
CANADIAN
EGG MARKETING
AGENCY



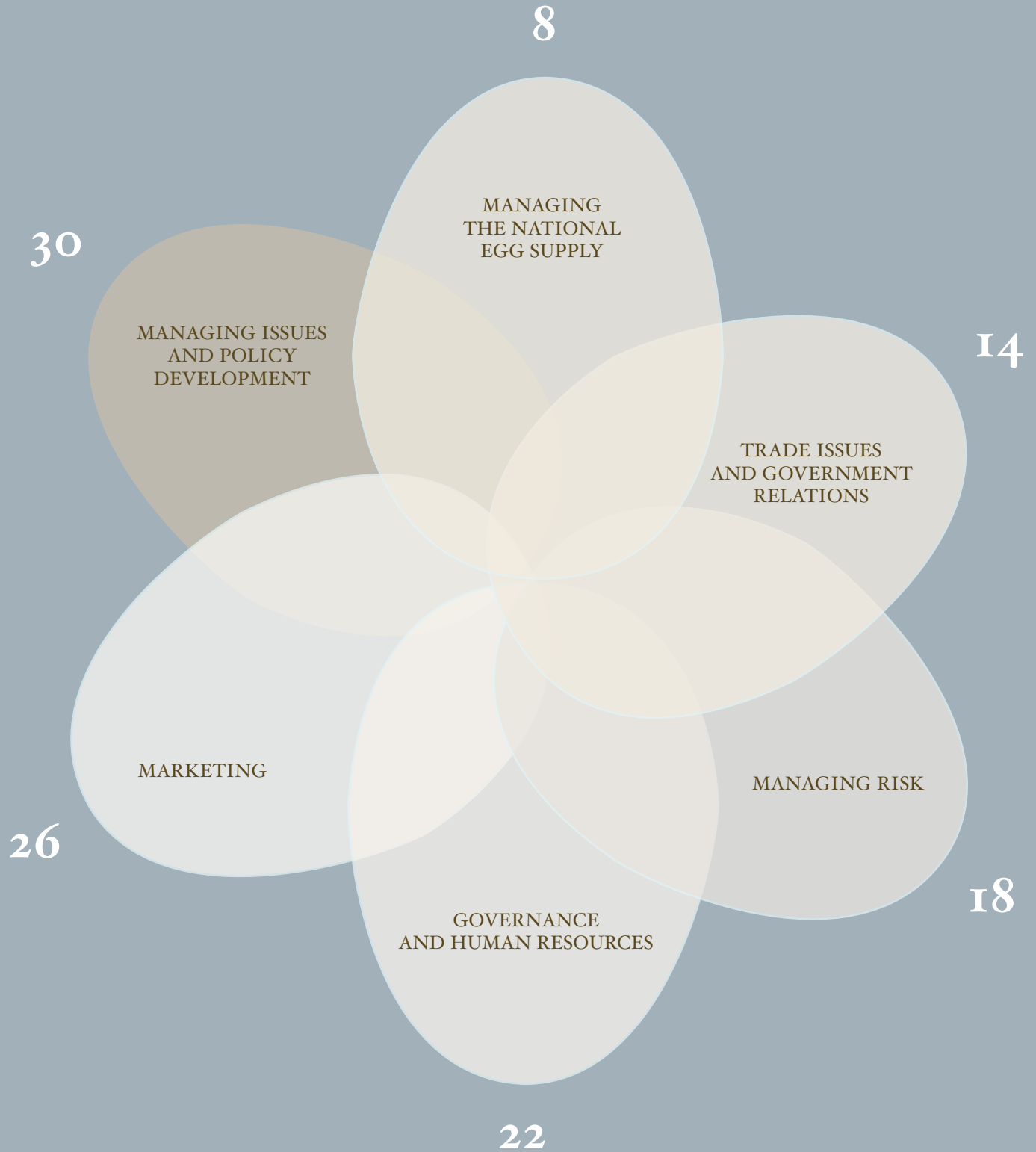
2006 ANNUAL REPORT

Defending and strengthening the fundamentals of supply management

The Canadian Egg Marketing Agency continues its evolution into a proactive leader in national supply management. With our strengthened policy capability, we can tackle strategic issues at home and keep a close watch on the international scene. As well, our highly-focused marketing strategy delivers results year-round. On the operations side, we are taking great strides toward our goal: effective management of supply and pricing in the industrial product program. Ultimately, we seek to defend and strengthen the fundamentals of supply management on behalf of Canada's egg farmers with a team-based approach — one that builds closer relationships with our many respected partners.



CANADIAN EGG MARKETING AGENCY
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MESSAGE FROM THE CHAIRMAN

As Chairman of the Canadian Egg Marketing Agency, you—my fellow producers—have granted me the immense privilege of helping lead the Canadian egg industry. For the past seven years, I've witnessed tremendous change at the Agency and throughout the industry—change for the better as well as change that threatens to negatively impact supply management. In that short time, the issues seem to have multiplied and become increasingly complex. Because so much is at stake, I know you will want to read on about these events in more detail.

You may remember that in December 2005, I'd just returned from the World Trade Organization meetings in Hong Kong. Now, a little more than a year later—after many false starts and missed deadlines—the world appears to be somewhat closer to a new agricultural trade deal. When the negotiations were suspended in the summer, I had a feeling a deal would be years and not months away. However, talks have picked up early in 2007 and we will need to be continually vigilant.

Together with our provincial partners, we went to great lengths last year to represent your interests as egg producers before our government and before the world. We need to continue to communicate with elected officials at every opportunity, so ask to meet with your local MP or send a letter outlining your concerns that any deal to which this country agrees must be fair for egg farmers. Remind them why supply management is such a great tool and how without the three pillars—import controls, producer pricing and production discipline—the industry as we know it would no longer be viable, much to the detriment of our rural communities. Canadians want access to wholesome, made-in-Canada eggs. Farmers only ask for a reasonable return and income stability for their efforts.

Regarding avian influenza (AI) compensation for producers, we have worked hard to explain to the federal government that hens are worth much more than their pro-

posed \$8 maximum if depopulation is ordered under the *Health of Animals Act*. Unfortunately, despite our best efforts, this industry-wide effort has not yet impacted upon the direction of government. There has been some talk of a Phase II program to address compensation needs, in addition to Agricultural Policy Framework consultations that included the possibility of a new animal health pillar or business risk management component. However, it is unclear at this point if these consultations will result in a viable program. Nevertheless, CEMA staff will continue looking for ways to ensure producers are covered in the event of a highly pathogenic AI outbreak.

Meanwhile, CEMA staff and the Executive Committee went to great lengths in 2006 to have a new Processor Contract signed by the end of October. I am very pleased to say we now have floor and ceiling prices for the first time, as well as a pricing mechanism that recognizes value-added products. Looking ahead, we will be entering discussions in the spring with a view to getting the 2007–2008 agreement in place by October 2007.

This past year, CEMA completed work on a new Cost of Production survey, which showed increasing efficiencies in areas such as Rate of Lay, Feed Conversion and Labour Hours. We also made some important progress this past year toward a renewed National Egg Supply Policy and Program. As part of the National Egg Supply Team (NEST), CEMA staff helped guide a national

consultation process involving producers, processors and other stakeholders. Needless to say, this feedback will be essential as we shape our new policy in 2007 and beyond. Our big challenge now is to make sure all stakeholders buy into the process.

South of the border, CEMA entered into a new partnership with the Egg Nutrition Center, which conducts excellent research into the nutritional benefits of eggs. Our plan is to share health information that will help increase egg consumption throughout North America. Further, I am pleased that the United Egg Producers' Dr. Don McNamara has joined our Nutrition Advisory Panel.

In closing, I thank our CEO Tim Lambert, CEMA staff, the provincial boards and you—egg farmers from coast to coast—for your support, valuable ideas and continued friendship. And if last year's teamwork was any indication, I have no doubt we will achieve many great things together in the year ahead.



Laurent Souligny, Chairman



MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

You will notice a new format with this year's Annual Report compared to previous years. We have structured the 2006 edition as an accounting of our progress in reaching goals identified by our Board of Directors in the CEMA Business Plan. Although I will not outline all Agency accomplishments from 2006—these are covered in sufficient detail throughout this report—I will provide an overview of some key highlights from the year that was.

When I joined the Agency nearly four years ago, the Board asked me to strengthen our business planning process and continually improve our overall efficiency and effectiveness as an organization. Part of that process has been the inclusion of an annual Strategic Planning Day for our Board of Directors followed by the development of a three-year Business Plan with goals and objectives divided into Key Result Areas (KRAs). The 2006–2009 Plan identifies six distinct KRAs and it is against these that our accomplishments and remaining challenges from 2006 are described in this report.

For CEMA, consistent planning and identifying areas leading to concrete results represents a significant step forward in our governance abilities. With each new Business Plan, our vision, goals, objectives and requirements have become better defined, paving the way for staff to establish clear and measurable workplans and budgets to guide delivery of Agency goals.

In 2006, we examined the processes used internally to achieve the Board's goals. Consequently, a re-alignment was required to ensure that staff skills were appropriately allocated to units within the Agency. Further to this, all job descriptions were reviewed and updated where appropriate and positions were assessed against benchmarks established in the market. This last project will continue into 2007.

In addition, our efforts to streamline and integrate Agency functions have helped ensure efficient completion of tasks and projects. The basic principle behind this integration is to build and strengthen our ability to work as a team. For example, as we become more aware that the product we sell—eggs—can impact our corporate image and ultimately consumer attitudes, we are seeing improved linkages between Marketing and Nutrition and our Corporate and Public Affairs functions. As for trade, developments at the WTO are being more regularly communicated to those responsible for the Agency's day-to-day operation.

