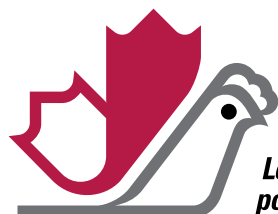




**HOME
GROWN**
goodness

2012 *annual report*



**Chicken Farmers
of Canada**
**Les Producteurs de
poulet du Canada**



For presentation to the Minister of Agriculture and Agri-Food, the Honourable Gerry Ritz,
and the Farm Products Council of Canada.

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Chicken Farmers of Canada

1007-350 Sparks Street, Ottawa, ON K1R 7S8

Tel: (613) 241-2800 Fax: (613) 241-5999

E-mail: cfc@chicken.ca Website: www.chicken.ca

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Who We Are

Chicken Farmers of Canada (CFC) is a national organization, funded completely through farmer levies paid according to the amount of chicken marketed. We were established in 1978 under the Farm Products Agencies Act. CFC operates within a regulatory environment pursuant to the Federal-Provincial Agreement for Chicken signed by federal and provincial governments and the provincial chicken boards in July 2001.

CFC has two primary mandates. CFC's main responsibility is to ensure that our 2,700 farmers produce the right amount of fresh, safe, high quality chicken to meet consumer needs. To do so, farmers, processors, further processors and members of the restaurant trade from across the country meet every eight weeks to determine anticipated market requirements and set production levels accordingly. This evolving risk management system that we operate under is commonly known as "supply management".

As part of the system, CFC also monitors compliance with provincial quota allocations and the inter-provincial or market development trade of chicken.

CFC's second responsibility is to represent the interests of chicken farmers and the Canadian chicken industry. CFC plays a key role in developing, partnering or managing programs for Canada's chicken farmers that prove that farmers continue to grow the high quality chicken that consumers trust. Through on-farm programs such as the

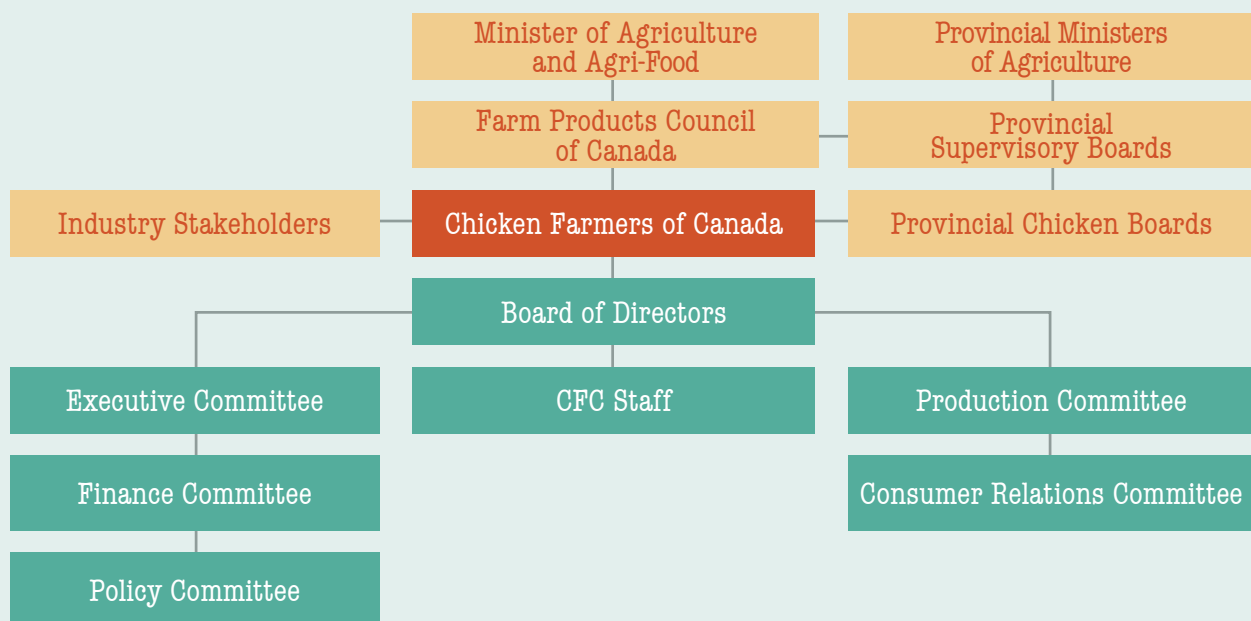
food safety program, the animal care program and biosecurity initiatives, CFC works closely with government partners and industry stakeholders to keep the industry innovative and responsive. Through our government relations program, CFC strives to ensure that key decision makers in government fully understand the views of Canada's chicken farmers and that these are taken into account when important agriculture and trade policy decisions are made.

Our directions and policies are determined by a 15-member Board of Directors. The Board is comprised of farmers appointed by provincial chicken marketing boards. Non-farmer directors – one from the restaurant industry, another from the further processing industry, and two representing the processing industry – are appointed by their respective national associations. CFC and its stakeholders work together on behalf of Canada's chicken industry, from farmer to consumer.

Chicken Farmers of Canada delivers:

- » A secure, steady supply of fresh, quality Canadian chicken
- » The highest food safety and animal care production standards
- » 55,000 jobs and \$6.5 billion contribution to Canada's Gross Domestic Product
- » Innovation driven by millions of dollars of poultry industry research

Organization Structure



A top-down photograph of a white ceramic bowl filled with a hearty soup. The soup contains chunks of cooked chicken, white beans, yellow corn kernels, green bell peppers, and red kidney beans in a rich, reddish-brown sauce. The bowl sits on a red folded napkin, which is placed on a light-colored wooden cutting board. A silver spoon is positioned to the right of the bowl, and a white handle is visible on the left. The background is a soft-focus white surface.

OUR MISSION

To build a strong, competitive, consumer-centered Canadian chicken industry that meets the challenges of a changing world, and to profitably grow its position as the protein leader in Canada.

Report from the Chair

Our customers at grocery stores, restaurants and foodservice establishments trust and love the chicken that Canada's 2,700 farmers have been raising for generations and from coast to coast. Our chicken is known for its great taste, its variety, its nutritional value and its homegrown goodness. We are proud to be the meat of choice that you serve to your families, for any occasion.

2012 was an eventful year for Chicken Farmers of Canada (CFC), with issues ranging from differential growth, to international trade, spent fowl and antimicrobial use. CFC Directors and staff researched, discussed, analyzed and sought to resolve these challenges. While some of these are longer-term issues, much work was done to achieve progress and make real gains.

The main issue, and the one which drew the most attention and resources from all stakeholders, was that of differential growth. For those new to the term, 'differential growth' refers to the allocation of chicken production to provinces on other than a pro rata basis. In 2012, Alberta sent CFC a letter indicating their intention to withdraw from the national agency if their concern about how chicken production is allocated is not addressed by the end of 2013.

As Chair, my role has been to lead the discussions, encourage dialogue and facilitate the exchange of ideas – all while trying to find a system for allocating future growth to which all 10 provinces can agree. This issue is of primary importance to CFC and will remain a critical priority into 2013.

CFC's strong governance core and a team-minded approach enable us to take on difficult issues and resolve them. Our consultative approach, which incorporates our industry partners and stakeholders, has been a major factor in our being an agriculture success story here in Canada. With ongoing issues and new challenges on the horizon, it is clear that CFC, and indeed the entire chicken industry, need to continue working together with a unified voice.

The plan for moving ahead rests on the 5-year strategic plan that CFC undertakes, alongside our industry partners and stakeholders, in order to provide long-term guidance and make sound strategic decisions on behalf of Canada's chicken farmers and indeed, the whole industry.

In October, the Strategic Planning Steering Committee, comprised of four farmers and four industry stakeholders, launched the process to develop the plan and vision for 2014–2018. The Committee discussed consumer trends, food safety, global chicken industry drivers, technology, innovation and trade, and is scheduled to present the proposed strategic plan to CFC Directors in May for their consideration.

I want to thank the committee members for their insight and assistance as we take Canada's chicken industry into the next chapter of our ongoing success story.

I must also highlight the key role that Minister of Agriculture, Gerry Ritz, plays. He has been supportive of CFC efforts to find a solution to differential growth and has led interdepartmental efforts to address the destabilizing impact of spent fowl imports.

This is likewise an opportunity for me to thank the Minister of International Trade, Ed Fast, for his decision to make changes to the Import to Re-export Program (IREP). His decision, based on the Tariff Rate Quota Advisory Committee recommendation to no longer allow marinated products under IREP, represents a significant improvement in limiting product diversion into the domestic market.



I also want to thank both ministers for their unwavering support of the Canadian chicken industry and supply management, both domestically and internationally.

Diligence and determination are the watchwords of the Chair of Farm Products Council of Canada, Laurent Pellerin, whom I recognize for listening to our concerns and incorporating them into the new quota allocation approval guidelines, and for giving us the room we require to successfully conclude a differential growth agreement. His dedication and familiarity with the industry are important factors in addressing our challenges.

Support from those we work for and with is vital to being an effective Chair. I would like to thank CFC Directors, in particular the other members of the Executive Committee, for welcoming me to my new role and for making the transition so smooth.

As Directors, we each have a role to play in ensuring that sound decisions are being made and a big part of that is our staff. Their dedication, devotion and attention to detail, along with their support, organization and expert advice have made my first year as Chair a successful one. In particular, Mike Dungeate, the Executive Director, has been excellent at ensuring that I have the support and expertise I need.

You are all to be commended for your efforts and on behalf of Canada's chicken farmers, I thank you for the roles you each play in ensuring that Canada's chicken industry continues to be a homegrown success story for generations to come.



Dave Janzen, Chair

CFC Directors



Chair: Dave Janzen

British Columbia



Reg Cliche

Canadian Poultry &
Egg Processors Council



Paul Cook

Nova Scotia



Yvon Cyr

New Brunswick



Martin Dufresne

Quebec



Vernon Froese

Manitoba



Luc Gagnon

Canadian Poultry &
Egg Processors Council



Ian Hesketh

Further Poultry Processors
Association of Canada



Jacob Middelkamp

Alberta



Christine Moore

Canadian Restaurant
& Foodservice Association



Ed O'Reilly

Newfoundland & Labrador



Mike Pickard

Saskatchewan



Adrian Rehorst

Ontario



Rick Thiessen

British Columbia



Barry Uytterlinde

Prince Edward Island

CFC Committees

Executive

Chair – Dave Janzen
1st Vice Chair – Adrian Rehorst
2nd Vice Chair – Martin Dufresne
Member at Large – Yvon Cyr

Finance

Barry Uytterlinde – Chair
Christine Moore
Mike Pickard

Policy

Rick Thiessen – Chair
Yvon Cyr
Martin Dufresne
Luc Gagnon
Ian Hesketh

Production

Reg Cliche – Chair
Paul Cook
Carole Girard (QC alternate)
Tim Klompemaker (ON alternate)
Christine Moore

Consumer Relations

Adrian Rehorst – Chair
Rudy Martinka (SK alternate)
Jacob Middelkamp

Representatives

Canadian Federation of Agriculture:
Mike Pickard
Canadian Poultry Research Council:
Jacob Middelkamp
National Farm Animal Care Council:
Carole Girard
National Farmed Animal Health and
Welfare Council: Rick Thiessen

Report from the Executive Director

I have to say it never ceases to amaze me how many people study, criticize, cite long-dead economists and declare supply management is anathema to everything that is good and just – without ever taking the time to talk to the people who work within the system, day in and day out. If they did, they would understand that we don't claim the system is perfect, but we are committed to improving how it functions and ensuring that it evolves over time so that it continues to deliver its intended benefits.

Our goal is not a monolithic agriculture model based on someone's theoretical construct, but a viable direction that is firmly planted in the world of the possible. Chicken farmers have never tried to tell other farmers how they should organize themselves, how and where they should market their products, or what support they should seek from government. We have simply advocated on our own behalf in the realization that a strong and diversified agriculture sector is the cornerstone of our communities and will ensure the ongoing viability of rural Canada.

Under the *Farm Products Agencies Act*, chicken farmers have been granted a social licence to manage the supply of chicken in the interest of producers and consumers.

Homegrown goodness is what Canadians want and it is what Canada's chicken farmers deliver:

- » 97% of farms are certified on CFC's On-Farm Food Safety Assurance Program (OFFSAP)
- » CFC will be the first commodity to receive official 3rd party recognition
- » 80% of farms are certified on CFC's animal care program
- » CFC is leading the development of an industry-wide antimicrobial use reduction strategy

You will begin to see CFC being much more proactive in telling our good news story. We have a great product, and through our branding strategy, we are going to let people know about it. Our branding strategy for fresh Canadian chicken at retail will promote the chicken farmers' contribution to a healthier diet for Canadians. Our public relations strategy will address the myths and inaccuracies perpetuated by misinformed critics. We will underscore our contribution to the Canadian economy – the Canadian chicken industry contributes \$6.5 billion to Canada's GDP, sustains 56,000 jobs and pays \$1.3 billion in taxes.

We are also socially responsible. Between our *Chicken Challenge* program and our *Everyone Wins with Chicken* campaign, we provided more than \$80,000 to food banks across Canada in 2012. We also challenged Agriculture Minister, Gerry Ritz, as part of the Movember campaign and helped him raise \$36,000.

Over the past 35 years, CFC has evolved with the changing times to make the supply management system for chicken as relevant today as it was back in 1978 when CFC was established.

We are in the process of changing how we allocate domestic production to provinces to ensure that the allocation system meets the needs of our evolving industry and the marketplace.

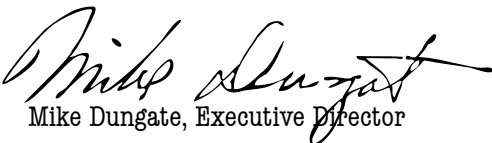




The same can be said regarding the import control pillar of supply management. It needs to evolve to remain relevant and deliver predictability of import access. In my view, the biggest risk to the Canadian chicken industry is the unfettered and significant increase in spent fowl imports. Because spent fowl is not currently subject to the tariff rate quota (TRQ), it is impossible to predict or limit the volume imported through this loophole. This creates a very real erosion of Canadian chicken production and processing, as most spent fowl is labelled as chicken at the retail level and is misleading to consumers who are expecting to be buying Canadian chicken.

Also, as chicken and spent fowl are from identical genetic stock, it is extremely difficult to ensure that imported broiler chicken is not fraudulently mislabelled as spent fowl in order to circumvent the TRQ and Canada's customs rules. Addressing these two issues requires interdepartmental collaboration (AAFC, DFAIT, Finance, CBSA and CFIA). The Chicken Imports Working Group was a positive start; we now need to move to speedy implementation or we will put the supply management system for chicken at risk.

