1,482	\$ 1,052
Interest income	34	14	48	32
Administration expense	—	(4)	(4)	(3)
Reissuance of quota retirement layers	319	—	319	401
Ending balance	\$ 1,567	\$ 278	\$ 1,845	\$ 1,482

(c) Restricted fund balance — Administration Fund:

In 1997, the Agency was directed by the Board of Directors to set up a \$2,000 restriction in the Administration Fund. The restricted funds are to be used to fund research. The use of the funds is at the discretion of the Board of Directors. The transactions in the fund are as follows:

	2003	2002
Beginning balance	\$ 2,271	\$ 2,385
Interest income	61	50
Research activities	(165)	(164)
Ending balance	\$ 2,167	\$ 2,271

6. CAPITAL ASSETS:

	2003		2002	
	Cost	Accumulated amortization	Net book value	Net book value
Computer hardware and software	\$ 1,876	\$ 1,670	\$ 206	\$ 410
Office equipment	450	372	78	88
Leasehold improvements	50	27	23	35
	\$ 2,376	\$ 2,069	\$ 307	\$ 533

Cost and accumulated amortization amounted to \$2,375 and \$1,842 respectively in 2002.

7. DEMAND LOANS:

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 27, 2003, loans under this facility were \$Nil (2002 — \$Nil).

NOTES TO FINANCIAL STATEMENTS (continued)

Fifty-two week period ended December 27, 2003 (in thousands of dollars)

8. COMMITMENTS:

- (a) 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, as follows:

2004	\$ 311
2005	311
2006	311
2007	311
2008	311
	<u>\$ 1,555</u>

- (b) The Agency is committed under contract for the purchase of advertising in fiscal 2004 for \$2,974 (2003 — \$2,745).

9. CONCENTRATION OF CREDIT RISK — ACCOUNTS RECEIVABLE:

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 3 groups of related companies. In 2003, these customers purchased 69% (2002 — 72%) of the eggs sold by the Agency.

10. SUPPLEMENTARY INFORMATION:

Egg sales revenue and egg purchases are recorded on a net basis as net levy contribution, 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:

	2003	2002
Revenue:		
Egg sales	\$ 76,284	\$ 56,653
Levy, service fees and contributions	117,467	94,524
Interest and other income	225	176
Other income — restricted	368	433
	<u>194,344</u>	<u>151,786</u>
Expenses:		
Trade operations:		
Egg purchases	158,879	152,055
Buyback allowance	3,340	3,394
Transportation and handling	4,470	4,310
Food safety program	360	72
Third party verification	760	686
Interest	59	38
Other	282	517
Transfer of administration costs	1,308	1,297
Uncollected levy, service fees and contributions	204	441
Donations of eggs	149	184
	<u>169,811</u>	<u>162,994</u>
Excess (deficiency) of revenue over expenses	<u>\$ 24,533</u>	<u>\$ (11,208)</u>

NOTES TO FINANCIAL STATEMENTS (continued)

Fifty-two week period ended December 27, 2003 (in thousands of dollars)

11. 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 2003 fiscal period, the Agency contributed \$118 (2002 — \$106) to the Plan, which is included in salaries expense in the statement of operations and fund balances.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values because of the relatively short period to maturity of the instruments. The fair values of restricted investments are disclosed in note 5.

13. COMPARATIVE FIGURES:

Certain 2002 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2003.