Just as linkages among our units are necessary, so too are linkages required among organizations that represent farmers. Many goals of farm organizations are the same yet many of our national organizations are established in separate buildings. To enhance our joint functions and pursue common objectives, CEMA approached other producer organizations in 2006 about the feasibility of purchasing common office space so we could better work together—not to mention eliminate costs associated with leasing. After a full market valuation, CEMA moved forward and purchased an office property in Ottawa's downtown core. To date, we have several partners including the Dairy Farmers of Canada, the Canadian Federation of Agriculture and the Canadian Broiler Hatching Egg Marketing Agency (CBHEMA). CEMA staff will move to the new facility in 2008.

As we move forward in 2007, my personal goal is to enhance the assessment of risks and opportunities on matters going before the Board, ensuring Directors have all the information needed to make informed, confident decisions.

In closing, I would like to express my appreciation to CEMA staff, as it is thanks to them that our accomplishments have been made possible. I thank my Chairman Laurent Souigny for his unwavering support and valuable counsel throughout the year. I would also like to commend our Directors for their thoughtful consideration of difficult decisions facing our industry.



Tim Lambert, Chief Executive Officer

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Canadian Poultry and Egg Processors Council



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MANAGING THE NATIONAL EGG SUPPLY

Over the past few years, effective management of Canada's egg supply has become increasingly challenging due to the continual evolution of our table egg and industrial product markets. Facing these challenges, CEMA made substantial progress in 2006 toward strengthening a number of key elements. Of note, we improved our ability to manage product volume with updated projection models, revised our declaration procedures, made improvements to the damage claims process and expanded third-party verification in processing plants.



As part of the National Egg Supply Team (NEST), CEMA staff played a role working toward the development of new policies and programs to better match supply with demand. In addition, we completed the Cost of Production (COP) survey and worked throughout the year to establish a more effective relationship with the processing industry. Going forward, these and other efforts are laying the groundwork for a sustainable national egg supply system with all stakeholders sharing in the costs and the benefits.

Streamlining the Industrial Product Program

With industrial product now accounting for approximately 30% of overall egg production in Canada, CEMA has been facing increasing economic pressure on the fund used to operate the Industrial Product Program (IPP). Its efficient operation is complicated by the fact our business is heavily impacted by external forces: a high Canadian dollar against the U.S. currency and persistently low prices for U.S. breaking stock. In response, the Agency implemented several budgetary measures in 2006 to limit the financial impact of these forces. We also embarked on a review of the program in order to streamline some of our own procedures and create new efficiencies — a process supported by our provincial partners.

First, CEMA worked actively with the provincial boards to improve our ability to forecast and manage seasonal production volumes. Where once provincial industrial product declarations could be forecasted only a week in advance, the new declaration process makes it possible to forecast up to three weeks ahead — allowing for greater flexibility in managing the system. The IPP Unit has also increased its medium-range volume forecasting to four months in advance and aims to reach six months next year. Throughout 2006, we established storage arrangements in strategic locations across the country to handle seasonal peaks; by year-end, we were using our improved forecasting capability to help match projected peaks in industrial product with well-timed marketing campaigns promoting table eggs.

Next, the IPP Unit carried out a process-mapping exercise to document the substantial internal and external processes of egg supply and demand in Canada. The aim is to streamline and standardize all processes within the IPP and eventually apply activity-based costing to the Unit's processes. In 2007, the Unit plans to draft a Standard Operating Procedures (SOP) manual based on the findings of the process-mapping exercise.

Further, CEMA expanded third-party verification services in January 2006 to all major breaking plants across the country. With coverage in place in the larger plants, we can now focus on the best way to extend services to the smaller plants. To complement these efforts, the Agency also launched a real-time inventory management system to track breaking plant inventory and introduced a bar code system to increase accuracy and efficiency.

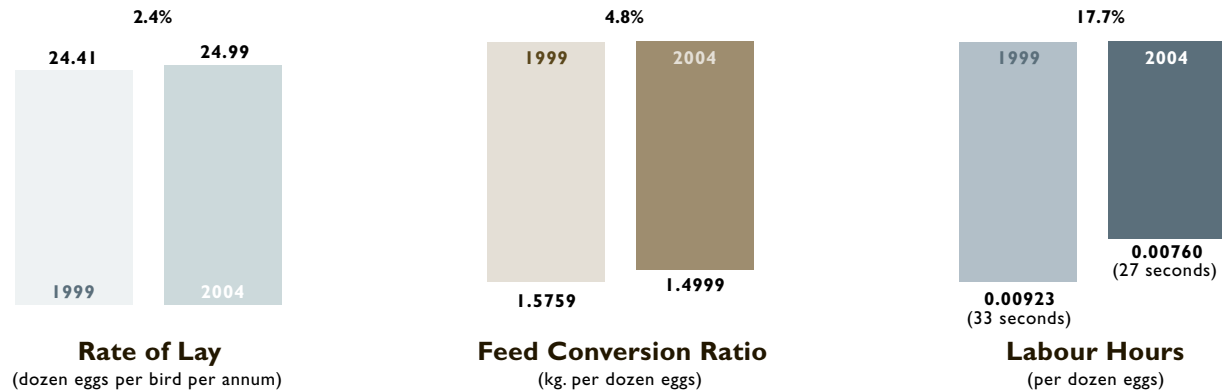
National Egg Supply Team (NEST)

In order to address the ongoing challenges facing the IPP, it was felt that it was appropriate to conduct a complete review of all aspects of the industrial product business. Accordingly, at CEMA's 2006 summer meeting, the Board of Directors endorsed the idea of a national consultative process with the provincial egg boards to help bring this about. Comprised of directors, provincial managers and Agency staff, the National Egg Supply Team (NEST) consulted provincial and territorial boards throughout the fall as a first step toward developing a comprehensive renewal of the National Egg Supply Policy and Program.

In keeping with its mandate, the NEST gathered participant feedback and submitted a Consultation Report to the Board of Directors for discussion on January 31, 2007. Subsequently, the Board provided strategic direction on key issues like emerging products, expanding markets and promoting long-term industry viability through innovation.

Cost of Production

PRODUCTIVITY IMPROVEMENTS



Gains were made in all three of the industry's productivity factors: Rate of Lay, Feed Conversion Ratio and Labour Hours.

Cost of Production Survey Completed

In 2006, work was completed on the new Cost of Production (COP) survey and CEMA updated the methodology to be used for future surveys. Performed approximately every five years, the survey is a tool for measuring the various costs associated with regulated egg production in Canada. A producer return study is also performed to help CEMA determine rate of return for all producers.

CEMA's Economics, Statistics and Pricing (ESP) Unit, which led the work, recognized the need for an improved methodology to assist with future surveys. Over the course of the project, the ESP Unit and a survey firm developed detailed step-by-step processes to see the project through from beginning to end. Several unique challenges had to be overcome to obtain an accurate estimate of production costs. Unlike earlier surveys, our variables in 2004 were impacted by several factors: an outbreak of avian influenza in Abbotsford, British Columbia, the Early Fowl Removal (EFR) and the Eggs for Processing (EFP) programs that operate differently from province to province.

On September 24, 2006, recommendations put forward by the COP Committee on updating the COP pricing methodology came into effect. Until the next survey is conducted, CEMA will regularly benchmark COP components against similar information from other sources.

Processor Contract Signed

CEMA and its partners in the Canadian processing sector agreed to terms on a new Processor Contract that went into effect on October 31. The new contract includes the addition of a surcharge on value-added products — an amount that varies based on the proportion of eggs used in production of value-added products. Specifically, processors whose value-added component exceeds 25% of overall production will contribute 1¼¢ per dozen on all eggs. At less than 25%, the surcharge amounts to 3¢ per dozen on the applicable percentage.

To help ensure CEMA's financial stability, we have also incorporated a floor and ceiling price into the new contract. This makes provisions for a 1¢ surcharge if the Canadian Processor Base Price falls below 50¢ per dozen — and a 2¢ surcharge if it dips beneath 35¢. On the other hand, processors are guaranteed a 1¢ discount should the Base Price exceed 60.5¢ per dozen and a 2¢ discount if the base exceeds 75¢. Looking ahead, CEMA will be examining new ways to set up and negotiate the next Processor Contract.

Pricing Options

Following months of study by provincial egg board general managers and CEMA staff, the Board of Directors supported a recommendation to change price spreads on certain industrial product eggs to ease pressure on the Pooled Income Fund (PIF). The three-fold aim of this pricing change was to achieve a reduction in the overall cost of the IPP, while minimizing detrimental effects on producers and the marketplace.

As we move forward, the market impact of these adjustments will be monitored throughout 2007 and reported on during monthly national-provincial conference calls. The agreement also contains an off-ramp provision granting any provincial board the option to trigger a re-assessment of the price spread, if necessary.



Discussions with International Trade

On several occasions in 2006, CEMA and other industry stakeholders met as part of the federal Department of International Trade's Tariff Quota Advisory Committee (TQAC) to discuss revising import procedures for table eggs when supplemental permits are issued. Specifically, the TQAC will require graders to provide more detailed explanations for supplementary imports requirements. Meanwhile, the Canadian Food Inspection Agency (CFIA) agreed to verify at destination that supplemental shipments entering Canada meet permit requirements on egg grade and size. We expect these revisions to come into effect in 2007. Last year, a total of two supplemental import shipments of table eggs crossed the border.

Progress on Vaccine Eggs

In 2006, CEMA worked closely with the Quebec, Ontario and New Brunswick egg boards to better understand the vaccine industry's egg requirements. At CEMA's summer meeting, the Board authorized an increase in vaccine quota in those three provinces to ensure the industry a steady supply of vaccine eggs. Looking ahead, CEMA will continue to work with the three provinces on the various components of vaccine egg production in Canada. We plan to bring forward a national vaccine egg policy on production and disposal sometime in 2007.