After 13 years of David Fuller's leadership, Dave Janzen took over the reins as Chair of CFC in March. Given everything that is on our plate, we did not give Dave a chance to ease into his new role. I am impressed with how he has handled the pressure of multiple critical priorities and made this leadership transition for CFC so seamless. Together with the dedicated contributions and knowledge of the CFC Board of Directors and CFC staff, our succession plan has ensured that CFC and the supply management system for chicken remain relevant for Canadians.


Mike Dungate, Executive Director

Human Resources Report

CFC Staff

NEW FACES

Gail Lush was hired in February as CFC's new Health Communications Officer.

Lisa Riopelle was appointed Junior HR/Administrative Coordinator, which is a newly created position. Part of this new position will be to pick up some of the HR responsibilities as part of a succession plan for Paula Doucette's retirement which is scheduled for late 2014.

10 YEAR ANNIVERSARIES

Steve Leech and Stéphanie Turple both celebrated 10 years with CFC this year; Steve in April and Stéphanie in September.



Mike



Stéphanie



Lise

EXECUTIVE

Mike Dugate, Executive Director

Stéphanie Turple, Executive Assistant

Lise Newton, Senior Government Relations Advisor

FINANCE

Michael Laliberté, Director of Operations

Jae Yung Chung, Senior Financial Officer
(maternity leave)

Lori Piché, Compliance Officer

Maria Elena Baisas, Bookkeeper



Michael



Lori



Maria

ADMINISTRATION & HUMAN RESOURCES

Paula Doucette, Manager of Administration & Human Resources • **Lisa Riopelle**, Junior HR/Administrative Coordinator

Dally-Diane Nzinahora, Translation Coordinator • **Rebecca Derry**, Meeting & Recording Coordinator



Paula



Rebecca



Lisa



Dally-Diane

TRADE & POLICY

Yves Ruel, Manager of Trade & Policy



Yves

FOOD SAFETY, ANIMAL CARE & RESEARCH

Steve Leech, National Program Manager

Caroline Wilson, On-Farm Food Safety Coordinator

Jennifer Gardner, Animal Care & Research Coordinator



Steve



Caroline



Jennifer

COMMUNICATIONS

Lisa Bishop-Spencer, Manager of Communications • Marty Brett, Senior Communications Officer

Elyse Ferland, Communications Officer • Gail Lush, Health Communications Officer

Stephanie St.Pierre, Graphic Designer & Web Administrator



Lisa



Marty



Elyse



Gail



Steph

MARKET INFORMATION & SYSTEMS

Jan Rus, Manager of Market Information & Systems

Eric Braff, Market Analyst

Denis Nadeau, Business Systems Analyst



Jan



Eric



Denis

Strategic Planning

CFC, incorporating a process that involves the entire Board of Directors along with the Executive Management Team, strives to make informed decisions in order to guide the Canadian chicken industry towards a strong and prosperous future.

Each year, the previous year's successes are celebrated and the group meets to set priorities for the next. The 2013 strategic planning meeting was held in Montebello, Quebec on September 26 and 27, 2012.

Directors reviewed progress in 2012, picked up the environmental scan for 2013 which began in Winnipeg at the Board's summer meeting, discussed and set the priorities for 2013, and heard a presentation by Mr. Claude Carrière, Associate Deputy Minister, Agriculture and Agri-Food Canada, who shared his views with Directors on the outlook for the sector.

The bulk of the meeting was focused on designing strategies for 2013 that correspond with the priorities stated in CFC's five-year strategic plan (2009–2013). CFC Directors agreed upon the following priorities for 2013:

CRITICAL PRIORITIES FOR 2013

Allocation Setting

An approved differential growth solution; setting of a medium term growth target for A121-126; resolution of Interprovincial Movement (IPM) issues (ongoing).

Antimicrobial Resistance and Antibiotic Issues

Advancement by all stakeholders of the antimicrobial use strategic plan objectives as presented in the industry white paper; analysis of the initial industry antimicrobial use survey; finalized position on responsible antimicrobial use; development of an on-going industry antimicrobial use surveillance program; collaboration with CIPARS surveillance activities; advancement of CFC's position regarding regulatory modernization; communication to consumers regarding antimicrobial use.

Integrity of the Chicken Import Pillar

Long-term TRQ allocation methodology that supports CFC's objectives; appropriate Canadian Border Services Agency (CBSA) classification of chicken/spent fowl blended products; implementation of the Chicken Imports Working Group (CIWG) recommendations; administration of Foreign Affairs and International Trade Canada's (DFAIT) Import to Re-Export Program and CBSA's Duty Drawback Program that does not create distortions on the domestic market; imported products that meet the same requirements as those faced by Canadian chicken industry; a volume limitation on the personal exemption for cross border shopping of chicken.

HIGH PRIORITIES FOR 2013

Animal Care

Mitigation strategies for farmers regarding animal care liability; revision of the Code of Practice for Chickens, Turkeys and Breeders; consistent implementation of the CFC Animal Care Program across the country;



leadership in the National Farmed Animal Health and Welfare Council (NFAHWC) and the National Farm Animal Care Council (NFACC); active oversight of animal care projects funded by CFC.

Five-Year Strategic Plan

A 2014–2018 strategic plan.

Food Safety

Full OFFSAP recognition from the federal, provincial and territorial governments; support for Nova Scotia at the Ministerial level for mandatory OFFSAP; a review of the OFFSAP farmer manual; involvement in national-level food safety and traceability initiatives.

Government Relations Strategy

Raise the profile of CFC amongst MPs – with emphasis on urban MPs; implementation of CFC's government relations constituency relationship management (CRM) system; Canadian retail price comparison by an independent 3rd party.

Market Growth Strategy –

Branding Strategy Phase Two

Quantitative consumer research of brand claims and other elements pertaining to the brand and its resonance with consumers; qualitative research and alignment among Canadian grocery/retail trade and continued consultation among primary processors; a best-in-class business case; a detailed marketing plan, with tactics, budgets and timing, including a detailed year-one plan and an ongoing, annual plan; consultations and information sessions to ensure buy-in of the Marketing Plan and Business Case; upon approval of the Business Case and Marketing Plan, including funding methodology and implementation of year one.

Public Relations Strategy

Implementation of a public relations strategy that creates synergy with CFC's government relations strategy, consumer relations strategy and branding initiative.

OTHER PRIORITIES FOR 2013

Canada's Swim Team Partnership

Category exclusivity for 'protein' in all Swimming Canada properties and promotion of chicken at specific events; major profile on swimming.ca and swimteam.ca, including the creation and development of the Swim Kitchen and the Swim Mom of the Month programming; broadcast quality poolside signage at all Swimming Canada events, including Olympic trials and competitions; opportunities to link activities with Canadian Olympic and Paralympic athletes to CFC events.

Consumer Relations Strategy – Online Component

» Website:

- Search Engine Optimization
- Responsive site design
- Addition of a Q&A section to the website
- A 5% / month growth rate in monthly email newsletter
- Development of 10 new How-To Videos
- Development of 55 new recipes and photograph 115 recipes

» Social Media:

- Implementation of a strategy to expand our reach to online influencers, with a particular focus on women

Consumer Relations Strategy – Outreach Component

Participation at health professional trade shows and conferences; enhanced CFC health portal and promotion of health information resources; nutrient analysis of CFC recipes; survey of dieticians to determine attitudes to CFC's



health information as well as new areas for promoting chicken within this key audience; health information packages.

Consumer Relations Strategy – Research

Nutrient analysis for chicken; Usage and Attitudes Survey – qualitative (focus groups) and quantitative (survey) data collection.

Farmers' Survey

A full report statistically representative of farmer members.

Information Technology

Paperless meetings for CFC Directors; development of a new CFC extranet portal; implementation of a Unified Communications System for the CFC Office.

Market information

Canada-U.S. meat retail price monitoring; review of current data set used in allocation decision making.

Promotion Research Agency

Confirmation of the legal viability of a Part III Promotion Research Agency (PRA); a Research and Promotion Agency Proclamation; an operational Research and Promotion Agency.

Regional, Bilateral and WTO Agriculture Negotiations

A WTO trade agreement that maintains the integrity of the chicken import pillar; regional/bilateral trade agreements that maintain the integrity of the chicken import pillar; SM-5 and chicken industry collaboration to enhance influence on WTO trade issues and bilateral and regional trade agreements; ensure the Call for Coherence declaration coalition remains active.

Research

Canadian Poultry Research Council leadership in developing an AAFC Research Cluster application that meets the needs of Canadian chicken farmers; report of scientific literature detailing poultry's comparative environmental impact.

DEVELOPMENT OF CFC'S NEXT FIVE-YEAR STRATEGIC PLAN (2014-2018)

CFC's five-year Strategic Planning Steering Committee held the first of four meetings on October 10-11, 2012 in Toronto. This first meeting served to launch the Committee, shape their assessment and outlook for the chicken industry and begin the discussion of Key Result Areas (KRAs). The Steering Committee is comprised of the following members: Claude Aubé (Metro); Craig Evans (Granny's Poultry); Dave Janzen (CFC Chair); Jeff McDowell (Sofina Foods); Laurent Mercier, Jr. (Quebec Producer); Blair Shier (J.D. Sweid); Peter Trenholm (Nova Scotia Producer) and Henry Zantingh (CFO Chair).

On December 4-5, 2012, the Steering Committee met a second time for an industry roundtable discussion. The following guest speakers were invited to the roundtable to discuss a variety of topics, from consumer trends and food safety to global chicken industry drivers, technology, innovation and trade: Dave Scholz, Executive Vice President, Leger Marketing; Linda Webster, Acting Director, Policy and Program Research, CFIA; Perry Caicco, Managing Director, Equity Research, CIBC World Markets; Jim Sumner, President, International Poultry Council and President, USA Poultry and Egg Export Council; and Sylvain Charlebois, Associate Dean, Research and Graduate Studies, University of Guelph.

The Committee is scheduled to meet twice in early 2013, to finalize and consult on their proposed strategic plan, then present it to CFC Directors in May for their approval.



Corporate Social Responsibility

Throughout 2012, Chicken Farmers of Canada (CFC) contributed more than \$56,000 to the Ottawa Food Bank. In partnership with Quebec-based processor Exceldor, who was chosen following a call for bids, CFC provided \$50,860 worth of frozen chicken products to the Ottawa Food Bank via its *Chicken Challenge* food donation program.

In addition, \$2,034 was collected through staff payroll donations, proceeds from the sale of old computers and matching CFC donations. Finally, proceeds from the sale of chicken sandwiches and salads at CFC's Great Canadian Chicken BBQ and additional donations collected on Canada Day, totaling \$3,306.87 were also given to the Food Bank.

CFC CONTRIBUTED MORE THAN \$25,000 TO LOCAL FOOD BANKS IN 72 RIDINGS ACROSS CANADA.

In April 2012, CFC launched its *Everyone Wins With Canadian Chicken* contest, in partnership with Maple Leaf Prime Chicken, The Hill Times newspaper and Food Banks Canada. The contest, a social media-based campaign, received 72 MP entries, whose recipes were competing to help food banks across Canada. Winners of the contest received a donation for a food bank in their riding: First Prize: \$10,000 donation; Second Prize: \$5,000 donation and Third Prize: \$2,500 donation. The winners were: Vic Toews, MB (Pesto Chicken Philly Melt), Olivia Chow, ON (Chow-Style BBQ Sandwich), and Sylvain Chicoine, QC (BBQ Canadian Chicken Sandwich). In recognition of the large number of MPs that participated in the contest, CFC made a further \$100 donation per entry received to a food bank in each riding, as chosen by the MP, which resulted in another \$7,200 in prizes.

CFC was honoured to support the Canadian Women's Beach Volleyball team of Marie-Andrée Lessard and Annie Martin at the London 2012 Olympic Games, donating \$6,000.

In 2012, Canada's poultry and egg farmers challenged Minister Ritz to once again shave his moustache in support of prostate cancer awareness and men's mental health. Back in 2011, Minister Gerry Ritz raised over \$15,000 for prostate cancer research, with CFC and Board members

donating more than \$1,000. Campaign supporters this time included Chicken Farmers of Canada, Canadian Hatching Egg Producers, Egg Farmers of Canada and Turkey Farmers of Canada. The Minister's Movember campaign raised \$36,087 in donations and more than \$50,000 over the past two years. His 2012 total ranked him 8th in Canada and 12th in the world, with CFC staff and Board members raising \$2,000 towards his 2012 campaign.

In his final post to his Movember page, Minister Ritz said:

"Another successful Movember has come and gone, and I want to take this opportunity to thank you all for your generous contributions. This year the bar was set high with a goal of \$25,000, and with your support not only did we reach that goal but we blew it out of the water. Your substantial donations totaled more than \$36,000. Your actions represent the values found across the Canadian agriculture industry – community spirit and generosity."





The major market issues the Canadian chicken sector faced in 2012 were high input prices, namely feed prices, due to a severe summer drought in North America, and the ongoing uncertain economic climate mainly focused in the U.S. and Europe, which is disturbing trade and confidence on a domestic and global scale.

Market Watch

In 2012, Canadian chicken farmers produced over one billion kilograms of chicken for the sixth consecutive year. Chicken production in the first three quarters of 2012 was lower compared to 2011, but a prosperous fourth quarter brought the year's total production above that of 2011. Overall, total annual production in 2012 was 1,024.7 million kilograms (Mkg), slightly higher than 2011 by 1.5 Mkg.

Producer prices increased in 2012 for the second consecutive year; peaking in the final two months of the year to reach \$1.80/kg or higher in all provinces. On average, producer prices were 6 cents higher than 2011 due to escalating feed prices that started climbing at the beginning of 2012. Inventories were well below previous year's levels for most of 2012, due to a combination of steady domestic demand and consistent allocations and under-production. Stronger production later in the year, combined with the normal seasonal trend of inventories in the second half of the year, saw stocks climb back in the 4th quarter to levels in line with previous years.

Per capita chicken consumption in 2012 is projected to be 31.1 kg, slightly lower (0.1 kg) than in 2011 as the Canadian population growth outpaced total chicken disappearance. Preliminary numbers indicate that beef per capita consumption increased by 1.0% to 27.7 kg and pork per capita consumption increased by 1.9% to 21.2 kg in 2012. Per capita consumption of turkey dropped to 4.2 kg, and consumption of lamb and veal remained unchanged from 2011.