Federal Quota Allocation

(dozens)

PROVINCE	PROPOSED 2007 ALLOCATION	2006 ALLOCATION JULY 1 TO DEC 30	2006 ALLOCATION JAN 1 TO JUN 30	2005 ALLOCATION*
BC	66,213,800	33,288,806	32,206,028	66,013,460
AB	46,820,109	23,538,681	22,782,605	46,698,047
NT	2,896,491	1,456,203	1,406,283	2,882,493
SK	24,428,395	12,281,309	11,885,697	24,362,395
MB	58,366,811	29,343,754	28,366,851	58,144,208
ON	203,397,677	102,257,623	98,924,124	202,767,127
QC	96,886,293	48,709,318	47,115,117	96,572,975
NB	11,288,839	5,675,433	5,486,461	11,245,730
NS	20,031,119	10,070,590	9,736,189	19,956,499
PE	3,315,857	1,667,038	1,611,239	3,302,595
NL	8,878,198	4,463,490	4,311,389	8,837,156
TOTAL	542,523,590	272,752,245	263,831,983	540,782,685

* 2005 allocation has been pro-rated to reflect 53 weeks.

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



While we have accomplished much together in 2006, a great deal remains to be studied, recommended and implemented in the coming year and beyond. Following standard project management principles, we are confident that our efforts to streamline and standardize the IPP are bringing about effective and positive change at a crucial time for our industry. The Board of Directors is pleased with the progress being made and looks forward to continued co-operation with our producers, the provincial boards and processors. With the necessary tools, resources and strategies now in place, the Agency's plan to improve the management of the national egg supply is well on its way to becoming a reality.

2006 Interprovincial Movement

SELLERS	BUYERS												TOTAL SALES
	YT	BC	AB	NT	SK	MB	ON	QC	NB	NS	PE	NF	
YT		0	0	0	0	0	0	0	0	0	0	0	0
BC	0		15,584	0	0	0	0	0	0	0	0	0	15,584
AB	26,637	168,510		36,033	43,185	10,890	0	0	0	0	0	0	285,255
NT	0	0	9,600		0	0	0	0	0	0	0	0	9,600
SK	0	0	457,375	0		20,152	1,419	0	0	0	0	0	478,946
MB	0	169,672	417,894	0	148,170		206,315	0	0	5,040	0	0	947,091
ON	0	1,706	0	0	0	16,905		621,000	3,761	192	0	0	643,564
QC	0	0	0	0	0	813	347,037		29,964	2,239	0	178	380,231
NB	0	0	0	0	0	0	0	297		34,728	1,452	4,106	40,583
NS	0	0	0	0	0	0	0	0	44,510		7,944	23,283	75,737
PE	0	0	0	0	0	0	0	0	0	0		0	0
NF	0	0	0	0	0	0	0	0	0	0	0		0
TOTAL PURCHASES	26,637	339,888	900,453	36,033	191,355	48,760	554,771	621,297	78,235	42,199	9,396	27,567	2,876,591

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



Number of Registered Producers per Province

PROVINCE	2006	2005
BC	126	125
AB	167	167
SK	64	64
MB	168	168
ON	359	375
QC	105	105
NB	17	17
NS	23	23
PE	12	12
NL	11	11
NT	1	2
CANADA	1,053	1,069

Audited data as reported December 30, 2006.

In 2006, the number of registered producers per province remained fairly consistent with 2005 levels. There were sixteen fewer producers nationwide from the previous year, or a 1.5% decrease.

Average Number of Layers per Producer

PROVINCE	2006	2005	2004
BC	18,312	15,424	11,337
AB	9,854	9,763	9,324
SK	13,445	13,332	12,403
MB	12,803	12,729	12,489
ON	20,275	19,321	18,673
QC	32,969	32,294	31,527
NB	24,185	23,190	22,594
NS	31,268	31,003	29,706
PE	10,160	9,663	10,985
NL	30,966	30,470	30,723
NT	62,627	33,736	34,399
CANADA	18,368	17,596	16,632

Audited data as reported December 30, 2006.

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

The average number of layers per producer in 2006 rose approximately 4.3% nationally over 2005.

Eggs for Processing (EFP) Quota

(dozens)

PROVINCE	PROPOSED 2007 ALLOCATION	2006 ALLOCATION JULY 1 TO DEC 30	2006 ALLOCATION JAN 1 TO JUN 30	2005 ALLOCATION*
BC	2,499,000	1,256,365	1,213,297	2,486,923
AB	624,750	314,091	303,324	621,731
NT	0	0	0	0
SK	4,998,000	2,512,731	2,426,593	4,973,846
MB	9,996,000	5,025,462	4,853,187	9,947,692
ON	17,493,000	8,794,558	8,493,077	17,408,462
QC	2,499,000	1,256,365	1,213,297	2,486,923
NB	0	0	0	0
NS	0	0	0	0
PE	0	0	0	0
NL	0	0	0	0
TOTAL	38,109,750	19,159,572	18,502,775	37,925,577

* 2005 allocation has been pro-rated to reflect 53 weeks.

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

TRADE ISSUES AND GOVERNMENT RELATIONS



Looking back on 2006, the international trade file was a study in contrasts. For the first six months we worked intensively to urge continued government defence of supply management and its three pillars here at home and at the World Trade Organization (WTO) in Geneva. With the breakdown of talks over a new trade deal and the suspension of the Doha Round in July, we shifted our focus to prepare for a possible restart of the negotiations later in the year or sometime in early 2007.

To best promote the interests of Canada's regulated egg farmers on trade issues, CEMA collaborates on government relations with a number of key supply management stakeholders at the national and provincial levels. By maximizing these relationships, the Agency benefits from a strengthened trade position and access to valuable additional resources. As part of our government relations strategy in 2006, CEMA developed effective lobbying and communications programs aimed at reaching influential decision makers. These joint efforts with our national supply management partners for dairy, broiler hatching eggs, turkey and chicken helped reinforce with politicians the high level of support for supply management among Canadians and the importance of defending the three pillars that make the industry viable: import controls, producer pricing and production discipline.

Our collective work contributed to positioning federal political parties in support of supply management, as was evident in the unanimous support of a House of Commons motion in favour of supply management and its three pillars in 2005. This momentum carried over to the 2006 federal election leadership candidates' debate, where Stephen Harper clearly stated his party's intention to defend the three pillars in world bodies such as the WTO.

Making Voices Heard

While we do collaborate regularly with the national supply management coalition, CEMA also pursues its own effective approach to government relations. One of the highlights of the year was our annual Parliament Hill Breakfast held on May 30, 2006. With the support of our provincial egg boards, this friendly and open forum attracted more than 50 parliamentarians — many of whom stopped to chat with CEMA Directors who made their omelettes. The event is also a valuable opportunity for egg producers to meet their respective Member of Parliament. Our Chairman Laurent Souigny concluded the breakfast with remarks on trade issues, avian influenza compensation and biosecurity.

CEMA representatives occasionally meet formally with government ministers to exchange ideas and clarify positions. On June 7, the Agency's CEO Tim Lambert, along with other national supply management leaders, met with Minister of International Trade David Emerson. Specific issues raised included Canada's negotiating strategy at the WTO and government support for the three pillars of supply management. Subsequently, Laurent Souigny and the national supply management Chairs met with Agriculture Minister Chuck Strahl on June 19. Mr. Souigny used this opportunity in the lead-up to the WTO's end-of-June mini-ministerial meetings in Geneva to reiterate the Agency's position on zero increases to minimum market access and no reductions to over-quota tariffs for eggs — in line with the unanimous House of Commons motion of November 2005.

From time to time, CEMA representatives are called to appear before the House of Commons Standing Committee on Agriculture and Agri-Food. On June 15, Mr. Souigny appeared on behalf of Canada's national supply management coalition to present the group's position on the WTO agriculture negotiations — specifically the need to achieve a positive result for our commodities in the sensitive products category of any new agreement. Mr. Souigny also voiced concern over a recently tabled draft modalities document at the WTO that would, if adopted, significantly erode the three pillars that make orderly marketing possible in Canada.

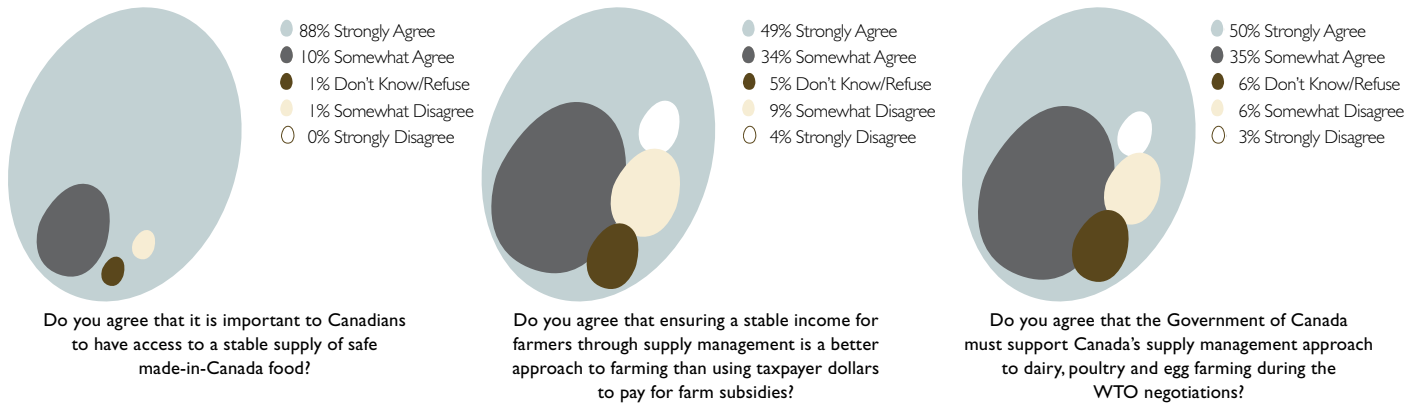
CEMA Present at WTO

As trade negotiations intensified through the first half of the year, Agency representatives travelled frequently to Geneva to collect information and relay an accurate assessment of the Doha Round negotiations. Staff attended daily industry briefings at the Canadian Mission and met both government and farmer contacts from key WTO-member countries. In addition, CEMA's International Trade Policy Manager conducted a technical analysis of numerous documents tabled by WTO member countries. She also prepared daily *Geneva Trade Update* summaries for producers back home. This work contributed to a strong government relations campaign in Canada leading up to the end-of-June WTO mini-ministerial in Geneva.

On June 28, Mr. Souigny led Canadian egg producers in a day of action with farmers from Canada and a number of other countries. Together, they participated in a media event on a mixed farm outside Geneva to highlight issues outlined in a joint declaration signed the previous year in Hong Kong by more than 50 farm organizations. This agriculture coalition also placed an ad in the *Financial Times* (UK) in advance of the mini-ministerial meeting to outline common concerns over the ongoing WTO agriculture negotiations. Mr. Souigny also chaired twice-daily strategy sessions for national supply management representatives — many of whom attended meetings with parliamentary secretaries, provincial ministers, MPs and farmer representatives from various countries.

In September, our International Trade Policy Manager attended the WTO's annual NGO Symposium, a forum encouraging informal dialogue between WTO member states and non-governmental organizations on issues relating to international trade. That same month, CEMA was part of a small delegation supporting Canadian Federation of Agriculture President Bob Friesen at the Cairns Group Farm Leaders' meeting in Cairns, Australia. The Cairns Group is comprised of 18 developed and developing countries, including Canada, aiming to achieve reform in agricultural trade.

Poll Results: Canadians Stand Up Overwhelmingly for Supply Management



Canadians Stand Up for Supply Management

In May, approximately 1,500 Canadians were polled about their attitudes toward supply management. All participants were questioned about the importance of strong rural communities, stable made-in-Canada food and the need for stable producer incomes.

The survey results were published on June 12, shortly after a trip to Canada by WTO Director-General Pascal Lamy. During his visit, Mr. Lamy had insisted that a “silent majority” of Canadian consumers would, if given the choice, instruct the government to open the borders to egg, dairy and poultry imports. The survey results, on the other hand, suggested quite the opposite:

- 98% agreed it was important to have access to a stable supply of safe, made-in Canada food;
- 83% agreed a stable income for farmers through supply management is preferable to using taxpayer dollars to pay for farm subsidies;
- 85% agreed the Government of Canada must support our supply management approach to dairy, poultry and egg farming at the WTO.

At a House of Commons Standing Committee on Agriculture and Agri-Food hearing on June 15, we distributed a fact sheet profiling the poll results to all in attendance. The sheet was also sent to all MPs and Senators to help them understand the overwhelming support supply management continues to enjoy among Canadians.

Media Strategy

In 2006, CEMA pursued an active media strategy to keep supply management and the WTO negotiations on the radar with politicians and the public. In the May 8 edition of *The Hill Times*, Ottawa's weekly government and politics newspaper, the supply management coalition published a full-page ad profiling farmers from the five supply-managed commodities. The following month, the coalition drafted an opposite editorial article about supply management and the WTO that was picked up by a half-dozen regional papers in Canada.

Meanwhile, CEMA issued a news release on June 5 about results from the new Cost of Production (COP) survey. In it, we stressed that farmers' efforts to streamline production are yielding impressive results with improved efficiencies in hens' rate of lay, feed conversion and labour hours. The story generated several requests for interviews with the COP Committee Chair, leading to positive coverage in two agriculture papers and on the radio.

Given the increasing importance of communications in any national government relations strategy, CEMA and its coalition partners maintain the joint farmsandfood.ca website. Over the past year, we updated the site regularly with *Geneva Watch* briefings, timely media releases and comprehensive fact sheets. First launched in 2005, farmsandfood.ca features tools producers can use when meeting politicians and other key stakeholders to discuss trade issues. It also provides the public and media with useful information about supply management's economic contributions to Canada.



Technical Work

With negotiations intensifying throughout the first half of the year, national supply management's Technical Committee collaborated regularly to assess numerical targets proposed in draft documents and determine their impact on market access and tariffs. The committee's work proved particularly helpful in developing producer kits to assist in requesting and conducting meetings with politicians. Throughout the past year, CEMA also performed extensive technical analysis of issues from an egg-only perspective—work that was instrumental in the creation of a key messages document for our government relations work and a supply management resource binder for the provincial egg boards.

In the fall, our CEO and International Trade Policy Manager met with federal Department of Finance officials to explain the Agency's position on the Agricultural Special Safeguard (SSG). In particular, they explained the Agency's position on the provision and inquired into its potential use by Canada to address ever-increasing over-access egg imports. By the end of 2006, our work on the SSG focused on price triggers, base periods and the possible application of additional duties. Technical analysis will continue in the months ahead.

Looking Ahead

Before talks broke down at the WTO, there was grave concern that the numerical targets in the June 2006 draft modalities document would, if agreed to by Canada, severely compromise CEMA's ability to predict the flow of imported eggs and effectively operate our supply-managed system. Despite the suspension of talks, this document has remained on the table and will likely be a starting point if negotiations resume in 2007. In the days, weeks and months ahead, it will be vital for producers whose livelihoods are at stake to keep the pressure on for a trade deal acceptable to their industry.

In Ottawa and Geneva, CEMA will continue to do its part. To ensure the three pillars of supply management are non-negotiable at the WTO, we will continue to pursue a multi-faceted, measured and cooperative approach that upholds and strengthens our orderly marketing approach to egg production in Canada.

MANAGING RISK



Taken as a whole, the sheer number of risks facing the agricultural sector in the 21st century is truly staggering. New demands placed on producers regarding food safety, animal health and the environment are emerging with stunning regularity. Over the past several years, CEMA has been working actively to ensure the egg industry is prepared to meet these challenges.

This past year, CEMA staff worked closely with government officials and provincial stakeholders on a number of important biosecurity, surveillance, communications and emergency preparedness issues. In particular, we pressed hard for fair producer compensation if flocks are ordered destroyed due to H5 or H7 avian influenza. This means that dealing successfully with emerging concerns and sudden emergencies requires formal management and policy processes. In the year ahead, we will continue developing our risk management decision-making capability — weighing the pros and cons of issues to determine the potential impact on producers and consumers.

Yarrow and Huntley

Recent events impacting our industry clearly underscore the need for open lines of communication for managing any potential, emerging or full-blown crisis. In December 2005, lab testing revealed low pathogenic H5 avian influenza on a duck farm in Yarrow, British Columbia. The flock was culled as a precautionary measure under the *Health of Animals Act* and the Fraser Valley held its collective breath, hoping not to witness a repeat of the 2004 Abbotsford outbreak.

From the perspective of the national and provincial feather agencies, the Yarrow incident had to be managed immediately. Although this was only a small incident, media interest was intense. And it was not just reporters champing at the bit — the CFIA itself was hinting another Fraser Valley incident could be imminent, even though only two commercial waterfowl farms were affected.

As part of our response, the national feather agencies devised and distributed key messages to our provincial boards so the same information was being relayed across the country. CEMA maintained regular contact with the BC egg board to provide communications support and made sure all Directors were kept up to date. In the weeks following, the CFIA continued to monitor nearby poultry flocks, but nothing further was reported.

Fast forward to June 2006: illness and mortality hit four geese in a mixed backyard flock in Huntley, Prince Edward Island. Initial testing confirmed H5 avian influenza, although it was believed to be a low pathogenic strain as no chickens were affected. As with the Yarrow incident, CEMA worked closely with the PEI egg board to develop key messages and localize the incident. Shortly thereafter, lab analysts at the National Centre for Foreign Animal Disease in Winnipeg were unable to confirm the initial test result.

In hindsight, the Yarrow and Huntley experiences taught us that difficulties in one sector of the poultry industry can easily impact another. We also learned the value of early, close and regular communication with stakeholders, especially government officials. By communicating closely and regularly with the CFIA, the provincial boards and the media, we managed to avert an unnecessary crisis at a critical time for the egg and poultry industries.

Compensation

Incidents like these show how important it is for producers to be fairly compensated in the event flocks are culled under the *Health of Animals Act* due to H5 or H7 avian influenza. One of the Agency's primary objectives in 2006 has been to secure fair and reasonable compensation for producers in such cases. On several occasions, CEMA staff met with government officials to discuss the issue though little headway was made. Unfortunately, the government's proposed compensation maximums for laying hens at \$8 per bird — published in the *Canada Gazette*, Part I, and down from \$33 in the current regulations — is far less than what is needed to fairly compensate producers.

In response, egg farmers sent letters to the CFIA and the Minister of Agriculture outlining why they believed this amount to be unacceptable. In addition, CEMA and its national feather industry partners sent individual and joint letters to address the issue from a wider industry perspective. Taking into consideration their crucial role as first responders in the event of disease, egg farmers are very disappointed in the lack of government understanding on this issue and are frustrated with the process. On a side note, the government has yet to consider the financial impact a positive AI finding would have on nearby producers, whose flocks might be quarantined and whose egg shipments would be halted for an indefinite period. Nevertheless, CEMA is willing to work with government in the months ahead on the compensatory elements of a proposed Phase II program. It remains uncertain, however, whether a Phase II component would be linked in any way to the ongoing production insurance consultations or contained within a renewed agriculture policy framework.

It should also be stated the Agency understands the government's urgent need for farm data to conduct AI surveillance in commercial flocks. In November, the Board passed a motion recommending that provincial boards send the CFIA this data to help start a surveillance program by defining sample size. Egg farmers remain hopeful their exercise of good faith will be recognized in the form of fair and reasonable compensation to address any future government-ordered culls.