Per Capita Consumption – Various Meats (kg)





PROVINCIAL PRODUCTION

Total Canadian chicken production in 2012 increased for the third consecutive year. Canadian chicken farmers produced 1,024.7 Mkg, a slight gain of 1.5 Mkg (0.2%) over 2011, in response to the demand of the evolving Canadian market.

Production in the two summer periods of 2012, A-111 and A-112, was significantly under-produced by 2.3 Mkg and 4.8 Mkg, respectively. Intense summer heat in certain parts of the country and poor chick quality were some of the factors causing a significant number of birds to not reach target weights from May to August. Improved growing conditions in the final two periods of 2012 saw a switch to over-production as periods A-113 and A-114 were over-produced by 1.8 Mkg and 2.2 Mkg, respectively. Nationally, a rise of 10.4 Mkg (1.1%) in domestic production accounted for the annual increase. However, offsetting this gain was decreased production under CFC's market development program, which fell for the fourth consecutive year by an estimated 8.8 Mkg (17.8%), compared to 2011.

2012 Provincial Production of Chicken

('000 kg eviscerated)

Province	2012	2011	% Change
British Columbia	155,213	154,035	0.8%
Alberta	93,027	92,086	1.0%
Saskatchewan	39,815	39,596	0.6%
Manitoba	43,419	42,287	2.7%
West	331,474	328,003	1.1%
Ontario	330,898	334,594	-1.1%
Quebec	280,754	280,092	0.2%
Central	611,652	614,687	-0.5%
New Brunswick	28,383	28,353	0.1%
Nova Scotia	35,634	34,952	2.0%
Prince Edward Island	3,680	3,738	-1.6%
Newfoundland & Labrador	13,853	13,413	3.3%
Atlantic	81,550	80,455	1.4%
Canada	1,024,676	1,023,145	0.1%

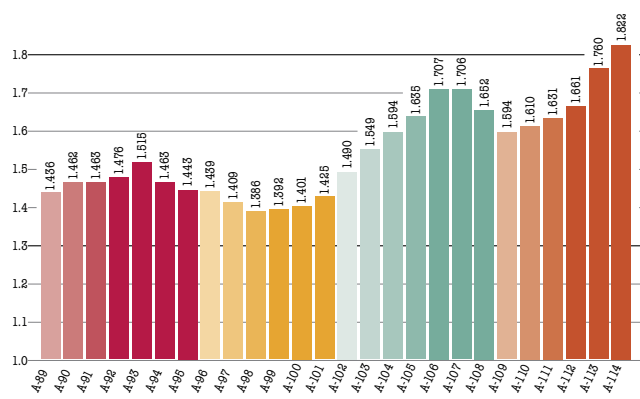
Quota Periods

	From	To	Allocation (Mkg evis.)	Production (Mkg evis.)	Quota Utilization
A-108	December 4, 2011	January 28, 2012	143.6	145.0	100.9%
A-109	January 29, 2012	March 24, 2012	155.0	154.3	99.5%
A-110	March 25, 2012	May 19, 2012	160.4	160.3	100.0%
A-111	May 20, 2012	July 14, 2012	162.8	160.5	98.6%
A-112	July 15, 2012	September 8, 2012	160.7	155.9	97.0%
A-113	September 9, 2012	November 3, 2012	158.9	160.7	101.1%
A-114	November 4, 2012	December 29, 2012	152.1	154.3	101.4%

PRODUCER PRICES

The average Canadian producer price in 2012 was \$1.678 per kg, 6.2 cents higher than in 2011, and 26.7 cents higher than in 2010. The producer price in 2012 increased rapidly, along with feed prices, with both reaching highs in the fall, and gradually easing back into the winter. Comparing the summer months for feed prices in Ontario, 2012 levels were 17% higher than in 2011 mainly as a result of dry conditions in the U.S. Midwest. The uncertainty and volatility in feed prices remains a key issue for the industry heading into 2013 as corn supplies are extremely tight.

Canadian Weighted Average Producer Price (\$/kg)

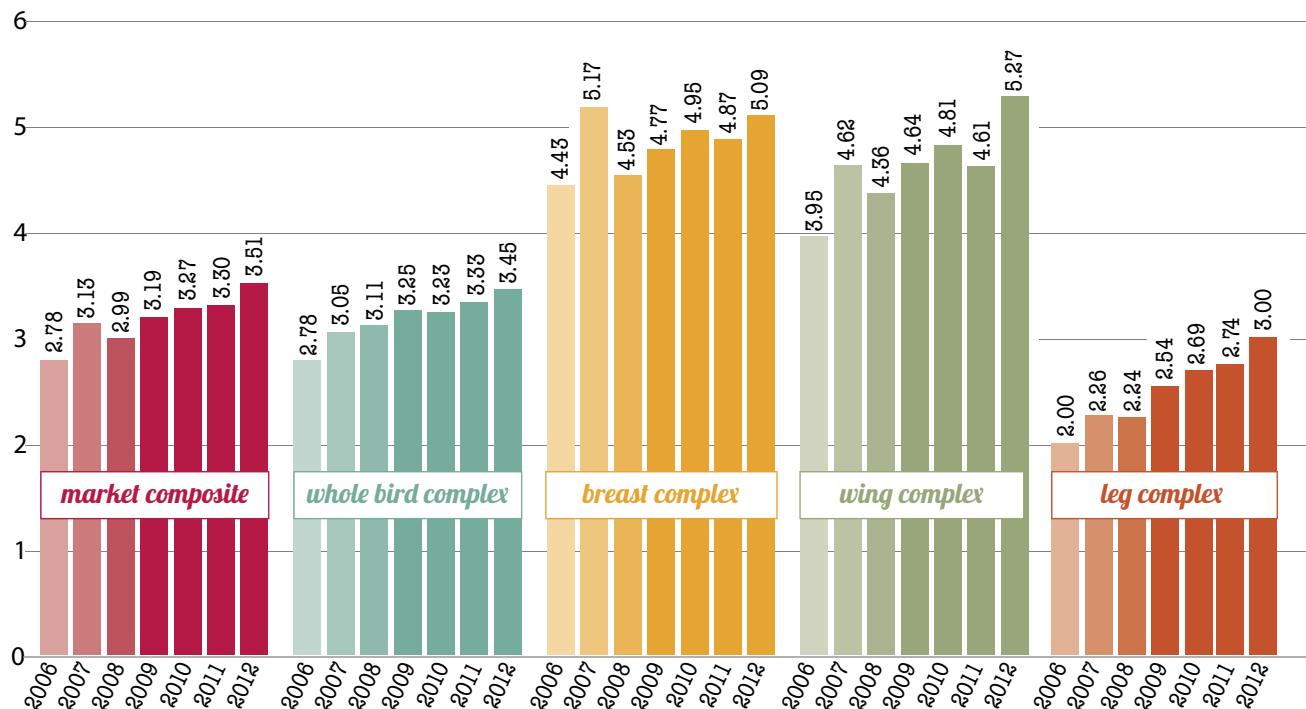


WHOLESALE PRICES

Overall, wholesale prices (market composite) performed strongly in 2012 and were well above 2011 levels for the entire year. Prices began to rise in the second quarter of 2012 and a spread of 20 cents or more developed between current and previous year prices, which remained for the rest of the year. Come year end, the average wholesale price in 2012 was 6.4%, 21 cents higher than in 2011. In examining individual cuts, whole bird and leg prices ended the year above 2011 levels by an average of 3.6% (12 cents) and 9.3% (26 cents), respectively. On average, breast and wing prices were 4.6% (22 cents) and 14.3% (66 cents) higher than previous year's prices. The figures are compiled by EMI (Express Market Inc.).

All four major cuts tracked by EMI mirrored previous years' trends following seasonality peaks and troughs. All cuts prices, with the exception of breasts, consistently remained above 2011 prices for the entire year. Notably, wing prices in 2012 were well above 2011 levels as global supplies were limited due to production cutbacks in the U.S. as a result of high feed prices. The average EMI wing complex in 2012 jumped to \$5.27; the breast complex increased to \$5.09; the whole bird complex rose to \$3.45 and the leg complex increased to \$3.00.

Annual Average Wholesale Price, \$/kg (source: EMI)



(Note: In cooperation with CPEPC, CFC started publishing the EMI wholesale price series in July 2006. The weekly series consists of one market composite and four market complexes (breasts, wings, whole bird and legs). The series is based on actual invoice data from initially six and now eight Canadian processors, and covers a significant percentage of the total Canadian wholesale volume).

RETAIL PRICES

The Consumer Price Index (CPI) as reported by Statistics Canada for fresh and frozen chicken (the only national indicator for national chicken retail prices) continued its moderate growth in 2012. The CPI for chicken in 2012 was 144.1 compared to 138.1 in 2011 and 133.9 in 2010, representing an increase of 4.4% and 3.1% over both the 2011 and 2010 yearly levels, respectively.

(Note: Statistics Canada monitors retail prices for fresh whole chicken, boneless skinless breast and legs and calculates a monthly price index based on the prices for these products).

In comparison, the consumer price index for all items combined, better known as "the cost of living index", in 2012 averaged 1.5% higher than last year and the specific CPI for all food items was 2.4% higher. The chicken prices at the retail level remained relatively stable throughout the year increasing slightly towards the end of the year.

In examining other proteins, the price increases at the retail level in 2012 for beef (at 7.5%) were significantly higher than chicken (at 4.4%), mainly due to a reduction in beef supply. Price increases for pork were on the same magnitude as chicken at 4.2%. Fish and seafood prices increased by 2.5% compared to 2011.

IMPORTS

According to reports from Foreign Affairs and International Trade Canada (DFAIT), a total of 153.4 Mkg of chicken was imported into Canada during 2012. DFAIT is responsible for issuing import permits for chicken and products made primarily of chicken. Under Canada's NAFTA obligations, the tariff-rate quota (TRQ) is automatically set at 7.5% of chicken production in the previous year.

The TRQ for 2012 was calculated as 77.0 Mkg; 0.3 Mkg more than in 2011. According to preliminary 2012 year-end statistics, a total of 80.1 Mkg of chicken and chicken products was imported under the TRQ. Global imports equaled 75.7 Mkg. Imports under the "Imports to compete" program were 4.4 Mkg, 1.1 Mkg more than in the previous year. The "Import to compete" program allows chicken imports for Canadian manufacturers to produce processed chicken products that are not on Canada's Import Control List. This list includes specialized products such as chicken dinners. In total, global imports and imports to compete combined were 80.1 Mkg, representing 7.8% of previous year's production, or 3.1 Mkg more than Canada's international trade obligations. The TRQ for 2013 is estimated at 77.7 Mkg, up 0.7 Mkg from the year before.

In 2012, chicken parts (bone-in and boneless) accounted for 77.2% of all TRQ imports, 4.4% less than 2011. Further processed chicken imports accounted for 22.8% of all TRQ imports while only a very small amount of whole eviscerated chicken was imported. No live chicken was imported in 2012 under the TRQ.

As in the past, the U.S. was the most significant supplier of chicken products imported under the TRQ with a total of 52.1 Mkg (69.0% of the total global imports) and a total value of \$154.9 million. Global imports from Brazil totalled 16.9 Mkg (22.4%) for a value of \$47.9 million. The other countries of origin in 2012 were Thailand at 5.2 Mkg (\$13.1 million), Chile at 1.2 Mkg (\$4.1 million), and a small quantity from Israel for a value of \$0.1 million. The total value of all products imported under the TRQ was \$220.1 million, \$60.1 million (37.5%) more than 2011.

DFAIT also issued additional import permits under the "Import to re-export" program. The "Import to re-export" program allows imports of chicken and chicken products into Canada to be further processed. All imports under this program must be exported within a three month period. In 2012, a total of 73.2 Mkg was imported under this program, 8.3 Mkg (10.2%) less than in 2011. This program continues to be contentious and CFC and CPEPC have worked closely with DFAIT to tighten the rules and controls of the program. Stricter regulations are anticipated in 2013.

However, the real story in 2012 was the unabated significant increase in imports of spent fowl – to the point where spent fowl imports now exceed the volume of chicken imported under the TRQ. In 2012, spent fowl imports totaled 105.9 Mkg, 28% more than in 2011. Because spent fowl is not currently subject to the TRQ, it is impossible to predict or limit the volume imported through this loophole. Also, as spent fowl and chicken are from the identical genetic stock, it is extremely difficult to ensure that imported chicken is not mislabelled as spent fowl in order to circumvent Canada's customs rules. This in fact creates a very real erosion of Canadian chicken production as most spent fowl is labelled as chicken at the retail level and is misleading to consumers who are expecting to be buying Canadian broiler chicken products. While imports of live spent fowl have remained stable over the last few years at around 13 to 17 Mkg (eviscerated equivalent), imports of spent fowl parts have more than tripled in the last three years from 21 Mkg to 72 Mkg in 2012.

Imports

	2012	2011	% Change
Global Imports	75,701,875	74,245,553	2%
Imports to Compete	4,441,064	3,374,524	32%
Imports to Re-export	73,246,092	81,549,839	-10%
Special Imports	0	0	-
Imports for Market Shortage	0	0	-
Total	153,388,832	159,169,916	-4%
Imports of Spent Fowl	105,861,778	82,882,439	28%

Source: Foreign Affairs and International Trade Canada, AAFC



EXPORTS

Based on Agriculture and Agri-Food Canada export data, approximately 167.3 Mkg of Canadian chicken was exported in 2012, down 3.9% (2.3 Mkg) compared to 2011.

According to Statistics Canada data, the primary destination for Canadian chicken and chicken products in 2012 continues to be the U.S. with 58.1 Mkg, 2.8 Mkg more than 2011. Second was Taiwan, which imported 19.2 Mkg, 5.2 Mkg (37.4%) more than in 2011. Rounding out the top ten destinations for Canadian chicken were Philippines, Hong Kong, Cuba, Benin, South Africa, Gabon, Jamaica and Equatorial Guinea. In 2012, exports to Cuba and Benin were up more than 400% and 200%, respectively, compared to 2011. Shipments to both Macedonia and Ghana, two countries who have been in Canada's top 10 for chicken exports in the past few years, dropped by 70% and 50%, respectively, in 2012.

According to the same data, the value of Canadian chicken exports in 2012 was \$320.8 million, 13.9% higher than in 2011. Exports to the U.S. alone in 2012 are estimated at \$218.9 million; 17.6% more than in 2011 and accounting for over two-thirds of the total export value in 2012.

STORAGE STOCKS

Frozen chicken inventories started 2012 at 31.9 Mkg, and were extremely low, compared to previous years, indicating a strong demand for chicken. Stocks stayed low until the fourth quarter of 2012 where they gradually built up and finally passed 2011 levels in November. A fair portion of this increase was due to major users stocking up on wings anticipating the peak demand season in early 2013, and the tight supplies in the U.S. Storage stocks ended the year at 35.3 Mkg, up 10.7% from the beginning of the year.