To ensure the accuracy of our work on this complex issue, CEMA joined the other national feather agencies to commission Bob Burden, an Accredited Valuation Analyst, to co-ordinate our joint avian influenza task team. Mr. Burden performed technical analysis to assess the real market value of laying hens and his recommendations were incorporated into briefing notes for use by Directors and provincial board staff meeting politicians to discuss compensation. In addition to this work, Mr. Burden also helped develop national and provincial biosecurity and emergency preparedness strategies for the feather sector.

Consumer interest in hot topics like animal care, food safety, the environment and traceability can only increase—this is the new reality and a challenge we must be willing to address.

Working with Government

Throughout the past year, CEMA staff participated in government-industry working groups focusing on surveillance, movement controls, communications and biosecurity. With government looking to establish a national biosecurity standard for poultry, we joined the Avian Biosecurity Advisory Council (ABAC) and took part in regular meetings. As a Council member, we convinced the CFIA that industry on-farm food safety programs should be the criteria by which to introduce new or enhanced biosecurity measures on poultry farms. As well, we successfully conveyed the notion that each industry should be assessed case by case to consider issues unique to each. In 2007, we will continue our participation on the Council.

Meanwhile, in the spring we joined our feather industry partners to discuss on-farm biosecurity with government officials at a Federal, Provincial, Territorial Regulatory Assistant Deputy Ministers meeting. One outcome of this meeting is that government has further recognized the extent and effectiveness of our biosecurity programs. This is a notable achievement because re-inventing the wheel is not a practical option when resources and time are of the essence.

Also in 2006, CEMA staff worked closely with national feather group colleagues to draft a national communications manual guiding potential public responses to avian influenza incidents. In total, the task team created ten scenarios around hypothetical emergency situations, with key messages and news releases intended for media and ultimately targeting consumers. The messages focus on measures being taken by industry and government to manage an outbreak and what risks, if any, exist for the public.



Pre-lay Programs and Insurance Options

In 2006, CEMA worked to develop an insurance program for pullet producers. The aim is to ensure egg producers receive pullets free of *Salmonella enteritidis* (Se) — the earlier Se can be stopped on the production chain, the better. Presently, CEMA has an Se insurance policy for layers but not pullets. The question going forward is how to compensate pullet producers if their birds test positive for the bacteria.

Recently, we have explored a number of insurance measures, with discussion focusing primarily on reciprocal insurance. Significant progress has been made this past year, but more work is still needed. Nevertheless, this action shows pullet producers from coast to coast are unified as an industry as they work to resolve this important issue. It is worth noting that CEMA has also been spearheading the development of an on-farm food safety program for pullets, to be implemented in the near future.

As well, CEMA staff also began work with the feather organizations to assess disease risks within the egg industry. This work will continue in 2007 as part of the background required to explore various insurance options for our industry.

Over the short- and long-term, producers should expect the demands of farming to become increasingly rigorous. Consumer interest in hot topics like animal care, food safety, the environment and traceability can only increase — this is the new reality and a challenge we must be willing to address. We can also expect government to respond quickly and forcefully whenever a serious issue affects industry or public health. As such, we must be prepared, as much as possible, to manage these risks proactively as an industry. This is why CEMA is striving to better define risk management processes — so significant decisions affecting producers and consumers go before the Board with options clearly laid out. As part of this work in the months ahead, we will be developing an issues response guide to direct staff in this task.



GOVERNANCE AND HUMAN RESOURCES

In 2006, CEMA made considerable progress towards becoming a more efficient business. This was a conscious decision to improve crucial governance and human resource functions within the Agency, as outlined in our Business Plan. Managers have worked actively this past year to strengthen accountability by linking work plans to key result areas. In addition, efforts to streamline internal processes have involved significant renewal and reorganization on many levels.

Consequently, we have improved our decision-making and issues management capabilities — essential when time and resources are limited. Most important, we are ensuring staff members have the tools, skills and knowledge needed to achieve the Board of Directors' vision for the future of the egg industry. As well, we have placed a significant priority on working closely with provincial board managers and staff. These individuals have a wealth of knowledge and experience, and our goal is to build a team that is truly national.

Process and Accountability

An organization functions effectively when Board and management roles are clearly defined, enabling staff to carry out their day-to-day operations and freeing the Board to focus on policy renewal and strategic direction. This is why we integrated an annual Strategic Planning Day into the business cycle. Coinciding with the first Board meeting of every year, these day-long sessions enable Directors to review policies, provide guidance on pertinent issues and determine overall strategy in the medium to long-term. Managers then align work plans and budgets with the Business Plan, and, ultimately, with the Board's strategic vision for the egg industry. We also gather input from the provincial managers and involve them in various development projects. This has been a big step forward for CEMA as it maximizes our chances for success in key areas: Industrial Product Program (IPP), animal care, trade and ensuring consumer confidence in eggs.

As part of the Agency's plan to improve internal processes and strengthen accountability, managers link their work plans to six Key Result Areas (KRAs) in the Business Plan:

- 1 Managing the National Egg Supply
- 2 Trade Issues and Government Relations
- 3 Managing Risk
- 4 Governance and Human Resources
- 5 Marketing
- 6 Managing Issues and Policy Development

To identify any gaps in this approach, the Acting Chief Financial Officer conducted a strategic audit to verify that completed work corresponded to the Business Plan, reporting these results to the Board at the Strategic Planning Day session.

Renewal and Realignment

CEMA underwent significant organizational renewal and realignment in 2006. We hired several key staff members with the skills needed to carry out Board priorities, including a new Field Operations Manager and Marketing Officer. As well, we completed a review of CEMA's organizational structure enabling us to re-align tasks and responsibilities within units and increase efficiency.

In the months ahead, as we continue to fine-tune the Agency's organizational structure to respond to emerging priorities and needs, we will offer staff comprehensive training and professional development on an ongoing basis to ensure that skills are continually enhanced and upgraded.

The Business Planning Cycle

To establish Agency priorities, our Board of Directors, Executive Committee and national staff are involved in a year-round Business Planning Cycle. Going forward, we will update and improve aspects of this process as needs are identified. In 2006, the cycle consisted of the following elements:

January 2006	Strategic Audit and Environmental Scan
February 2006	Board Strategy Work: Consultation on 2007–2010 Business Plan
March 2006	Strategic Insights prepared and circulated
April 2006	Managers and National Staff Team Forum on Business Planning
May 2006	Draft Business Plan Preparation for 2007–2010
June 2006	Staff input to Business Plan and work plan preparation
July 2006	Summer Meeting: Presentation of Draft Business Plan
August 2006	Consultation with committees as required Refit of Business Plan from Board
September 2006	Call for work plans and budgets
October 2006	Final draft of Business Plan Budget circulated for final input
November 2006	Final Business Plan and Budget tabled and signed off; Work plans approved internally
December 2006	Levy request Production of Annual Report



Issues Management and Policy Development

Access to timely and accurate information is essential for operating a successful national supply management organization. Over the past year, we continued to enhance our issues management and policy development capability through information sharing and consultation with our provincial egg board partners. As part of these efforts, we sent stakeholders weekly CEO Updates and Issues Briefings, in addition to monthly Marketing Updates and articles on topics of interest for provincial egg board newsletters to producers. CEMA Chairman Laurent Souigny also reached out to producers with regular letters outlining the Agency's ongoing activities and future plans.

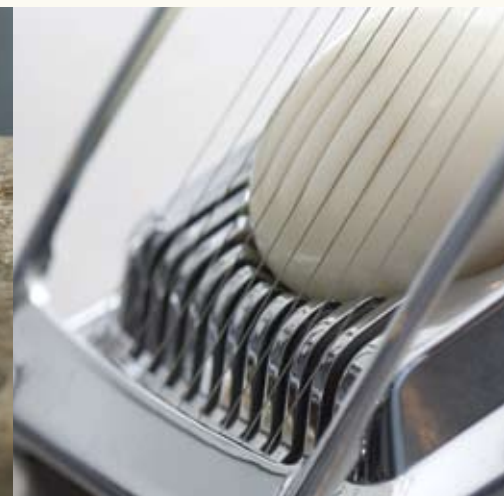
Another way we are improving the policy development area is through a review of all CEMA committees' Terms of Reference. This will more clearly define committee roles and responsibilities. Also of note, the Agency is developing a Business Continuity Plan to deal with emergency situations where staff are unable to carry out normal responsibilities due to illness, natural disasters or man-made calamities.

Information Infrastructure

For CEMA employees to perform their duties effectively, timely and reliable communication is a must. Each staff member relies on the Agency's communication infrastructure in one way or another — making information management considerations a key element of CEMA's organizational development. The Information Services Unit provides essential support in this regard by continuing to improve the Agency's data reporting capability.

Throughout the past year, updates were made to the Egg Information Management System (EIMS) and the Canadian Egg Management Information Database (CEMID). EIMS is a reporting tool national and provincial egg board staff use to submit and access data related to industrial product, animal care and Start Clean-Stay Clean™. In the coming year, efforts will continue to link EIMS with the IPP Unit to create greater industrial product declaration efficiencies. Used solely by external parties, CEMID was upgraded in 2006 and now features a more consistent structure, expanded data series and new software for Web users.

Access to timely and accurate information is essential for operating a successful national supply management organization.



Further accomplishments in 2006 included an upgrade to our financial software, completion of a comprehensive security audit to assess and strengthen our computer network, and compiling all historical Board and Executive Committee documents into a convenient, easy-to-search digital archive.

Considering the size of our industry, it is not surprising that we manage a great deal of information in a variety of different locations. In the near future, a working group consisting of CEMA staff and stakeholders will be looking at ways to gather this data together in one source and better share information from our various databases.

CEMA staff worked this past year in moving toward a more defined set of objectives. The dynamic nature of the egg industry, however, requires continual review and adjustment of the Business Plan to keep things moving in the right direction. As such, we must continue encouraging open and timely communication between national and provincial egg board staff to identify needs, issues and potential problems as they arise. With our renewed approach to accountability, planning and performance management — supported by upgraded information management tools — we have positioned the Agency to resolve governance and industry-wide issues more quickly and effectively than before.

We must continue encouraging open and timely communication between national and provincial egg board staff to identify needs, issues and potential problems as they arise.



MARKETING

With the CEMA Business Plan as our roadmap, the Marketing and Nutrition Unit continued to make progress this past year toward a consistent and unified national marketing strategy founded on consumer research and delivered in collaboration with our provincial partners. Among our achievements, we forged new partnerships with two prominent Canadian sport organizations and with the Egg Nutrition Centre in Washington, D.C. Further, we successfully conveyed the “Eggs Provide Healthy Energy” message to Canadians with a new wave of television and print ads, in addition to reaching our three target demographic markets with direct mail campaigns. It would appear Canadians are getting the message: year-end 2006 ACNielsen ratings projected a 2% upswing in the decline of shell egg consumption.

Consumer Research

To maximize the impact of our messaging and shape marketing strategies this past year, we conducted several research studies with a representative sample of Canadians. Using an online survey, more than 1,000 Canadians revealed they are eating eggs more for weekday breakfast than they were a year ago, while weekend breakfast numbers remain stable. We also learned that eggs compare favourably to cereal and toast when Canadians consider health, cost, convenience and lasting energy. Of particular concern, however, is the percentage of “cholesterol-concerned” Canadians who may be limiting egg consumption: since 2004, this number has increased from 25% to 30%. In response, we are making it a priority to reach these consumers and their physicians in 2007.

On a positive note, our 2006 television advertising campaign produced some encouraging numbers. After three waves of “Eggworld” commercials, ad tracking research revealed our best-ever results in terms of awareness, likeability and message retention.

Relaying the Message

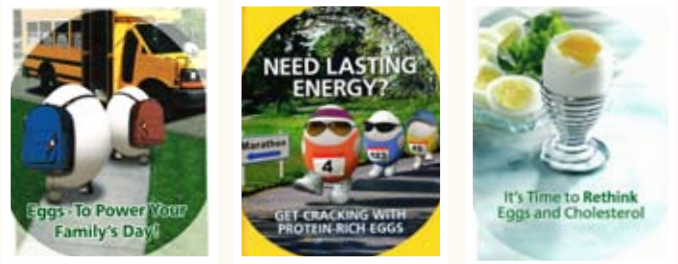
Over the past year, CEMA carried out effective public relations campaigns that generated positive television, radio, print and online media coverage about the benefits of eating eggs. In January, our Marketing and Nutrition Team issued a press release to share research positioning eggs for breakfast as an important tool for weight loss and satiety. Subsequently, home economists Clare Jones and Soeur Angèle served as media spokespeople in the spring and summer to promote eggs for breakfast, while registered dietitians Margaret Hedley and Kim Arrey reached out to seniors in the fall with messages about the health benefits of eggs.

Print media makes it possible to get a lot of information across to the right readership at the right time. When not airing television ads in the summer, another way we reach consumers is through magazine advertorials. In 2006, CEMA marketers worked with several publications to develop nine new full-page advertorials. In total, the pieces were published in twelve national magazines, varying slightly to reach our target audiences. Aimed primarily at women aged 25 to 55, the advertorials featured egg-related dietary information for weight loss, cholesterol-concerned adults and school-age children. Also featured were several new Eggworld characters and recipes — easy to find at eggs.ca.

Over the past year, CEMA sent direct mail to more than 2.5 million Canadians. Using specialized data, we reached three of our most important targets: cholesterol-concerned individuals, families with kids and health enthusiasts. Research has shown the direct mail approach works well, especially for reaching cholesterol-concerned



Nine full-page advertorials, such as the *Eggs & weight loss* piece featured above, appeared in twelve national magazines in 2006.



Using specialized data, CEMA sent 2.5 million direct mails to our three most important target demographics in 2006: families with children (left), health enthusiasts (centre) and cholesterol-concerned individuals (right).

Canadians. With the increasing size of this demographic, addressing cholesterol concerns has become an urgent priority for the Agency. As part of our 2007 Marketing Plan, we plan to reach Canadians with two pieces of direct mail on the subject.

Continuing Medical Education

In 2006, more than 500 doctors in Toronto and Quebec City attended the Continuing Medical Education (CME) program. Developed in collaboration with the Heart and Stroke Foundation, the CME program is an Agency-funded initiative that helps health professionals understand the role of dietary and blood cholesterol, and that eggs are an important part of a healthy diet. Presenters in 2006 included registered dietitian Loretta Tetarenko and family physician Dr. Steven Kahane.



As a new initiative for 2007, we are preparing an online component through Memorial University in St. John's that will enable doctors to receive CME accreditation anywhere in the country.

Partnerships and Promotions

Always on the lookout to share and acquire new knowledge, CEMA formed an important partnership this past year with the Washington D.C.-based Egg Nutrition Centre (ENC). The ENC has many scientific resources that CEMA can use to reach health professionals and consumers. In the fall, we adjusted the Centre's *Nutrition Close-up* publication for a Canadian audience and sent it to health professionals.

In June, our Nutrition Advisory Panel met in Halifax to discuss the Marketing and Nutrition Plan and opportunities that exist for growth in the table egg category. Two ENC members, cholesterol specialist Dr. Don McNamara and communications expert Marcia Greenblum, were invited to join the panel, which consists of medical doctors, researchers and registered dietitians. In return, panel member Dr. Jim House from the University of Manitoba has agreed to represent our industry on a scientific advisory committee in the U.S.

This past year, CEMA formed partnerships with Hockey Canada and the Canadian Soccer Association, agencies representing two of Canada's most popular sports. Both contracts were drafted for a four-year term leading up to the Vancouver 2010 Olympics. Also of note, work began with Hockey Canada to sponsor the Women's World Hockey Championships, scheduled for April 2007 in Winnipeg.

Meanwhile, a trial coupon promotion with A&W Restaurants in 2006 produced very positive results. The company, which uses only fresh shell eggs for its morning meals, is working actively to increase sales in the breakfast category. The trial helped A&W achieve its highest-ever egg consumption rates, with egg sales up 4% over the same time last year. The initiative was so successful we intend to collaborate again.

Proactive Planning

In 2006, staff began work on a media contingency plan in case of a highly pathogenic avian influenza outbreak in Canada. The plan is being developed to reassure consumers that CEMA is taking appropriate steps and that product on shelves remains absolutely safe. As part of the process, we conducted focus group sessions to determine effective key messages and design for newspaper ads.

Through our consumer research in 2006, we continue to learn valuable information that will help encourage Canadians to eat more eggs. Most important, of course, is getting the right message to the right people at the right time. The Marketing and Nutrition Unit worked hard with its provincial partners this past year to determine who these people were, what they needed to hear, and when they needed to hear it. That eggs are an excellent source of protein and lasting energy is a message that resonates with consumers. And as we look to grow the shell egg category with our provincial partners in 2007, we are confident our sponsorship and "cholesterol concerned" strategy will help us reach more Canadians than ever before.



In 2006, we welcomed four new characters to the “Eggworld” family: soccer, hockey, cowboy and biking. After three waves of Eggworld television commercials, ad tracking results showed our best-ever results in terms of awareness, likeability and message retention.

Canadian per Capita Consumption of Eggs and Egg Products

DOZENS PER CAPITA

YEAR	SHELL	PROCESSED	TOTAL
1995	11.7	2.7	14.4
1996	11.9	3.1	15.0
1997	12.1	3.0	15.1
1998	12.0	3.3	15.3
1999	12.0	3.3	15.3
2000	11.9	3.8	15.7
2001	12.2	3.7	15.9
2002	11.5	3.9	15.4
2003	11.8	3.8	15.6
2004	11.9	3.5	15.4
2005	11.8	3.8	15.6

Source: Statistics Canada — Total per capita egg consumption Shell/Processed split calculated by CEMA based on Statistics Canada and AAFC data.

CEMA is continuing with efforts to increase egg consumption levels that have remained relatively consistent since 2002. More growth is expected as CEMA and its provincial partners carry out the national marketing strategy.

MANAGING ISSUES AND POLICY DEVELOPMENT



Given the dynamic nature of the egg industry, trends shift continually at the local, national and international levels. Issues emerge and evolve very quickly. Sometimes we have a month to respond, or just a week—sometimes only a few hours. As such, we must be able to develop new policies or enhance existing ones in a rapid and thorough fashion. And with issues affecting producers, provincial boards and national staff becoming increasingly complex, the consultation process has become a crucial ingredient for success.

Undeniably, we are at our best when we take advantage of the ideas, viewpoints and expertise our many partners and stakeholders bring to the table. So as part of our approach to issues management and policy development in 2006, we ensured that the provincial egg boards were involved in national consultations. These efforts have produced immediate results in our approach to animal care, marketing, egg supply management and more.

Internally, policy development has been given a boost with managers better defining roles and assigning key tasks to qualified staff. In so doing, CEMA projects and activities are corresponding directly to Board-approved work plans — developed in tandem with the provincial egg boards and reviewed during the Board of Directors' Strategic Planning Day to determine the order of priorities in the medium term.

Animal Care

Producers and consumers alike have a vested interest in making sure laying hens are treated properly in all stages of egg production. Egg lovers want to be confident the eggs they purchase are from hens whose health and well-being are top priorities for producers. Regulated egg producers build this confidence by providing their hens with clean water, nutritious feed and proper temperatures, in line with the industry's 14-point Animal Care Program for laying hens.

Among the highlights on this important issue in 2006, CEMA organized a national-provincial animal care workshop in January to discuss the political, social and economic issues surrounding egg production. Consistent with our industry's efforts to keep production methods current with the latest science-based recommendations, national and provincial staff came together and developed an animal care workplan outlining ways to achieve specific targets in our Animal Care Program. Specifically, it calls for a phased-in approach to compliance on cage density. After being reviewed by all provincial egg boards and the Production Management Committee, the Board of Directors approved the plan in January 2007.