Inventories of cut-up and miscellaneous chicken (such as MSM – mechanically separated meat, giblets, skin and feet) were the two categories which grew over the course of the year and increased 4.0 Mkg (31%) and 0.1 Mkg (2%), respectively. The whole bird and further processed categories experienced a decrease of 0.5 Mkg (-46%) and 0.4 Mkg (-3%), respectively, over the course of 2012. Throughout the year, further processed chicken continued to account for almost half of all chicken products in cold storage in 2012.

Within the cut-up chicken category, the legs, breast, wing and other categories, all increased in 2012. The wing and breast inventories represented the highest increase, both ending the year 85% and 23% higher, respectively, than at the beginning. Leg quarters and 'other' (including whole cut-up trimmings and halves) categories increased inventories by 14% and 17%, respectively, over the course of the year.

Within the further processed category, stocks of further processed boneless breasts fell by 0.5 Mkg (24%) in 2012, while frozen inventories of other further processed products (including tenders, strips, nuggets, patties and cooked wings) increased by 0.1 Mkg (1%).

INTERPROVINCIAL MOVEMENT

CFC monitors the number of live chickens that move in interprovincial and export trade. The figures are reported to CFC on a weekly basis and are audited by external auditors every four periods. Total interprovincial movement (IPM) decreased in 2012 by 11.9 million kilograms live weight.

Province	2012	
	To	From
British Columbia	-	-
Alberta	-	-
Saskatchewan	-	3,304,000
Manitoba	3,304,000	-
Ontario	20,760,000	30,753,000
Quebec	69,076,000	38,455,000
New Brunswick	31,532,000	27,699,000
Nova Scotia	1,655,000	21,109,000
Prince Edward Island	-	5,007,000
Newfoundland & Labrador	-	-
Total	126,327,000	126,327,000

Province	2011	
	To	From
British Columbia	-	-
Alberta	-	-
Saskatchewan	-	2,692,000
Manitoba	2,692,000	-
Ontario	37,784,000	37,555,000
Quebec	67,558,000	45,373,000
New Brunswick	29,352,000	27,177,000
Nova Scotia	802,000	20,334,000
Prince Edward Island	-	5,057,000
Newfoundland & Labrador	-	-
Total	138,188,000	138,188,000

The decreased movement of live chickens between provinces is explained mostly by an overall decrease in movement between ON and QC and an increase between QC and the Atlantic provinces. A new processor supply agreement between Ontario and Quebec was implemented in allocation period A-113.



Differential Growth

Since its inception in 1979, CFC has had several different allocation setting agreements and processes. Prior to 1994, allocation was primarily set using top-down, formula-driven processes. In 1993-1994, CFC moved to a series of bottom-up allocation agreements starting with the National Allocation and Pricing Agreement in 1995, followed by the National Allocation Agreement in 1998 – which became the Operating Agreement of the 2001 Federal Provincial Agreement (FPA) for chicken. As a matter of practice, with the slowing of growth in the chicken industry, allocations since 2005 have been set almost universally on a pro rata basis.

In 2007, Alberta brought a “Population Responsive Allocation System” proposal to the CFC table. While the proposal did not make it to the implementation phase, it generated a lot of discussion and attention and prompted CFC to work on finding a solution to allocate future growth. In 2009, the provincial boards agreed on a set of guiding principles to guide CFC in developing a practical and workable differential growth policy. The issue was discussed on several occasions at board meetings, and various potential solutions were reviewed by provincial boards and CFC Directors. In 2010, CFC held a special meeting of provincial boards and provincial supervisory boards to resolve the issue, but no agreement was reached.

meeting, Quebec and Ontario put forward additional proposals. With all provincial proposals now on the table, provincial boards initiated a process of reviewing the principles and criteria underlining each of the proposals to find the common ground.

Provincial representatives met twice in October, after which they requested the CFC Chair to facilitate the process going forward. CFC facilitated two negotiating sessions in November and a third in early December. This series of negotiations narrowed the differences and produced a formula-based approach to allocating future growth based on pro rata, population, economic and performance components.

In 2011 and 2012, CFC Directors made finding a differential growth solution a critical priority. Extensive work was undertaken by CFC and provincial boards, in particular in 2012.

CFC’s Executive Committee circulated a proposal in November 2011 and a revised proposal in May 2012, and although these proposals received backing from some provinces, they did not get the full support needed for implementation. From June onwards, provincial boards took the lead in developing potential solutions.

At the July CFC board meeting, a group of six provinces (Saskatchewan, Manitoba, New Brunswick, Nova Scotia, P.E.I. and Newfoundland & Labrador), and Ontario put forward detailed proposals. At the September CFC board

While agreement was not reached in December, enough progress was made that provincial boards agreed to continue the negotiations with a view to finalizing an agreement in early 2013.

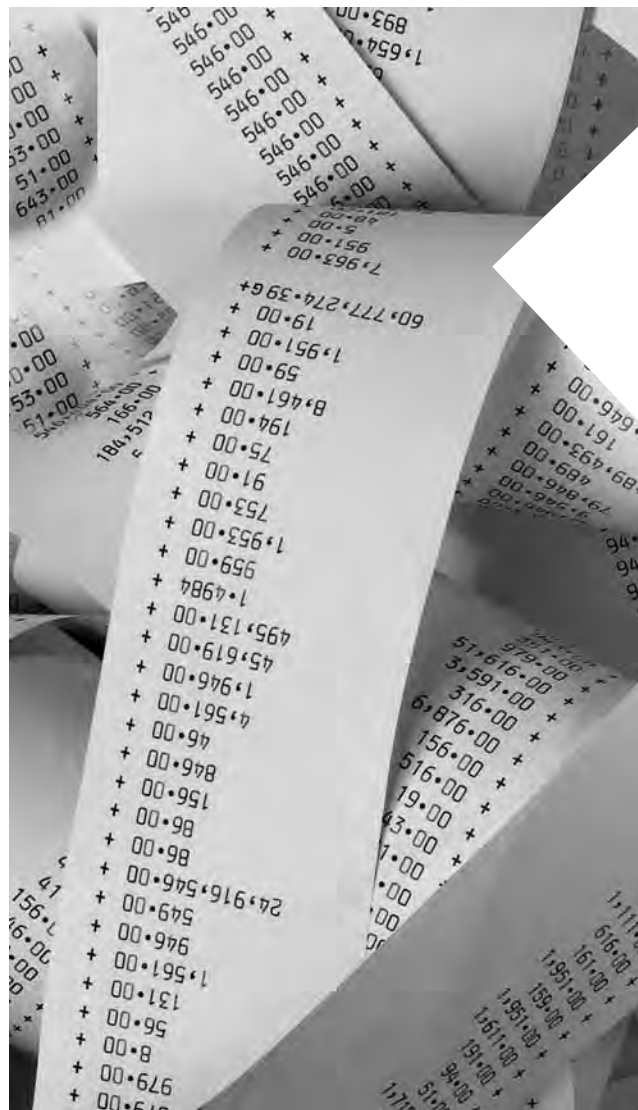
Concerned with the lack of an agreement on a new allocation system that included a population component, Alberta’s Minister of Agriculture and Rural Development sent all the FPA signatories a notice of withdrawal from the FPA on November 22, 2012. The Minister expressed his desire for a solution to be found prior to the withdrawal becoming effective on December 31, 2013.

Monitoring & Enforcement

AUDITING THE SYSTEM

In 2012, staff completed the audits of provincial commodity boards from period A-106 to A-109 for compliance with CFC policies and regulations. Staff also initiated the audit of periods A-110 to A-113, which will be completed in 2013.

CFC's external auditors completed the audits of processors from period A-100 to A-105, which were initiated in 2011 and completed the audits of period A-106 to A-109. The audit report for period A-100 to A-105 was presented to CFC Directors in February 2012 and the audit report for period A-106 to A-109 was presented in November 2012.



OVERMARKETING ASSESSMENT

During the audit periods A-106 and A-107, five provincial commodity boards were assessed overmarketing levies totalling \$299,389. The report was presented and approved by CFC Directors in November 2012 and the levies were subsequently paid.

MARKET DEVELOPMENT

A primary processor marketed production it received other than in accordance with the CFC Market Development Policy from period A-105 to A-108 and was assessed levies of \$83,588. In July 2012, the Board of Directors issued a final assessment determination and the levies were paid by August.

During periods A-109 and A-111, a primary processor marketed production it received other than in accordance with the CFC Market Development Policy and was assessed levies of \$3,763 and \$13,955, respectively. Those levies were paid to CFC in 2012.

INTER-PERIOD QUOTA TRANSFERS

The inter-period quota transfer policy gives flexibility to meet market needs. Requests are in response to short-term, market-driven requirements between two specific quota periods. Inter-period quota transfers cannot be used to adjust slaughter schedules or affect quota utilization in a given period.

In 2012, CFC did not receive any inter-period quota transfer requests, compared with one request of 72,245 kilograms live weight that was made in 2011.

International Trade

WORLD TRADE ORGANIZATION

The World Trade Organization (WTO), founded in 1995 to facilitate global trade, has bogged down in recent history and the last two negotiating rounds have become drawn out. The Uruguay Round, seen as the precursor to the current negotiating environment, lasted eight years (1986–1994). After failing to launch a new round (Seattle 1999), the Doha Development Agenda (DDA) finally came into being in 2001 and negotiators continue to plug away at it today – 12 years after it was launched.

At the end of 2011, a WTO Ministerial Declaration called for the exploration of different negotiating approaches, the pursuit of an early harvest agreement and the continuation of work on the basis of the progress already made in the draft modalities. This was expected to spur progress but, by the end of 2012, nothing appreciable is to be reported. That means that once again, the focus of the international trade agenda shifted from the WTO to more focused bilateral and plurilateral talks during 2012.

In an attempt to stimulate movement and discussion, regular consultations were held between WTO Members during the year by the various negotiating Chairs, but they did not result in any significant developments. The agriculture consultations, chaired by New Zealand Ambassador John Adank, attempted to identify some areas that could constitute an early harvest in 2013.

These include export subsidies – which according to the 2005 Hong Kong Ministerial were to be eliminated by the end of 2013 (with the expectation that an overall WTO agreement would be in place) – the administration of tariff rate quotas, and provisions related to food security measures that would be categorized as non-trade distorting support. These early harvest targets have been identified by the agriculture committee's discussion as part of an early harvest package being prepared for the WTO Ministerial Conference in December 2013.

The long duration of the DDA, and still no conclusion in sight, does little to impart any sense of urgency on WTO Members, and in fact they seem to have gone into hibernation instead. Rather than calling off the DDA, and accepting the failure that represents for the WTO, everyone has gone back to their own business. Too many issues remain and they cover too many topics to expect any sudden and miraculous recoveries for the DDA in 2013 either.

BILATERAL AND MULTILATERAL NEGOTIATIONS

The Canadian government has repeated on many occasions that it is pursuing an aggressive trade agenda. The realization that the WTO is not going to be the answer sought by many has led Canada to launch 13 bilateral and plurilateral trade negotiations with countries or regional groups such as European Union, India and Japan to name a few, and with the Trans-Pacific Partnership (TPP). While working hard to open markets on the world scene, the Canadian government has always been very clear in their support for the Canada's poultry, dairy and egg farmers throughout all these trade initiatives.

The bilateral talks with Japan were officially launched in November and it will take some time before we approach the conclusion of an agreement which could be very significant for Canadian exports due to the scale of the Japanese economy. This initiative is especially important if Japan decides to stay out of the TPP. Japan has considered joining the plurilateral forum but the country is very divided on the potential benefits and it is very unclear at this point if they will join.

The Canada-EU Comprehensive Economic and Trade Agreement (CETA) was the key trade focus during 2012 as it is getting very close to a final agreement. Very intense negotiations took place in the fall with a Canada-EU ministerial meeting in November in Brussels. On the agriculture front, Canada has been the demandeur, seeking access gains for beef and pork, while the EU has insisted on greater concession on the recognition of geographic indicators for some of its products; names such as Feta cheese or Parma ham for example. The EU is also seeking an increase in access to the Canadian cheese market, partly as a means to counter Canada's beef and pork demands. The agreement is expected to be concluded early in the new year.

The other main trade initiative in 2012 was Canada's acceptance into the TPP. This major trade initiative, which started as four countries, has grown to 11 (Australia, Brunei Darussalam, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, United States and Vietnam) and pursues what is referred to as a "new century" agreement.





Canada's decision to join created major reactions in the media because it was assumed that this trade forum was so ambitious that all tariffs for all products would have to be eliminated, which is incompatible with the maintenance of supply management in Canada.

Time will tell how ambitious the results will be, but it is obvious that Canada is not the only country with sensitive sectors in agriculture or in other sectors of the economy. Canada reaffirmed their position that they will meet the level of ambition and only ratify an agreement that is in the best interest of our country. The first negotiating round attended by Canada was held in Auckland, New Zealand in December. The TPP has set an overly ambitious goal of completing the negotiations by October 2013.

CFC closely monitors all these trade initiatives in collaboration with our colleagues from the poultry, dairy and eggs sectors. We continued our permanent representation in Geneva and the publication of the weekly newsletter *Geneva Watch*. With the lower level of activity on the WTO front, our Geneva representative has been paying close attention to the Canada-EU CETA and to the TPP talks. We had staff and farmer representatives attending the last four rounds of TPP negotiations and have been in constant communication with Canadian negotiators on the Canada-EU CETA talks.

IMPORT CONTROLS

With the increasing level of concerns over the Import to Re-export Program (IREP) volumes that exceeded 80 million kilograms in 2011 and the difficulty associated with the verification of the compliance with the regulations, modifications were recommended in 2012. On January 2012, the Tariff Quota Advisory Committee (TQAC) recommended that marinated products no longer be allowed under IREP.

This would be a significant improvement to this program that generates suspicion on the diversion of products into the domestic market due to the difficulty of verifying some products. Unfortunately, no decision has been made yet, but we are hopeful the Minister of International Trade will approve the TQAC recommendation early in the new year. In the interim, new applications for marinated products are on hold and IREP volumes for IREP products are limited to the 2011 volume.

The other main area of concern with import controls is the phenomenal growth in imports of spent fowl. Because spent fowl is not subject to import control measures, some importers have used this circumvention measure to import spent fowl to be used in the manufacturing of processed products that can then be labeled as chicken. This is a serious threat to our industry because it represents a loophole which displaces a significant amount of domestic production, and which is susceptible to fraud.