To strengthen this initiative, CEMA Field Operations staff attended a training session in December to deepen understanding of auditing for animal care. Led by instructors from the University of Bristol (UK), participants reviewed program objectives and re-examined criteria currently used to rate farms. Since CEMA launched the program in 2005, a substantial amount of useful knowledge has been gained. Consequently, staff used the session to share expertise with a view to improving animal care in 2007 and beyond.

In a related matter, we witnessed an increase in animal welfare activism targeting the industry in 2006. In response, national and provincial staff notified stakeholders and asked producers to step up on-farm security. Although we did see a few demonstrations targeting grocery stores in the fall, these failed to generate any prolonged media attention.

It is also worth noting that CEMA submitted individual and joint comments on proposed changes to regulations governing the transportation of animals. We did this in collaboration with a number of our industry partners, including the national feather organizations, the four provincial Farm Animal Councils and the Canadian Federation of Agriculture. In 2007, CEMA staff will continue to monitor this consultation process to ensure that industry and animal care concerns are addressed.

Food Safety

In 2006, CEMA field inspectors continued their rigorous verification and rating of Canadian egg farms under Start Clean-Stay Clean™ (SC-SC), the Agency's on-farm food safety program. SC-SC continues to enjoy a very high level of participation with rated producers accounting for 99% of overall Canadian production. This Hazard Analysis Critical Control Point (HACCP)-based program outlines steps producers can take to mitigate food safety risks and to advance biosecurity. As part of our normal practice, we will review certain components of the program and recommend enhancements if required.

SC-SC will soon be joined by *Clean Start*, a HACCP-based program for raising pre-lay birds. The program outlines biosecurity measures pullet producers can implement to reduce risks associated with pullet production. Pullet producers will receive a *Clean Start* manual when the program is finalized.

Pullet Transfer Research

One effective way to manage issues is through scientific research. Over the years, we have inquired about the potential benefits, if any, of placing hens in the laying barn a week earlier than the current industry standard of 19 weeks. In March, the Board of Directors agreed to move forward on research to determine the answer. A Request for Proposal was issued and the University of Guelph offered to lead the trial.



Over the course of the project, data will be collected and analyzed in an attempt to confirm whether recent advances in poultry genetics have enabled hens to begin laying at 18 weeks without a noticeable decrease in production and well-being.

Se Compensation Policy

This past year, we conducted a review of the Agency's Salmonella enteritidis (Se) compensation policy. Developed in the 1990s, the policy was seen as a proactive way to encourage cleanliness in barns and keep Se out of eggs. Under the policy, a positive Se finding, though rare, results in all eggs going to breakers for pasteurization. The flock is depopulated at the end of its productive life, followed by a complete disinfection to break the Se cycle. Finally, should an early depopulation be approved by CEMA, the producer is compensated an amount consistent with his or her SC-SC rating. In essence, the protocol was established to maintain consumer confidence in the egg supply and give producers an idea of how clean barns need to be.

As is sometimes the case with national programs, however, the policy evolved differently from province to province. The end result is a policy whose one-size-fits-all approach has become increasingly problematic. One case in point is the Eggs for Processing (EFP) program, in which a flock's entire or partial production is designated for the industrial product market. This has raised questions about how the policy should apply to EFP birds. In order to move toward a more comprehensive national Se policy, we must take into account these new variables. We will continue our work to rewrite it in 2007.

Staying on top of the many issues impacting the Agency is an enormous challenge for the Board of Directors, CEMA staff and the provincial egg boards. This being said, effective issues management is only possible when there are clearly defined roles within an organization. To help bring this about, steps were taken in 2006 to define these roles and responsibilities, refocusing resources on the areas of highest priority as identified by the Board of Directors. Because these resources are often limited, the contributions made by provincial egg boards remain extremely valuable and are perhaps the most necessary component of a successful supply management system. To strengthen the system and the Canadian shell egg reputation in the year ahead, national and provincial staff will continue working together to manage issues and develop timely, thorough policy as effectively as possible.

AUDITORS' REPORT

To the Members of the Canadian Egg Marketing Agency

We have audited the statement of financial position of the Canadian Egg Marketing Agency (the "Agency") as at December 30, 2006, and the statements of operations and fund balances and of cash flows for the fifty-two week period then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at December 30, 2006, and the results of its operations and its cash flows for the fifty-two week period then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Ottawa, Canada
February 16, 2007

FINANCIAL STATEMENTS

Statement of Financial Position

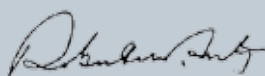
as at December 30, 2006
(in thousands of dollars)

	Pooled Income Fund	Administration Fund	2006 Total	2005 Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 11,712	\$ 7,728	\$ 19,440	\$ 21,358
Accounts receivable (Note 3)	10,945	1,127	12,072	9,985
Inventory	264	—	264	266
Prepaid expenses	—	67	67	250
	22,921	8,922	31,843	31,859
RESTRICTED INVESTMENTS (Note 4)	270	—	270	11,697
CAPITAL ASSETS (Note 5)	—	508	508	216
	\$ 23,191	\$ 9,430	\$ 32,621	\$ 43,772
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 9,123	\$ 1,884	\$ 11,007	\$ 9,802
COMMITMENTS AND CONTINGENCIES (Notes 12 and 13)				
FUND BALANCES				
Internally restricted (Note 4)	2,098	5,150	7,248	13,920
Investment in capital assets	—	508	508	216
Unrestricted	11,970	1,888	13,858	19,834
	14,068	7,546	21,614	33,970
	\$ 23,191	\$ 9,430	\$ 32,621	\$ 43,772

APPROVED BY THE BOARD



Laurent Souigny
Chair of the Board of Directors



Robert Sexty
Chair of the Audit Committee

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

Statement of Operations and Fund Balances

for the fifty-two week period ended December 30, 2006
(in thousands of dollars)

	Pooled Income Fund	Administration Fund	2006 (52 weeks)	2005 (53 weeks)
REVENUE				
Egg sales	\$ 38,647	\$ —	\$ 38,647	\$ 52,808
Levy, service fees and contributions	112,414	15,844	128,258	117,498
Net levy contribution	5,599	—	5,599	7,058
Interest and other income	437	171	608	763
Other income — restricted (Note 4)	190	174	364	708
	<u>157,287</u>	<u>16,189</u>	<u>173,476</u>	<u>178,835</u>
EXPENSES				
Trade operations:				
Egg purchases	152,581	—	152,581	154,090
Buyback allowance	3,350	—	3,350	3,338
Transportation and handling	5,509	—	5,509	5,685
Food safety program (Note 7)	25	—	25	8,355
Third party verification	1,033	—	1,033	876
Other	118	—	118	75
	<u>162,616</u>	<u>—</u>	<u>162,616</u>	<u>172,419</u>
Advertising and promotion	—	6,267	6,267	7,025
Distribution to provinces	4,650	—	4,650	—
Salaries	—	3,888	3,888	3,263
Professional fees and consulting	—	2,273	2,273	1,455
Meetings and travel	—	1,597	1,597	1,366
Public affairs and communications	—	1,493	1,493	1,315
Office and other administrative	—	679	679	744
Marketing and nutrition research	—	644	644	336
Research (Note 4)	—	393	393	287
Rent	—	407	407	346
Per diems	—	560	560	531
Donations	201	—	201	221
Amortization of capital assets	—	75	75	104
Uncollected levy, service fees and contributions	81	8	89	57
Transfer of administration expenses (Note 9)	1,898	(1,898)	—	—
	<u>6,830</u>	<u>16,386</u>	<u>23,216</u>	<u>17,050</u>
TOTAL EXPENSES	<u>169,446</u>	<u>16,386</u>	<u>185,832</u>	<u>189,469</u>
DEFICIENCY OF REVENUE OVER EXPENSES	(12,159)	(197)	(12,356)	(10,634)
FUND BALANCES, BEGINNING OF PERIOD	26,227	7,743	33,970	44,604
FUND BALANCES, END OF PERIOD	<u>\$ 14,068</u>	<u>\$ 7,546</u>	<u>\$ 21,614</u>	<u>\$ 33,970</u>

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

Statement of Cash Flows

for the fifty-two week period ended December 30, 2006
(in thousands of dollars)

	Pooled Income Fund	Administration Fund	2006 Total (52 weeks)	2005 Total (53 weeks)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Deficiency of revenue over expenses	\$ (12,159)	\$ (197)	\$ (12,356)	\$ (10,634)
Item not affecting cash: amortization of capital assets	—	75	75	104
	(12,159)	(122)	(12,281)	(10,530)
Changes in non-cash operating working capital items	(1,714)	1,017	(697)	3,796
	(13,873)	895	(12,978)	(6,734)
FINANCING AND INVESTING				
Net change in restricted investments	8,927	2,500	11,427	562
Purchase of capital assets	—	(367)	(367)	(90)
	8,927	2,133	11,060	472
NET CASH INFLOW (OUTFLOW)	(4,946)	3,028	(1,918)	(6,262)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	16,658	4,700	21,358	27,620
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 11,712	\$ 7,728	\$ 19,440	\$ 21,358

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

Notes to the Financial Statements

for the fifty-two week period ended December 30, 2006
(in thousands of dollars)

I. Activities of the Agency

Objective of the Agency

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

Levy, service fees and contributions

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

Removal activities

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

Service contract

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

The contract allows for the operation of a provincial industrial product removal program within the national system. As a result of national programs operated by the Agency, not all provincial declarations are recorded as sales by the provincial board. In Quebec, the provincial removal program was responsible for 95% (2005 – 99%) of their province's industrial product declarations. The difference of 5% (2005 – 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

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

Fund accounting

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

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

Notes to the Financial Statements

for the fifty-two week period ended December 30, 2006
(in thousands of dollars)

2. Significant Accounting Policies (continued)

Foreign currency translation

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

Revenue recognition

The Agency follows the deferral method of accounting.