Imports of spent fowl products exceeded 100 million kilograms in 2012, representing 10% of the Canadian chicken production. This is a considerable loss to the whole chicken value chain and the Canadian economy. CFC identified solutions to this growing problem in the Chicken Industry Working Group Report. Those recommendations were accepted by Minister Ritz in September 2011. We are still awaiting the implementation of the recommendations seeking a certification mechanism to ensure imports of spent fowl are not mislabelled chicken and are asking for specific consumer labelling for spent fowl products.

On the import of controlled products, demands for an import allocation exceeded the TRQ and a total of 80.1 million kgs was imported. This represents 7.8% of the previous year's production and surpasses Canada's commitment to provide 7.5% market access.

Despite the increased verification efforts from DFAIT over the recent years, which have greatly helped to contain the demands for a share of the TRQ, action is still required to prevent imports that exceed Canada's commitments. The demands for a share of the TRQ are still growing and continue to erode domestic chicken production by allowing these additional imports. Some solutions were identified by the Chicken Imports Working Group and their implementation would ease the TRQ allocation which would generate additional economic benefits for all Canadians involved in the chicken industry, from feed suppliers to processors.

Economic contribution

OF CANADA'S CHICKEN INDUSTRY

Alberta

- » \$203 million in farm cash receipts
- » 239 farmers
- » 73 processors
- » 1,704 direct jobs
- » 5,672 total jobs
- » \$830 million to Canada's GDP
- » \$167.6 million in taxes

Manitoba

- » \$94 million in farm cash receipts
- » 118 farmers
- » 4 processors
- » 1,126 direct jobs
- » 3,004 total jobs
- » \$301 million to Canada's GDP
- » \$60.7 million in taxes

British Columbia

- » \$351 million in farm cash receipts
- » 325 farmers
- » 15 processors
- » 2,830 direct jobs
- » 6,643 total jobs
- » \$795 million to Canada's GDP
- » \$160.5 million in taxes

Saskatchewan

- » \$89 million in farm cash receipts
- » 76 farmers
- » 3 processors
- » 631 direct jobs
- » 2,521 total jobs
- » \$348 million to Canada's GDP
- » \$70.3 million in taxes

Canada

- » \$2.3 billion in farm cash receipts
- » 2,682 farmers
- » 185 processors
- » 23,559 direct jobs
- » 55,943 total jobs
- » \$6.5 billion to Canada's GDP
- » \$1.3 billion in taxes

Quebec

- » \$609 million in farm cash receipts
- » 764 farmers
- » 16 processors
- » 6,214 direct jobs
- » 13,987 total jobs
- » \$1,483 million to Canada's GDP
- » \$299.5 million in taxes

Atlantic Provinces

- » \$179 million in farm cash receipts
- » 134 farmers
- » 23 processors
- » 2,526 direct jobs
- » 4,852 total jobs
- » \$368 million to Canada's GDP
- » \$74.3 million in taxes

Ontario

- » \$735 million in farm cash receipts
- » 1,026 farmers
- » 51 processors
- » 8,528 direct jobs
- » 19,264 total jobs
- » \$2,385 million to Canada's GDP
- » \$481.5 million in taxes

On-Farm Food Safety

CFC is a strong leader in on-farm food safety. This commitment is demonstrated to Canadian consumers by chicken farmers, who have been applying CFC's on-farm food safety assurance program (OFFSAP) on their farm for the last decade and by CFC's progress in achieving full federal, provincial and territorial (FPT) government recognition for OFFSAP.

CFC's OFFSAP is the national standard for chicken producers in Canada. This homegrown system allows farmers from coast-to-coast to raise the best chicken possible for Canadian families.

The OFFSAP manual is based on HACCP principles, a recognized approach that focuses on monitoring, controlling and preventing food safety risks. The program provides farmers a means to address the potential food safety hazards that can occur on their farm.

2012 marked a defining moment for CFC's OFFSAP and for the FPT government recognition process. With the government requirements finalized, CFC embarked as the first commodity in Canada to undergo a 3rd party audit of the management of the OFFSAP with the objective of receiving full government recognition for OFFSAP.

CFC hired the Guelph Food Technology Centre (GFTC) to conduct the 3rd party audit. Audits occurred at the national office, three provincial board offices and on-farm to witness 12 audits from August through to October. The 3rd party audit was a comprehensive review of the protocols, policies and procedures to determine CFC's compliance with the government recognition requirements.

Corrective actions that were assessed through the 3rd party audit process were minor in nature, and actions plans were initiated to resolve the non-conformances.

GFTC's final audit report was positive in demonstrating CFC's commitment to food safety and for meeting the government requirements. CFC's system is robust, credible and consistent.

CFC will be using the final audit report to request full FPT government recognition. CFC has submitted the request to the Canadian Food Inspection Agency and expects a decision in March 2013. CFC will be the first commodity in Canada to receive full recognition.

All farmers and stakeholders that have participated in the development and implementation of the OFFSAP should be congratulated on the significant amount of time and resources that have been used to reach this goal!

The FPT recognition process is a set of minimum requirements for on-farm food safety programs that guides commodities towards full recognition; the recognition process has several key steps.

CFC completed the first step in 2002 by receiving Phase I Technical Recognition for its producer manual and HACCP-based generic model, indicating that the manual promotes the production of safe food at the farm level and adheres to Hazard Analysis Critical Control Point (HACCP) principles as defined by *Codex Alimentarius*. CFC was the first commodity to complete this step of the process.

The second step was completed in 2006 when CFC received Phase II Technical Recognition for its Management Manual, indicating that it met FPT requirements. CFC was the second commodity to complete this step of the process.

The successful completion of the 3rd party audit represents the third step of the process, indicating that the program has been fully implemented.

The OFFSAP is developed and maintained by CFC while the certification processes are delivered by each of the 10 provincial boards. To ensure consistency of on-farm implementation and on-farm auditing process, CFC staff conducts internal audits in all provincial boards and witness audits on a sample of auditors every year.

CFC's on-farm food safety program ensures that top-notch safety procedures and standardized safety systems are found on every Canadian chicken farm, allowing Canadian chicken farmers to continue to produce a safe, homegrown, and high quality product, as they have been doing for generations.





Since beginning audits in 2001, CFC and the chicken industry have worked diligently to increase enrollment in the program. To date, close to 2,600 farmers (96% of producers) are certified under OFFSAP and are audited on an annual basis. In addition, 9 provinces have developed mandatory enforcement mechanisms through regulations and policies.





Animal Care

Raising healthy birds in a humane way is as important to Canadian chicken farmers as it is to those who purchase chicken for their family – the Canadian consumer. Our consumers have demonstrated their interest in being able to purchase high-quality Canadian chicken and Canada's chicken farmers are proud to raise the local, homegrown chicken that consumers are asking for.

At the policy level, the Canadian chicken industry works closely with its partners to ensure that stringent regulations related to the care and handling of our birds are met and followed.

CFC demonstrates this high level of care with an auditable Animal Care Program, or ACP, and by participating in a national committee, on an ongoing basis, to further animal care programming in Canada.

CFC's ACP is an auditable program designed to demonstrate the high level and standards of the Canadian chicken industry's on-farm animal care. The program is based on the Canadian *Recommended Code of Practice for the Care and Handling of Chickens, Turkeys and Breeders from Hatchery to Processing Plant* and has received support for implementation from the Canadian Federation of Humane Societies, the Canadian Veterinary Medical Association, the Canadian Poultry and Egg Processors' Council, the Further Poultry Processors' Association of Canada, the Canadian Restaurant and Foodservice Association and the Canadian Federation of Independent Grocers.

Farmers are audited annually to assess the implementation of the program and determine if the mandatory requirements of the program are being maintained. In just three years, 95% of farmers have received full audits and 80% of farmers are certified on the program – this is a clear demonstration of Canadian chicken farmers' commitment to the program. Additionally, the ACP has been made mandatory by 6 provincial boards (BC, AB, SK, MB, ON, PE).

To further demonstrate this commitment, CFC and all 10 provincial boards signed a memorandum of understanding

(MOU) for the implementation and maintenance of the ACP at the CFC Directors meeting in Winnipeg, Manitoba. The MOU, which was witnessed by the Hon. Ron Kostyshyn (Minister of Agriculture, Government of Manitoba), outlines the division of roles, responsibilities and authorities between the provincial chicken boards and CFC in order to deliver a consistent program across Canada.

As with the On-Farm Food Safety Assurance Program (OFFSAP), the ACP is developed and maintained by CFC, while the delivery, certification and enforcement is performed by the 10 provincial boards. The same level of internal audits and witness audits occurs with the ACP to ensure consistency of implementation, and for efficiency the ACP on-farm audit process has been combined with the OFFSAP audits.

The ACP is only a segment of the animal care initiatives being performed at CFC. CFC, along with the other poultry industries, has worked diligently with partners in the catching, transport and processing sectors to extend animal care guidelines for poultry from the farm through to processing. As a result of these efforts, the *“Recommended Best Practices for Bird Care in the Canadian Poultry Supply Chain from Farmer to Processor”* was completed in 2012. The purpose of this document is to collate the recommended best practices for poultry welfare and to assist industry in complying with regulatory requirements throughout the supply chain.

CFC has also been a member of the National Farm Animal Care Council (NFACC) since 2006. CFC provides support to NFACC in reaching its goal of trying to achieve a national, coordinated approach to responsible farm animal care in Canada. NFACC's members represent 28 organizations, spanning a broad cross-section of the animal agriculture industries in Canada. Carole Girard, the alternate from Quebec, is the CFC representative.

One of NFACC's key activities is establishing a process for developing and revising the Canadian Codes of Practice for the Care and Handling of Livestock. To perform this initiative, NFACC received over \$3.4 million in 2010 from Agri-Flexibility to develop or revise current codes of practice, finalize and pilot an animal care assessment model, and undertake activities that will communicate and promote current farm animal welfare activities.

The *Recommended Code of Practice for the Care and Handling of Chickens, Turkeys and Breeders from Hatchery to Processing Plant* review is underway and will be completed by early 2014. CFC is actively involved in this process; CFC sat as a member on the scientist review committee and will also have representation on the Code Development Committee. The scientists' report was completed by the end of 2012, and the work of the Code Development Committee – the Committee tasked with writing the new Code of Practice – is slated to commence in early 2013.

Animal Health

On the biosecurity front, CFC continues to participate in the Avian Biosecurity Advisory Council as led by the Canadian Food Inspection Agency (CFIA). This council has previously developed national standards for on-farm producer biosecurity and has turned its attention to finalizing a national standard for the poultry service industry.

CFIA held consultation sessions with the service industry across Canada in 2012 and will be looking to finalize the requirements through the council in early 2013. CFC will continue to be involved in the development and subsequent communication initiatives associated with these guidelines.

In terms of traceability, CFC continues to participate on the industry-government advisory council on traceability. This council is comprised of over 35 industry and government members and is a forum for industry and governments to collaborate on traceability to effectively prepare and respond to crises, including outbreaks of animal disease and food safety emergencies.

As the poultry industry's traceability system has previously been deemed to meet government requirements, CFC's focus has been on continuous improvement. CFC has focussed attention on formalizing current data sharing agreements between provincial boards and governments.

These data-sharing agreements will build on the success of the traceability data that is collected due to the benefits of supply management and the further capabilities that have been implemented by provincial boards.

CFC has also actively participated on the National Farmed Animal Health and Welfare (NFAHW) Council which provides advice to governments and industry to enhance Canada's farmed animal health and welfare system.

The NFAHW Council facilitates industry-government collaboration and aligns animal health activities to help meet current and future challenges. CFC is represented at the Council by Rick Thiessen from British Columbia.

In 2012, part of the NFAHW Council's focus has been on the topics of animal welfare assurance systems and anticipation and agri-intelligence. Their work culminated with an industry-government forum in December 2012 where discussion papers and recommendations were presented in order to move these issues forward in the Canadian context. CFC will continue to actively participate on this Council and help to facilitate activities for the continuous improvement of the Canadian animal health and welfare systems.

CFC actively participates in national working groups and forums to discuss and improve animal health preparedness in Canada.



Antimicrobial Use

CFC, in conjunction with its industry stakeholders, continued its work on antimicrobial use and resistance throughout 2012.

To this end, CFC was active in several areas including developing an industry strategy, initiating an industry working group, holding education sessions in each province, performing research, developing responsible use guidelines, examining antimicrobial availability and use, and collaborating with government agencies on surveillance and regulations.

Efforts during the first part of 2012 focussed on finalizing an industry strategy relative to antimicrobial use. The industry strategy was developed based on several industry workshops held in order to discuss the challenges and opportunities of antimicrobial use and resistance and to shape a coordinated approach.

The industry strategy, which was finalized in 2012, has the objective of controlling, monitoring and reducing antimicrobial use in the chicken industry in order to preserve effective treatment options. The strategy was supported by the Animal Nutrition Association of Canada, the Canadian Hatchery Federation, the Canadian Hatching Egg Producers, the Canadian Poultry and Egg Processors Council and the Canadian Association of Poultry Veterinarians.

were also provided by farmers who have reduced their own farms' antimicrobial use.

CFC continued to collaborate with government agencies on antimicrobial resistance throughout 2012. Specifically, CFC worked with the Canadian Integrated Program for Antimicrobial Resistance Surveillance (CIPARS) of the Public Health Agency of Canada to develop and implement an on-farm surveillance component that will monitor antibiotic usage and antibiotic resistance levels on Canadian chicken farms. This program will help develop antimicrobial use baseline levels and to determine future antibiotic use and resistance policies.

Since 2002, CIPARS has been performing surveillance activities at processing plants and at retail. In 2012, CFC and poultry industry stakeholders formalized a knowledge transfer forum with CIPARS with the objective of promoting information exchange and discussions to review CIPARS data, to provide insight on interpretation of the data and to provide a feedback mechanism to the poultry industry.

CFC has also been participating in the renewal of the Canadian Feeds Regulations, led by the Canadian Food Inspection Agency (CFIA). CFC's focus has been on improving the availability of alternative products and working to ensure the same availability of products that

This strategy will guide the industry in the areas of defining antibiotic use and analyzing antibiotic resistance trends, ensuring effective controls of antibiotic use, examining best management practices, education, research, and availability of alternative products.

An industry working group was initiated in 2012 with the supporting organizations, and Turkey Farmers of Canada, to serve as a forum for the exchange of information and opinions in a collaborative manner to advance the objectives of the industry antimicrobial strategy.