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

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

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

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with maturities of three months or less from the date of acquisition.

Restricted investments

Restricted investments consist of Government of Canada bonds. They are recorded at cost and reduced when there has been a loss in value that is other than temporary. The cost of investments includes the unamortized portion of discounts and premiums.

Inventory

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

Capital assets

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

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

Use of estimates

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

Notes to the Financial Statements

for the fifty-two week period ended December 30, 2006
(in thousands of dollars)

3. Accounts Receivable

	2006			2005
	Pooled Income Fund	Administration Fund	Total	Total
Levy, service fees and contributions, net of allowances on uncollected amounts of \$500 (2005 – \$410)	\$ 8,245	\$ 940	\$ 9,185	\$ 6,938
Egg sales, net of allowances on uncollected amounts of \$28 (2005 – \$28)	2,768	—	2,768	2,501
Other	(10)	129	119	546
Interfund receivable	(58)	58	—	—
	<u>\$ 10,945</u>	<u>\$ 1,127</u>	<u>\$ 12,072</u>	<u>\$ 9,985</u>

4. Restricted Investments and Fund Balances

Restricted investments

Restricted investments held by the Agency represent funds which have been restricted by the Board of Directors for the purposes described below. The carrying values and market values of the investments are as follows:

	2006		2005	
	Carrying Value	Market Value	Carrying Value	Market Value
Pooled Income Fund				
Cash and cash equivalents	\$ —	\$ —	\$ 1,242	\$ 1,242
Short-term Government bonds	74	75	7,911	7,901
	74	75	9,153	9,143
Long-term Government bonds	196	199	44	44
	<u>270</u>	<u>274</u>	<u>9,197</u>	<u>9,187</u>
Administration Fund				
Cash and cash equivalents	—	—	2,500	2,500
	<u>\$ 270</u>	<u>\$ 274</u>	<u>\$ 11,697</u>	<u>\$ 11,687</u>

The rate of return on investments ranges from 3.53% to 6.00% (2005 – 2.98% to 3.90%).

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.

Notes to the Financial Statements

for the fifty-two week period ended December 30, 2006
(in thousands of dollars)

4. Restricted Investments and Fund Balances (continued)

In 2006, the Agency's Board of Directors decided to reallocate \$2,500 from the Risk Management Fund to the unrestricted portion of the Pooled Income Fund and \$4,650 was distributed to the provinces and the territory.

The transactions in the Funds are for the following purposes:

	2006			2005
	Risk Management	NQE	Total	Total
Beginning balance	\$ 8,970	\$ 300	\$ 9,270	\$ 9,031
Interest income	179	11	190	239
Risk management activities	(62)	—	(62)	—
Transfer to Restricted Funds — Administration	(150)	—	(150)	—
Distribution to provinces	(4,650)	—	(4,650)	—
Transfer to Unrestricted Funds — Pooled Income	(2,500)	—	(2,500)	—
Ending balance	\$ 1,787	\$ 311	\$ 2,098	\$ 9,270

Restricted fund balance — Administration Fund

- (i) In 1997, the Agency was directed by the Board of Directors to set up a restriction in the Administration Fund to fund research. Minimum and maximum fund balances for this restricted fund are of \$2,000 and \$5,000, respectively, as has been directed by the Board of Directors. The Agency accrued \$0.0025/dozen of levy to the restricted fund from 2004 to June 2006. Use of the funds is at the discretion of the Board of Directors.
- (ii) In 2005, the Agency received a settlement of \$379 as a result of the Canadian Vitamins class action suit. These funds are directed to be expensed against future research activities.

The transactions in the Funds are as follows:

	2006			2005
	Research	Canadian Vitamins	Total	Total
Beginning balance	\$ 4,271	\$ 379	\$ 4,650	\$ 3,228
Interest income	159	15	174	90
Vitamins class action settlement	—	—	—	379
Research activities	(337)	(56)	(393)	(287)
Transfer from Restricted Funds — Pooled Income	150	—	150	—
Income from levies	569	—	569	1,240
Ending balance	\$ 4,812	\$ 338	\$ 5,150	\$ 4,650

Notes to the Financial Statements

for the fifty-two week period ended December 30, 2006
(in thousands of dollars)

5. Capital Assets

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Office equipment	\$ 494	\$ 409	\$ 85	\$ 96
Deposit on acquisition of building (Note 12)	327	—	327	—
Computer hardware and software	1,947	1,860	87	104
Leasehold improvements	71	62	9	16
	<u>\$ 2,839</u>	<u>\$ 2,331</u>	<u>\$ 508</u>	<u>\$ 216</u>

Cost and accumulated amortization amounted to \$2,472 and \$2,256, respectively, in 2005. In 2006, the Agency signed an agreement to purchase a building, with possession scheduled for November 2007.

6. 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 30, 2006, loans under this facility were \$NIL (2005 — \$NIL).

7. Food Safety Program

In 2004, the Agency established a Repopulation Adjustment Program (RAP) to assist producers whose layers were depopulated during the avian influenza outbreak in early 2004. In 2005, the Agency paid a total amount of \$8,063 under the RAP. In 2006, no payments were made under the RAP. There are no further obligations to the Agency under the RAP.

8. 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:

Notes to the Financial Statements

for the fifty-two week period ended December 30, 2006
(in thousands of dollars)

8. Supplementary Information (continued)

	2006	2005
REVENUE		
Egg sales	\$ 44,009	\$ 57,715
Levy, service fees and contributions	135,484	122,349
Interest and other income	437	594
Other income — restricted	190	239
	180,120	180,897
EXPENSES		
Trade operations:		
Egg purchases	173,444	172,207
Buyback allowance	3,836	3,753
Transportation and handling	5,993	6,104
Food safety program	25	8,355
Third-party verification	1,033	876
Other	118	75
Distribution of contributions to provinces	4,650	—
Transfer of administration costs	1,898	1,623
Uncollected levy, service fees and contributions	81	52
Donations of eggs	201	183
	192,279	193,228
Deficiency of revenue over expenses	\$ (12,159)	\$ (12,331)

9. Transfer of Administration Expenses

In 2006, the Agency made an allocation of administrative expenses of \$1,898 (2005 — \$1,623) from the Administration Fund to the Pooled Income Fund. This transfer provides for the full cost, including administration and overhead, of operating the Agency's industrial product program.

10. 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 2006 fiscal period, the Agency contributed \$149 (2005 — \$117) to the Plan, which is included in salaries expense in the statement of operations and fund balances.

Notes to the Financial Statements

for the fifty-two week period ended December 30, 2006
(in thousands of dollars)

11. Financial Instruments

The Agency's financial instruments consist of cash and cash equivalents, restricted investments, accounts receivable, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Agency is not exposed to significant interest or credit risks arising from these instruments.

Interest rate risk

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

Credit risk

This risk relates to the potential that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Credit risk concentration exists where a significant portion of the portfolio is invested in securities which have similar characteristics or similar variations relating to economic, political or other conditions. The Agency monitors the financial health of its investments on an ongoing basis with the assistance of its investments advisors.

As described in Note 3, 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 three groups of related companies. In 2006, these customers purchased 75% (2005 — 77%) of the eggs sold by the Agency.

Fair value

Fair values of financial instruments approximate amounts at which these instruments could be exchanged in a transaction between knowledgeable and willing parties. 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. For the fixed income investments, publicly quoted investment information supplied by the custodian of securities is used to express the fair value. The estimated fair value may differ in amount from that which could be realized in an immediate settlement of the investments.

12. Commitments

The Agency is committed under the terms of an operating lease contract for the rental of premises including estimated operating costs and for the rental of office equipment, as follows:

2007	\$ 397
2008	249

The Agency has entered into an agreement to purchase two buildings on a common property in November 2007. The purchase price totals \$6,560. It is anticipated that the Agency will relocate its operations to this location in 2008.

The Agency is committed under contract to purchase advertising in fiscal 2007 for \$3,206 (2006 — \$2,949).

Notes to the Financial Statements

for the fifty-two week period ended December 30, 2006
(in thousands of dollars)

13. Contingent Liabilities

- a) In 2005, the Agency received a counterclaim from Villetard's Eggs, Pineview Poultry Products Ltd. and related family members alleging that the Agency intentionally and wrongfully interfered with contractual relations and inter-provincial marketing of eggs, delayed in allocating quota to the NWT and failed to provide proper service with the intent to force them from the Canadian egg industry. The total damages being sought in the counterclaim are \$17,000.

It is the Agency's view that the outcome of the legal process is not determinable at this time. As a result, no recognition of any liability has been included in the Agency's 2006 financial statements.

- b) In 2005, Highland Produce Ltd. served the Agency with a Notice of Intent to Arbitrate. Highland claims that it was forced to close its business and that it suffered damages as a result of the Agency's conduct. Specifically, Highland alleges breach of contract, breach of fiduciary duty and conspiracy, and claims to have suffered damages of approximately \$18,000. The Arbitration is scheduled to commence March 12, 2007.

The Agency's view is that the outcome of the arbitration process is not determinable at this time and no liability has been accrued in the Agency's 2006 financial statements.

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

It is the Agency's view that the outcome of the legal process is not determinable at this time. As a result, no recognition of any liability has been included in the Agency's 2006 financial statements.

- d) In July 2006, the Board of Directors instituted a 2 cent per dozen producer contribution for which the Agency collected, in 2006, a total amount of \$4,682. Should the Pooled Income Unrestricted Fund maintain a balance of \$30,000 for the length of one period (four weeks), excess amounts over \$30,000 will become repayable to the producers. At this time, it cannot be determined whether or not this condition will be met and as a result, no recognition of any liability has been included in the Agency's 2006 financial statements.