To help inform stakeholders about the complexities and importance of antimicrobial resistance, CFC organized education sessions in each of the provinces. Presentations were provided by a veterinary epidemiologist who explained antimicrobial resistance and important factors for farmers to consider. As part of these sessions, insight and possibilities

have been approved for use internationally. Working in cooperation with the Animal Nutrition Association of Canada, CFC has participated in stakeholder meetings and is part of the advisory group with CFIA.

CFC is looking to demonstrate that antimicrobial use in the chicken sector is responsible in order to provide continued confidence to government and consumers. This work will continue through 2013 as Canadian chicken farmers are committed to working with government and industry partners to ensure that chicken of the highest and safest quality is being produced.

Poultry Research

This was an exciting year for the Canadian Poultry Research Centre (CPRC) as it launched its new sponsorship program in September 2012. CFC is one of the five founding members of CPRC and is proud to be involved with an organization that focuses on Canadian research for Canadian farmers.

Aviagen Inc. was announced as the CPRC's inaugural Platinum sponsor at an event at the Poultry Research Centre (PRC), University of Alberta, on September 13th to unveil the new Research Sponsorship Program. The new program is designed to enhance the amount of industry research funding received from CPRC Member Organizations, which is becoming more important as governments of different levels realign their funding as a result of budget pressures.

CPRC offers four sponsorship levels to allow industry stakeholders to choose a sponsorship option that fits their budget.

- » Platinum \$25,000 and over
- » Gold \$15,000 to \$24,999
- » Silver \$5,000 to \$14,999
- » Bronze \$1,000 to \$4,999

CPRC's sponsorship program represents an excellent opportunity to increase Canadian poultry research and industry stakeholders are invited to access more information about the program on the CPRC website (www.cp-rc.ca).

CPRC was established back in 2001 with a mandate to create and implement programs for poultry research and development that address current and future industry needs. Jacob Middelkamp, from Alberta, is CFC's representative on the CPRC Board of Directors and is the current CPRC Chairman.

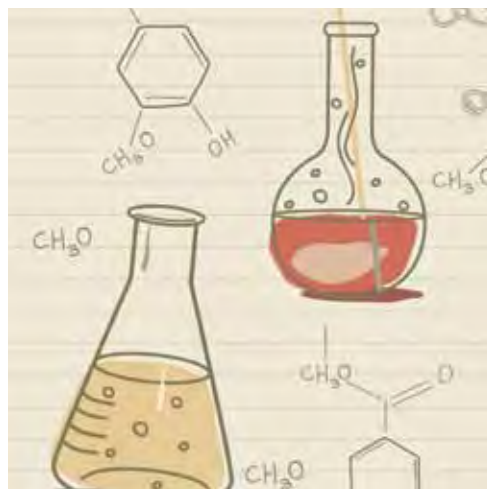
CPRC undertakes a range of activities in support of Canada's poultry research program, including:

- » directly funding research through its member organizations
- » organizing national research and priority-setting meetings
- » coordinating poultry research across Canada
- » other activities that benefit the Canadian poultry industry through research and innovation

To date, CPRC has allocated approximately \$2.8 million to foster poultry research and these funds have been leveraged to over \$13.1 million. Furthermore, CPRC is considering new projects worth \$130,000 for matching funding and these could be leveraged for another \$850,000.

By the end of 2012, CFC's research fund reached just over \$5.6 million, demonstrating CFC's on-going commitment to research. Interest earned by the Research Fund is the source of CFC's own annual support for poultry research projects and initiatives.

In order to guide poultry research in Canada, CPRC released the *National Research Strategy for Canada's Poultry Sector* in August. The Strategy was developed with input from industry, the research community and other stakeholders and is designed as a general roadmap to help guide Canadian poultry research efforts over the next several years.



As CPRC has been in existence for just over a decade, the CPRC Board initiated a review of the effectiveness of CPRC's research funding and processes. The review is expected to be completed in early 2013 and it is anticipated that the results of the review will report positively on the benefits that CPRC funding brings to the Canadian poultry sector.

In 2012, CPRC considered research in the areas of Avian Gut Microbiology, Resistance and Alternatives to Antimicrobials & Environment. The CPRC

Board of Directors approved up to \$249,000 in funding for five research projects, one of which was an ad hoc project. CFC will be contributing \$169,000 toward this research.

These projects will be submitted to various funding partners for consideration for matching funding.

The five projects approved by the CPRC Board are:

1. *The impact of reducing mycotoxins in poultry feed on the natural defense against disease.*
Lead Researcher: T. Scott, University of Saskatchewan.
2. *Effect of incubator temperature and breeder flock age in two broiler strains on embryonic overheating.*
Lead Researcher: D. Korver, Alberta.
3. *Biopolymer-based nanocomposites from poultry industry byproducts for packaging applications.*
Lead Researcher: A. Ullah, University of Alberta.
4. *Assessment and mitigation of contamination risks: critical knowledge to reduce diseases and increase biosecurity compliance.* Lead Researcher: Jean-Pierre Vaillancourt, University of Montreal.
5. *Optimize and scale-up preparation of spent hen adhesive.*
Lead Researcher: J. Wu, University of Alberta.



IN 2012, CFC'S GOVERNMENT RELATIONS STRATEGY FOCUSED ON INCREASING ITS GOVERNMENT RELATION ACTIVITIES AND BUILDING RELATIONSHIPS WITH MEMBERS OF PARLIAMENT, SENATORS AND OTHER KEY DECISION MAKERS.

Government Relations

Government Relations is a priority for CFC as our industry is faced with meeting the challenges presented by changes in governments, legislation and policies. Our mandate is to ensure that the voices of our farmers are heard, both domestically and internationally, when important agriculture and trade policy decisions are made.

JOINT ANNUAL RECEPTION

The four national poultry agencies, CFC, Canadian Hatching Egg Producers, Egg Farmers of Canada and Turkey Farmers of Canada, held their Joint Annual Reception on March 21st, at the Fairmont Château Laurier in Ottawa.

As this year marked the 40th anniversary of the *Farm Products Agencies Act*, the reception was a memorable one. On hand to celebrate were Laurent Pellerin, Chairman of Farm Products Council of Canada, Pierre Lemieux, MP and Parliamentary Secretary to the Minister of Agriculture, as well as Ottawa Mayor Jim Watson.

The Joint Annual Reception is an event that offers poultry farmers and industry stakeholders an opportunity to discuss important issues with elected and non-elected officials involved in all aspects of our industry. The reception featured an excellent selection of dishes prepared with Canadian chicken, turkey and eggs.

CFC LOBBY DAY

CFC held a Lobby Day in conjunction with the CFC Board of Directors meeting on May 31st. The purpose of Lobby Day is to build relationships with elected officials and advance CFC's key priority issues.

CFC's Directors, Alternates, Provincial Board representatives and CFC staff met with 48 Members of Parliament and Senators on a range of issues including supply management, trade, import controls, antimicrobial resistance, on-farm food safety and animal care.

Further meetings were set up in the riding offices of some Senators and MPs for those who were unavailable to meet with the CFC delegation on May 31st.

The 2012 Lobby Day was highly successful and is an activity that CFC looks forward to building on in 2013.

In addition to the CFC Lobby Day, CFC's Chair and Executive Committee met with key ministers on priority issues, either on behalf of Canada's chicken farmers or as part of the SM-5 (dairy, poultry and egg farmers). Some notable meetings this past year have included:

- » CFC's Executive Committee met with the Honourable Ed Fast, Minister of International Trade, in January and CFC's Chair met again with the Minister both in May and November. The meetings were to discuss the Import-to-Re-Export Program, spent fowl imports, alignment of the definition of specifically-defined mixture (SDM) and Canada's position on supply management, and the Canadian strategy to maintain it in international trade negotiations. These have been front burner issues over the past few months, especially in the context of Canada-European Union Trade Agreement (CETA) talks, and Canada's inclusion in the Trans-Pacific Partnership (TPP).
- » CFC's Chair met with the Honourable Gerry Ritz, Minister of Agriculture and Agri-Food, in June, and again in November. The meetings were to discuss the lack of progress on some of the key recommendations from the Chicken Imports Working Group with respect to spent fowl and SDM chicken products.
- » CFC's Chair, along with chairs from the rest of the SM-5, met with The Honourable Thomas Mulcair, Official Leader of the Opposition and Leader of the NDP, in November. The meeting was to introduce the five Chairs and our industries to the new leader. It was also an opportunity to brief him on the importance of promoting supply management in international trade negotiations – especially within the framework of CETA and the TPP.
- » SM-5 chairs also met The Honourable Bob Rae, Leader of the Liberal Party, and discussed the SM-5 position on supply management in international trade negotiations.



FEDERAL PROVINCIAL TERRITORIAL AGRICULTURE MINISTERS MEETING (FPT)

This year's Federal, Provincial and Territorial Agriculture Ministers Meetings (FPT) were held in Whitehorse, Yukon from September 12–14. Agriculture ministers reached agreement on the content of a new framework of the Growing Forward 2 policy for agriculture, agri-food and agri-products. The agreement includes investments and initiatives for innovation, competitiveness, and market development for the next five-years, and will come into effect in April 2013.

As in previous years, a Canadian Federation of Agriculture (CFA) Tri-Partite Round Table was held on September 11th, the day prior to the FPT meeting in Whitehorse. CFC's Chair participated in the discussions with Minister Ritz, the provincial ministers of agriculture and other industry leaders.

The main focus of the discussion was on Growing Forward 2 and the 5-year Agriculture Policy Framework, where CFA urged the minister to maintain the current levels of business risk management (BRM) funding. There was also discussion on the National Food Strategy with the CFA pushing for a firm commitment, while ministers offered their support in principle.

The CFA Roundtable was followed by a government reception, hosted by the Government of the Yukon, which was an excellent venue for speaking with ministers, ministerial staff and departmental officials. CFC's Chair and CFC's CFA representative, Mike Pickard, as well as CFC staff, attended the FPT meetings and reception.

On September 12th, the CFC Chair was invited by the Minister of Agriculture to sit in as an observer on an Agri-Food Processor Panel, hosted by the Federal Agriculture Minister to study innovation in the processing sector in Canada.

Thanks to Canadian chicken farmers, the Canadian poultry industry continues to be a major force in Canada's economy. This is a message that needs to get out there to the public, many of whom may be several generations removed from the farm.

– Pierre Lemieux, Parliamentary Secretary to the Minister of Agriculture

2012 CFC PARLIAMENTARY RECEPTION

As part of CFC's government relations program, the CFC Board of Directors hosted its Annual Parliamentary Reception for members of parliament, senators, political and department staff, as well as industry partners at the Château Laurier in Ottawa on November 21st.

This year, over 45 MPs and Senators and over 40 senior political staffers were in attendance to discuss the theme – "Bringing the Farm to the City". Rural MPs were asked to bring an urban colleague so that they could meet our farmers and hear firsthand how they contribute to the Canadian economy and how they are working to provide high quality, safe chicken.

Pierre Lemieux, the Parliamentary Secretary to the Minister of Agriculture, spoke to those attending about some of the issues that cross the rural/urban divide. His riding, Glengarry—Prescott—Russell, covers half of Eastern Ontario, from the edge of Ottawa east to the Quebec border and sits between two of Canada's largest cities, Ottawa and Montreal.

"I'm pleased to see that you are working to build bridges with MPs from urban areas," he added. "It's an idea we discussed some time back, and I'm convinced it will go a long way to raising awareness about the huge contribution the chicken industry makes to Canada's economy. After all, this is an industry with a great story to tell an urban audience – for example, your achievements in food safety and animal welfare or your achievements in innovation."

His speech included recognition of the excellent economic contributions that Canada's chicken industry makes to rural and urban communities in every province. "Your success exemplifies what Canadian farmers have demonstrated for generations – hard work and commitment to excellence, while listening to and responding to consumers," concluded Lemieux.

During the reception, CFC Directors, Alternates, Provincial Board Managers and CFC staff had the opportunity to communicate key messages on CETA, the TPP, chicken imports, import controls, economic contributions of the Canadian chicken industry and supply management to parliamentarians, senators and key decision makers.

THE CANADIAN FEDERATION OF AGRICULTURE

The CFA focused most of its energy in 2012 on issues related to Governance, Growing Forward 2, the National Food Strategy, and trade policy. The majority of the CFA Board's time was spent developing a new trade policy; pushing their National Food Strategy to partners and government, preparing for the upcoming Federal Provincial Minister's meeting, briefing its membership on the proposed changes to Growing Forward 2 and the new suite of BRM programs.

While the Board felt there were still some issues that needed to be determined with respect to the new Governance structure and the new trade policy, the Board did pass both the new governance model as well as the new trade policy in order to permit the CFA to effectively address issues while continuing to work on its internal structure and policy issues.

Getting the Word Out

Chicken Farmers of Canada's communications strategies are twofold: First, a corporate communications strategy is in place to ensure that farmers and industry stakeholders have the information they require about the Canadian chicken industry and how it works. Second, a consumer relations strategy works to ensure that consumers continue to trust Canadian chicken as a healthy meal choice.

BRANDING STRATEGY

In November 2011, CFC Directors approved an action plan to develop a branding strategy for Canadian chicken. The Consumer Relations Committee and the Board of Directors subsequently developed a branding strategy based on extensive quantitative and qualitative data and on three intensive interview phases with key stakeholders throughout the supply chain.

At the July Board meeting, CFC Directors approved a branding strategy that:

- » Focused on gaining momentum for fresh Canadian chicken at retail versus other meat proteins, namely beef and pork.
- » Capitalized on Canadians' already positive view of Canadian farmers, as well as on the importance of a Canadian identity.
- » Conveyed the idea that Canadian chicken farmers contribute to a healthier diet for Canadian families with fresh, nutritious chicken, which is low in fat and healthy.
- » Involved a label, or mark, indicating that the chicken comes from Canadian farmers/farms.
- » Included major, concrete measurables that will determine the value and success of the strategy.

The Consumer Relations Committee was later mandated to develop a comprehensive business case, as well as a marketing & communications plan to launch and provide on-going communications support to the brand strategy.

During this time, CFC commissioned consumer research from Leger Marketing to determine the effectiveness of brand claims. Here are the highlights:

- » The vast majority (88%) of Canadians would be likely to buy chicken if it had a label showing it is from Canada.
- » The majority of Canadians (77%) would trust the chicken label they selected as best if it came directly from the farmers or a farmers' organization. This carried more weight compared to messages coming from retailers or manufacturers.

- » "Fresh from the Canadian Farm" is the claim most commonly selected as the favourite by far by Canadians (80%), and the vast majority would trust this message coming from farmers or a farmers' organization.

The business case and marketing plan were presented to the board in early 2013 and these documents will be consulted on throughout the first quarter of the year, with an aim to obtaining approval in March.

CONSUMER RELATIONS STRATEGY – ONLINE

Since introducing the newly revamped chicken.ca website in late 2010, we continue to see growth in our online relationships with consumers. The metrics from 2012 demonstrate that our current course is sound, and that our goals are realistic. We continue to see an upward trend in traffic, due mainly to the effect of our search engine optimization work. We have also seen that the quality of the traffic, as illustrated by time on site, pages per visit and bounce rate, has remained steady.

As a part of the strategy for the CFC website, CFC has created a series of short, one-to-two-minute how-to videos, which have been a hit with our core audience. In 2012, we produced 15 new How-To videos, which were rolled out to the public throughout the year, as a part of our ongoing promotions and social media strategy.

As usual, the recipes section is the most popular section of the site, followed by cooking tips. This follows the global search trend, which shows that of the top ten searches related to chicken, all are related to recipes or some variant thereof. Up to this point, we have been focused on promoting a broad range of keywords for the site. Looking forward, we will focus on optimizing a more narrow set of keywords directly related to the most popular content.

Mobile usage of our website is up over 300% from last year. This includes smart phones and table usage. More than 75% of this traffic is from IOS-based devices, such as iPhones and iPads. Pages per visit is lower than average, as the site does not degrade gracefully for such devices. The increasing amount of traffic from mobile devices indicates that people are searching for recipes and cooking tips on the go, which is consistent with Canadian mobile usage

patterns and profiles. This means that CFC will be developing a responsive web site (a site that degrades to all types of tools – tablets, phones, etc.) strategy for its online activity for the coming year.

Our social media following in various platforms continues to rise. This is largely due to the various initiatives we have begun in an effort to connect to ‘digital women’, including bloggers and active social media participants. These women are quickly becoming a force in helping other, less connected women find brands to trust, brands to promote and brands to use. They also work to clear up misinformation and help other women make choices for their families. These women have proven to be a valuable resource for CFC.

CANADA DAY – EVERYONE WINS WITH CANADIAN CHICKEN

2012 marked CFC’s 20th Anniversary as National Sponsors of the Canada Day festivities in Ottawa. Canada Day provides CFC with a chance to obtain national-scale recognition, local prominence, serve approximately 10,000 chicken breast sandwiches or chicken Caesar salads at the Great Canadian Chicken BBQ to an appreciative public, and host invited government representatives, including targeted staff from government departments, Members of Parliament and Senators, in a special VIP area. As a part of CFC’s corporate social responsibility, CFC provides the Ottawa Food Bank with \$0.50 from each sandwich and salad purchase.

Each year, CFC has conducted some sort of contest to determine which chicken sandwich recipe will be served on Canada Day. On April 23rd, Chicken Farmers of Canada launched its *Everyone Wins With Canadian Chicken* campaign. Members of Parliament were asked to enter their favourite chicken sandwich recipes, via the chicken.ca website, in a bid to be the sandwich that is served at the Great Canadian Chicken BBQ on July 1st. The winning MP would receive a \$10,000 donation to a food bank in his/her riding. Second prize would be \$5,000 and third prize would be \$2,500.

This was predominantly a social media/consumer-based campaign, geared to have consumers encourage their MPs to enter the contest, and to raise awareness of Food Banks Canada.

Details included, but were not limited to:

- » We developed a webpage on our site that made it very easy for MPs to enter their recipes.
- » We created a page on our website that called consumers to action, via online and social media outlets. Social call-outs to MPs included posting on their Facebook pages and via direct tweets.

- » We published and promoted links to MPs on Twitter, Facebook and via their email addresses. We created templates for consumers to send MP emails and created online links to “share” the contest on FB/Twitter.
- » We sent out two print booklets to Hill offices, with messaging from CFC, Maple Leaf Foods and Food Banks Canada.
- » MPs themselves got into the spirit, with various Ministers sending out press releases and other messages, asking fellow Members of Parliament to enter.
- » Over 20 blogs were written about the campaign by a variety of consumers throughout Canada.

An example of this program’s success:

On May 9th, CFC hosted a Twitter Party about the campaign with its partners, Maple Leaf Foods and Food Banks Canada, as our virtual guests. A twitter party is a virtual party, using the Twitter platform which allows Twitter people to connect and discuss a topic of choice. This 2-hour virtual party from 7:00–9:00 directly involved almost 200,000 people – and the @chickenfarmers handle and #winwithchicken hashtag made almost 4 million impressions.

Within roughly 40 minutes of the start, the #winwithchicken hashtag trended in Canada and 5 minutes later, the @chickenfarmers handle was the number one trend in the country. We stabilized at number two and stayed there for the duration of the party and beyond, with @foodbanks-canada trending at number three. This means that for ALL of Twitter in Canada, we were the second most popular thing that people were talking about. At 12:08 a.m., 3 hours after the party, we were still tracking at number two.





Over the course of May, an impressive 72 MPs submitted innovative and creative recipes, which all had distinct touches that made them their own. With all the great choices, the deliberations were difficult and came right down to the wire.

The final decision on the top 3 recipes took place on CTV Ottawa Morning Live on June 13th, in an on-air cookoff. All three finalists were present for the event.

The final three were:

- » 1st place: Vic Toews, MB (Pesto Chicken Philly Melt)
- » 2nd place: Olivia Chow, ON (Chow-Style BBQ Sandwich)
- » 3rd place: Sylvain Chicoine, QC (BBQ Canadian Chicken Sandwich)

So impressive was the number of entries, CFC made a last-minute decision to donate \$100 for each and every entry we'd received, in addition to the prizing. MPs were immediately notified and were enthusiastic about this development. In all, the *Everyone Wins With Canadian Chicken* campaign raised \$25,000 for more than 70 food banks.



CONSUMER RELATIONS STRATEGY – OUTREACH

CFC works diligently to promote the health attributes of Canadian chicken. This is done directly with consumers, but also, more notably, with health professionals, ensuring that a direct conduit of our messaging is delivered to people who use the services of this important group of people.

In 2012, CFC redefined this role and engaged a Health Communications Officer, whose objective is to assist in finding the best means by which CFC can communicate chicken's role as a healthy choice for Canadian meals.

Highlights of activities related to this include:

Online Outreach Health Portal

CFC actively promoted its new Health Portal and the features and resources within the site through social media and promotion at trade shows. The most notable features of the Health Portal are the Patient Resources page, an online subscription to a quarterly healthy living newsletter, an interactive nutritional comparison chart which allows consumers to see how chicken compares to other popular proteins, and nearly 50 health articles organized by four new themes. These are:

- » Nutrition – Eat Right
- » Heart Health – Beat Right
- » Exercise – Fit Right
- » Lifetime Health – Age Right

Twenty-two new articles that discuss men, women and children's health, and feature chicken as part of a well-balanced diet, were added to the Portal under the theme Lifetime Health – Age Right.

CFC's recipes were analyzed for detailed nutrient information, which allows consumers to select recipes according to their dietary needs. The focus of the recipes continues to be on healthy, lower fat, higher fibre, lower sodium and lower sugar dishes that health professionals can also refer to in their practice.

The Blog

As part of CFC's goal to raise the health profile of chicken, CFC now posts a weekly health blog related to the nutrient quality of chicken and/or a national health theme.

Outreach to Health Professionals

Great focus was placed upon continuing relationships and expanding networks with health professionals in 2012. CFC participated at the following events to promote CFC's health resources and recipes:

- » Dietitians of Canada's Annual Conference (Toronto)
- » Canadian Diabetes Association Professional Conference (Vancouver)
- » Canadian Foodservices Conference – The Future of Food in Healthcare (Ottawa)

Nutritional Factsheet Series

CFC has been working closely with dietitians to enhance its two main sources of print material, namely its recipe booklet and nutritional factsheet series. CFC now has 12 nutrition factsheets in the series, as well as a snack and beverage, and weekly food journal. These are useful clinical aids and educational tools for those looking to change their eating habits and achieve a healthier lifestyle. The factsheets are also available for consumers to download through our Health Portal.

Eat Right with chicken.ca cook booklet

In 2012 CFC created a new cook booklet entitled *Eat Right with chicken.ca*. The recipes inside provide reliable nutrient information and allow consumers to choose from healthy options for either regular diets or those that require lower fat, lower sugar, lower sodium, high fibre or gluten free meals. The booklet also contains information about CFC's On-Farm Food Safety and Animal Care Program, and invites consumers to find resources on our website, including the new Health Portal, recipes, food safety tips, weekly blogs,

the monthly newsletter and the frequently asked questions page. Since the release of *Eat Right with chicken.ca*, the booklet has proven to be a popular resource for both health professionals and consumers.

Public Relations Strategy

At the strategic planning meeting in October, CFC Board members approved the development of a public relations strategy aimed at providing accurate, responsive and timely information to consumers and media alike regarding Canada's chicken farmers' contribution to providing safe, healthy Canadian chicken, through its supply management system.

The strategy involves collaboration from across the poultry and egg industries to determine consumer concerns/trends and to develop a rapid-response media relations strategy to address inaccurate media coverage. As well, CFC will work within its own strategy to create a base of support for supply management and Canada's chicken farmers by:

- » debunking the myths propagated through various media about supply management
- » promoting the direct and ancillary benefits of viable and sustainable chicken farms
- » helping consumers to understand the importance and care about Canadian chicken farms
- » enhancing our image as farmers, industry and organizations as credible and not simply as defensive of interests
- » being proactive in telling the positive supply management story in its entirety
- » addressing or challenging reports (national and local press, think-tank publications, blogs, twitter) as they occur in a timely manner

The strategy is being initiated in early 2013.

INDEPENDENT AUDITOR'S REPORT

The Minister
Agriculture and Agri-Food Canada

The Farm Products Council of Canada

The Members of
CHICKEN FARMERS OF CANADA

We have audited the accompanying financial statements of Chicken Farmers of Canada, which comprise the balance sheet as at December 31, 2012, December 31, 2011 and January 1, 2011 and the statements of operations, changes in fund balances and cash flows for the years ended December 31, 2012 and December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Chicken Farmers of Canada as at December 31, 2012, December 31, 2011 and January 1, 2011 and the results of its operations and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian accounting standards for not-for-profit organizations.



Chartered Accountants
Licensed Public Accountants

Ottawa, Ontario
February 28, 2013.

CHICKEN FARMERS OF CANADA

BALANCE SHEET

December 31, 2012, December 31, 2011 & January 1, 2011

	<u>Dec. 31, 2012</u>	<u>Dec. 31, 2011</u>	<u>Jan. 1, 2011</u>
ASSETS			
Current Assets			
Cash	\$ 1,468,972	\$ 1,379,673	\$ 558,640
Short-term investments (note 5)	3,943,954	3,895,486	3,222,956
Accounts receivable	1,220,478	1,100,544	1,523,256
Government remittances receivable	7,907	-	-
Restricted cash (note 6)	235,930	782,330	516,091
Prepaid expenses	80,089	86,127	72,742
	<u>6,957,330</u>	<u>7,244,160</u>	<u>5,893,685</u>
Investments (note 5)	12,334,647	12,717,656	14,171,380
Capital Assets (note 7)	443,112	488,747	462,192
	<u>\$ 19,735,089</u>	<u>\$ 20,450,563</u>	<u>\$ 20,527,257</u>
LIABILITIES AND FUND BALANCES			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 718,356	\$ 804,509	\$ 921,241
Deferred revenue (note 6)	235,930	400,553	516,091
Government remittances payable	-	19,912	6,455
Current portion of deferred lease inducement (note 8)	12,761	14,871	11,642
	<u>967,047</u>	<u>1,239,845</u>	<u>1,455,429</u>
Long-Term Portion of Deferred Lease Inducement (note 8)	108,752	109,157	115,605
	<u>1,075,799</u>	<u>1,349,002</u>	<u>1,571,034</u>
Fund Balances			
Internally restricted – Promotion Fund	3,626,412	3,787,576	3,752,064
Internally restricted – Research Fund	5,600,257	5,511,355	5,305,077
Unrestricted	9,432,621	9,802,630	9,899,082
	<u>18,659,290</u>	<u>19,101,561</u>	<u>18,956,223</u>
	<u>\$ 19,735,089</u>	<u>\$ 20,450,563</u>	<u>\$ 20,527,257</u>

ON BEHALF OF THE BOARD:


 Barry Uytendine
 Finance Committee, Director


 Mike Pickard
 Finance Committee, Director


 Christine Moore
 Finance Committee, Director

(See accompanying notes)

CHICKEN FARMERS OF CANADA

STATEMENT OF OPERATIONS

Years Ended December 31, 2012 & 2011

	2012				2011
	General Fund	Promotion Fund	Research Fund	Total	Total
Revenue					
Levy and fee revenue	\$ 6,117,215	\$ -	\$ -	\$ 6,117,215	\$ 6,098,687
Interest	236,927	86,927	149,469	473,323	578,445
Overmarketing and market development levies	-	400,695	-	400,695	491,168
Other revenue	171,849	-	-	171,849	238,001
	<u>6,525,991</u>	<u>487,622</u>	<u>149,469</u>	<u>7,163,082</u>	<u>7,406,301</u>
Expenses					
Amortization of capital assets	81,570	-	-	81,570	69,230
Committees	314,867	-	-	314,867	328,965
Communication	193,647	-	-	193,647	157,265
Corporate social responsibilities	56,647	-	-	56,647	46,761
Directors and alternates	1,116,039	-	-	1,116,039	1,212,995
Information technology	317,155	-	-	317,155	130,829
Membership fees	191,804	-	-	191,804	187,437
Office	590,940	-	-	590,940	599,403
Professional fees	561,177	-	-	561,177	568,476
Promotion activities	-	170,295	-	170,295	193,855
Salaries, benefits and travel	2,457,952	-	-	2,457,952	2,464,153
Special studies	671,815	439,271	-	1,111,086	1,118,767
Trade	98,482	-	-	98,482	117,605
Translation	141,891	-	-	141,891	150,711
	<u>6,793,986</u>	<u>609,566</u>	<u>-</u>	<u>7,403,552</u>	<u>7,346,452</u>
Excess (deficiency) of revenue over expenses	(267,995)	(121,944)	149,469	(240,470)	59,849
Net increase (decrease) on investments	(102,014)	(39,220)	(60,567)	(201,801)	85,489
Excess (deficiency) of revenue over expenses	<u>\$ (370,009)</u>	<u>\$ (161,164)</u>	<u>\$ 88,902</u>	<u>\$ (442,271)</u>	<u>\$ 145,338</u>

(See accompanying notes)

CHICKEN FARMERS OF CANADA

STATEMENT OF CHANGES IN FUND BALANCES

Years Ended December 31, 2012 & 2011

	2012				2011
	General Fund	Promotion Fund	Research Fund	Total	Total
Balance, beginning of year	\$ 9,802,630	\$ 3,787,576	\$ 5,511,355	\$ 19,101,561	\$ 18,956,223
Excess (deficiency) of revenue over expenses	(370,009)	(161,164)	88,902	(442,271)	146,338
Balance, end of year	<u>\$ 9,432,621</u>	<u>\$ 3,626,412</u>	<u>\$ 5,600,257</u>	<u>\$ 18,659,290</u>	<u>\$ 19,101,561</u>

CHICKEN FARMERS OF CANADA

STATEMENT OF CASH FLOWS

Years Ended December 31, 2012 & 2011

	2012	2011
Cash Flows from Operating Activities		
Excess (deficiency) of revenue over expenses	\$ (442,271)	\$ 145,338
Items not affecting cash:		
Amortization of net premiums on investments	61,087	61,038
Amortization of capital assets	81,570	69,230
Amortization of lease inducements	(12,760)	(13,464)
(Gain)/loss on disposal of capital assets	(825)	13
(Increase) decrease on investments	201,801	(85,489)
	(111,398)	176,666
Changes in level of:		
Accounts receivable	(119,934)	422,712
Prepaid expenses	6,038	(13,385)
Accounts payable and accrued liabilities	(86,153)	(116,732)
Government remittances - net	(27,819)	13,457
Deferred revenue	(164,623)	(115,538)
Deferred lease inducement	10,245	10,245
	(493,644)	377,425
Cash Flows from Investing Activities		
Purchase of capital assets	(35,935)	(95,948)
Proceeds from sale of capital assets	825	150
Purchase of investments	(3,754,347)	(2,358,355)
Proceeds from sale of investments	3,826,000	3,164,000
Increase (decrease) in restricted cash	546,400	(266,239)
	582,943	443,608
Increase in Cash	89,299	821,033
Cash, Beginning of Year	1,379,673	558,640
Cash, End of Year	<u>\$ 1,468,972</u>	<u>\$ 1,379,673</u>

(See accompanying notes)

CHICKEN FARMERS OF CANADA

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2012 & 2011

1. ACTIVITIES OF THE ORGANIZATION

Objective of the Organization

The Chicken Farmers of Canada (CFC), incorporated pursuant to the *Farm Products Agencies Act*, was established to ensure the orderly marketing of chicken in Canada. CFC is exempt from income taxes under section 149(1)(e) of the *Income Tax Act*.

Levy and fee revenue

CFC charges levies to farmers based on chicken marketings in inter-provincial and export trade and receives fees in relation to intra-provincial trade.

2. ADOPTION OF ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS

Effective January 1, 2012, CFC adopted the requirements of the Canadian Institute of Chartered Accountants (CICA) Handbook - Accounting, *Canadian accounting standards for not-for-profit organizations* (ASNFP). These are CFC's first financial statements prepared in accordance with the accounting standards for not-for-profit organizations and these standards have been applied retrospectively. The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2012, the comparative information presented in the financial statements for the year ended December 31, 2011 and in the preparation of an opening ASNFP balance sheet as at January 1, 2011 (CFC's date of transition).

CFC had previously issued financial statements for the year ended December 31, 2011 using a different accounting framework known as the Canadian generally accepted accounting principles (GAAP). The impact of adopting ASNFP retrospectively has had no impact on the balance sheet or statement of changes in fund balances but has had an impact on the previously reported excess (deficiency) of revenue over expenses which has affected the statement of operations and the statement of cash flows previously reported under GAAP for the year ended December 31, 2011. The effect of which is as follows:

Statement of operations - December 31, 2011:

	GAAP	Transition	ASNFP
Revenue	\$ 7,406,301	-	\$ 7,406,301
Expenses	7,346,452	-	7,346,452
Excess of revenue over expenses from operations	59,849	-	59,849
Net increase on investments	-	85,489	85,489
Excess of revenue over expenses	<u>\$ 59,849</u>	<u>\$ 85,489</u>	<u>\$ 145,338</u>

Statement of cash flows - December 31, 2011:

	GAAP	Transition	ASNFP
Cash Flows from Operating Activities			
Excess of revenue over expenses	\$ 59,849	\$ 85,489	\$ 145,338
Items not affecting cash:			
Amortization of net premiums on investments	61,038	-	61,038
Amortization of capital assets	69,230	-	69,230
Amortization of lease inducements	(13,464)	-	(13,464)
Loss on disposal of capital assets	13	-	13
Net increase on investments	-	(85,489)	(85,489)
	<u>176,666</u>	<u>-</u>	<u>176,666</u>
Changes in levels of working capital	200,759	-	200,759
Cash Flows from Investing Activities	<u>443,808</u>	<u>-</u>	<u>443,808</u>
Increase in Cash	<u>821,033</u>	<u>-</u>	<u>821,033</u>
Cash, Beginning of Year	<u>558,640</u>	<u>-</u>	<u>558,640</u>
Cash, End of Year	<u>\$ 1,379,673</u>	<u>\$ -</u>	<u>\$ 1,379,673</u>

CFC has elected to record its short-term investments and investments at fair market value under ASNFP. This is consistent with CFC's treatment under GAAP.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared in accordance with *Canadian accounting standards for not-for-profit organizations*.

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period they become known.

Management makes accounting estimates when determining the estimated useful life of CFC's capital assets and the related amortization expense, the net realizable value of accounts receivable and in the determination of significant accrued liabilities. Actual results could differ from these estimates.

SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund accounting

Resources are classified for accounting and reporting purposes into funds that are in accordance with specific activities, or objectives. Accordingly, separate accounts are maintained for the General Fund as well as for the Promotion and Research Funds, which are internally restricted.

The General Fund accounts for operating and administrative activities as well as all transactions related to capital assets and other interest revenue not allocated to the other funds.

The Promotion Fund reports the overmarketing and market development levies collected and expenses that relate to the promotion and marketing of chicken, as indicated in the Market Development Policy and the Monitoring and Enforcement Policy, and expenses incurred in collecting overmarketing and market development levies. It also reports interest earned on resources held for the purpose of the Promotion Fund.

The Research Fund reports interest earned on resources held for research purposes and expenses for research projects related to the poultry industry in Canada.

Revenue recognition

CFC recognizes revenue using the deferral method of accounting.

Levies are recognized as revenue during the year when received or receivable if amounts can be reasonably estimated and collection is reasonably assured.

Financial instruments

Cash, short-term investments and investments are initially recognized and subsequently measured at fair value.

All other financial instruments are subsequently measured at amortized cost.

Investments

Interest on interest-bearing investments is calculated using the effective interest rate method.

The fair values of investments are based on quoted market prices when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar investments or other third-party information.

Transaction costs related to investments are expensed as incurred. Gains and losses on investments, including unrealized gains and losses, are recorded in the statement of operations.

Capital assets

Capital assets are recorded at cost.

Amortization is calculated using the straight-line method over their anticipated useful lives. Terms are as follows:

» Office equipment	10 years
» Computer equipment	3 years
» Leasehold improvements	Term of lease

Deferred lease inducements

Deferred lease inducements represent rent free periods and funding for leasehold improvements and photocopiers. Deferred lease inducements are amortized over the lease term on a straight-line basis and are recorded as a reduction in office expense.

4. FINANCIAL INSTRUMENTS

CFC is exposed to various risks through its financial instruments. The following analysis provides a measure of CFC's risk exposure and concentrations at December 31, 2012, December 31, 2011 and January 1, 2011.

CFC does not use derivative financial instruments to manage its risk.

Credit risk

CFC is exposed to credit risk resulting from the possibility that parties may default on their financial obligations. CFC's maximum exposure to credit risk represents the sum of the carrying value of its cash, short-term investments, investments and its accounts receivable. CFC's cash is deposited with a Canadian chartered bank and short-term investments and investments are government issued and as a result management believes the risk of loss on these items to be remote. CFC manages its credit risk by reviewing accounts receivable aging monthly and following up on outstanding amounts. Management believes that, except for allowances already made, all accounts receivable at year end will be collected.

Liquidity risk

Liquidity risk is the risk that CFC cannot meet a demand for cash or meet its financial obligations when they become due. CFC manages its liquidity requirements by preparing and monitoring detailed forecasts of cash flow from operations, anticipating investing and financing activities and monitoring future cash flow requirements on a regular basis.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk, interest rate risk and other price risk.

i) Currency risk

Currency risk is the risk that the fair value of instruments or future cash flows associated with the instruments will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates.

CFC's financial instruments are denominated in Canadian dollars and it transacts primarily in Canadian dollars. As a result, management does not believe it is exposed to significant currency risk.

ii) Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in market interest rates.

CFC's short-term investments and investments bear interest at fixed rates of interest and consequently the exposure to interest rate risk is minimal.

FINANCIAL INSTRUMENTS (continued)

iii) Other price risk

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

CFC is not exposed to other price risk.

Changes in risk

There have been no changes in CFC's risk exposures from the prior year.

5. INVESTMENTS

	2012	
	Cost	Fair Value
Short-term investments	\$ 3,921,885	\$ 3,943,954
Guaranteed Investment Certificates (GICs)	1,300,000	1,300,000
Canada Housing Trust bonds	10,643,750	10,778,810
Government of Canada bond	247,485	255,837
	12,191,235	12,334,647
	\$ 16,113,120	\$ 16,278,601

	2011	
	Cost	Fair Value
Short-term investments	\$ 3,844,158	\$ 3,895,486
Guaranteed Investment Certificates (GICs)	1,700,000	1,700,000
Canada Housing Trust bonds	10,442,041	10,758,159
Government of Canada bond	247,322	259,497
	12,389,363	12,717,656
	\$ 16,233,521	\$ 16,613,142

Short-term investments are comprised of Canada Housing Trust bonds and Guaranteed Investment Certificates which mature over the next year bearing interest at rates that range from 3.60% to 4.53% (2011- 4.00% to 5.80%).

Bonds are debt obligations paying interest rates appropriate to market at their date of purchase. The bonds and GIC's mature at face value on a staggered basis over the next six years (2011 - seven years). Interest rates for these securities range from 1.70% to 4.12% (2011 - 1.85% to 4.53%).

Investment risk

The maximum investment risk to CFC is represented by the fair value of the investments. Investments in financial instruments also include the risks arising from the failure of a party to a financial instrument to discharge an obligation when it is due.

Concentration of risk

Concentration of risk exists when a significant proportion of the portfolio is invested in securities with similar characteristics or subject to similar economic, political or other conditions. Management believes that investment concentrations described do not represent excessive risk.

6. DEFERRED REVENUE AND RESTRICTED CASH

In 2005, CFC received \$875,956 as full and final payment of a vitamins class action settlement. The monies received are to be used by CFC to decrease the cost of on-farm audits of CFC's Food Safety Assurance Program, to enhance or increase on-farm biosecurity, and to allocate funds to research and development for protocols and methods to alleviate and contain any foreign animal disease outbreak in Canada.

In 2011, CFC received \$94,638 as full and final payment of a methionine class action settlement. The monies received are to be used by CFC for the benefit of Canadian chicken farmers and CFC.

Changes in the deferred revenue account for the year are as follows:

	2012		
	Methionine	Vitamin	Total
Balance, beginning of year	\$ 95,617	\$ 304,936	\$ 400,553
Received	-	-	-
Interest earned	1,196	3,810	5,006
Recognized as revenue	-	(169,629)	(169,629)
Balance, end of year	\$ 96,813	\$ 139,117	\$ 235,930

	2011		
	Methionine	Vitamin	Total
Balance, beginning of year	\$ -	\$ 516,091	\$ 516,091
Received	94,638	-	94,638
Interest earned	979	5,806	6,785
Recognized as revenue	-	(216,961)	(216,961)
Balance, end of year	\$ 95,617	\$ 304,936	\$ 400,553

The expenses incurred of \$169,629 (2011 - \$216,961) were used to enhance or increase on-farm biosecurity; and for research and development for protocols and methods to alleviate and contain any foreign animal disease outbreak in Canada. The revenue is recognized in interest and other revenue of the General Fund.

It is the policy of CFC that cash is restricted in an amount equivalent to deferred revenue. As at December 31, 2012 restricted cash maintained was appropriate. As at December 31, 2011 restricted cash exceeded deferred revenue by \$381,777. Subsequent to December 31, 2011 CFC's restricted cash account reimbursed CFC's general cash account \$381,777 in order to rectify the cash imbalance.

7. CAPITAL ASSETS

	2012	
	Cost	Accumulated amortization
Office equipment	\$ 393,937	\$ 296,868
Computer equipment	246,360	162,281
Leasehold improvements	436,319	174,355
	1,076,616	<u>\$ 633,504</u>
Less accumulated amortization	633,504	
Net book value	\$ 443,112	

	2011	
	Cost	Accumulated amortization
Office equipment	\$ 392,637	\$ 279,273
Computer equipment	246,678	165,840
Leasehold improvements	436,319	141,774
	1,075,634	<u>\$ 586,887</u>
Less accumulated amortization	586,887	
Net book value	\$ 488,747	

8. DEFERRED LEASE INDUCEMENT

In 2010, CFC entered into a lease agreement which expires in 2020, which included an inducement for leasehold improvements of \$123,252 as well as granting CFC seven rent free months over the term of the lease as outlined in the lease agreement. During the year \$10,245 was added to the lease inducement due to a free month's rent.

Also during 2010, CFC also entered into a lease agreement on two photocopiers which expires in 2013, which included an inducement of \$5,327.

	2012	2011
Balance, beginning of year	\$ 124,028	\$ 127,247
Additions during the year	10,245	10,245
Amount amortized to expense during the year	(12,760)	(13,464)
Balance, end of year	121,513	124,028
Current portion	12,761	14,871
Long-term portion	\$ 108,752	\$ 109,157

9. COMMITMENTS

CFC is committed under the terms of lease contracts with various expiry dates for the rental of premises and office equipment. Minimum lease payments are:

2013	\$ 176,210
2014	175,202
2015	159,533
2016	189,768
2017	162,150
2018-2020	411,101
	<u>\$ 1,273,964</u>

10. EMPLOYEE PENSION PLAN

CFC has a defined contribution pension plan providing benefits to employees. The contribution is a net percentage of the employees' annual income. The total contributions made by CFC under this plan in 2012 was \$96,022 (2011 - \$97,753).

11. COMPARATIVE FIGURES

Comparative figures have been reclassified where necessary to conform with the presentation adopted for the current year.