

**Saskatchewan Oat Development Commission
operating as SaskOats**

FINANCIAL STATEMENTS

Year Ended July 31, 2017

Saskatchewan Oat Development Commission
operating as SaskOats
Regina, Saskatchewan
July 31, 2017

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Independent Auditors' Report

To the Board of Directors
Saskatchewan Oat Development Commission

Report on the Financial Statements

We have audited the accompanying financial statements of Saskatchewan Oat Development Commission, which comprise the Statement of Financial Position as at July 31, 2017, and the Statements of Operations and Cash Flows for the year then ended, 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.

Auditors' 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 auditors' 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 qualified audit opinion.

Basis for Qualified Opinion

The commission collects a check-off fee from Saskatchewan producers through buyers of oats. It was not practicable for us to verify whether all buyers of oats produced in Saskatchewan have collected and remitted the required check-off fee to the commission. In addition, the commission has engaged a third party to administer the check-off collection, including the establishment and monitoring of all related controls. It was not practicable for us to examine the records of this third party. Accordingly, our verification of check-off fee revenue was limited to the amounts recorded in the accounts of the commission. As such, we were unable to determine whether any adjustments might be necessary to revenue, excess of revenue over expenses, assets, liabilities, net assets and cash flows of the commission.

Qualified Opinion

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of check-off revenue referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of Saskatchewan Oat Development Commission as at July 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Collins Barrow PQ LLP

Collins Barrow PQ LLP

Yorkton, SK
November 23, 2017

**Saskatchewan Oat Development Commission
operating as SaskOats**

Regina, Saskatchewan

Statement of Financial Position as at July 31, 2017

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	382,867	782,370
Short-term investments - note 4	1,250,500	1,014,181
Accounts receivable	64,232	91,738
Accrued interest receivable	6,514	4,031
Prepaid expenses	1,021	1,021
	<u>1,705,134</u>	<u>1,893,341</u>
Capital Assets - note 5	<u>1,682</u>	<u>1,732</u>
	<u>\$ 1,706,816</u>	<u>\$ 1,895,073</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	<u>104,629</u>	<u>122,012</u>
Net Assets, Unrestricted		
Balance, beginning of year	1,773,061	1,560,642
Add: Excess (deficiency) of revenue over expenses for the year	<u>(170,874)</u>	<u>212,419</u>
Balance, end of year	<u>1,602,187</u>	<u>1,773,061</u>
	<u>\$ 1,706,816</u>	<u>\$ 1,895,073</u>

Approved on behalf of the board:

**Saskatchewan Oat Development Commission
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Statement of Operations
For the year ended July 31, 2017

	Budget	2017	2016
Revenue			
Producer check-off fees	641,080	684,151	711,107
Less: Producer check-off refunds		(41,370)	(49,616)
	<u>641,080</u>	<u>642,781</u>	<u>661,491</u>
Grants			15,000
Investment and other income	16,500	11,359	189,683
	<u>657,580</u>	<u>654,140</u>	<u>866,174</u>
Expenses			
Amortization		49	49
Bad debt			277
Board of Directors	15,500	16,187	15,475
Communications - education	16,750	16,000	15,200
Grants for capital purchases	180,000	156,284	
Levy administration fees	23,500	24,915	25,410
Producer meetings	9,000	7,981	12,542
Proportionate expenses of POGA - note 6	554,000	458,758	442,254
Research and development grants - note 7	133,100	133,077	132,796
General and administrative:	8,500		
Election expense			225
Interest and bank charges		203	459
Memberships		1,500	1,482
Newsletter, promotion and website		3,197	2,172
Office and other administrative		1,308	24
Professional fees		5,555	5,390
	<u>940,350</u>	<u>825,014</u>	<u>653,755</u>
Excess (Deficiency) of Revenue Over Expenses for the Year	<u><u>\$(282,770)</u></u>	<u><u>\$(170,874)</u></u>	<u><u>\$ 212,419</u></u>

*The notes to financial statements are an integral
part of these financial statements.*

**Saskatchewan Oat Development Commission
operating as SaskOats**

Statement of Cash Flows
For the year ended July 31, 2017

	2017	2016
Cash Provided By (Used In):		
Operations		
Excess (deficiency) of revenue over expenses for the year	(170,874)	212,419
Add items not requiring cash resources		
Amortization	49	49
Net change in working capital	<u>7,641</u>	<u>56,305</u>
	<u>(163,184)</u>	<u>268,773</u>
Investing activities		
Capital asset purchases		(1,781)
Additions to short-term investments	(1,541,189)	(1,014,181)
Proceeds on disposal of short-term investments	<u>1,304,870</u>	<u>1,187,500</u>
	<u>(236,319)</u>	<u>171,538</u>
Net Cash Increase (Decrease) for the Year	(399,503)	440,311
Cash position, beginning of year	<u>782,370</u>	<u>342,059</u>
Cash Position, End of Year	<u>\$ 382,867</u>	<u>\$ 782,370</u>
Represented By:		
Cash and cash equivalents	<u>\$ 382,867</u>	<u>\$ 782,370</u>
Net change in working capital consists of:		
Decrease (increase) - accounts receivable	27,506	(28,684)
- prepaid expenses		(19)
- other current assets	(2,483)	3,892
Increase (decrease) - accounts payable and accrued		
- liabilities	<u>(17,382)</u>	<u>81,116</u>
	<u>\$ 7,641</u>	<u>\$ 56,305</u>

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part of these financial statements.*

**Saskatchewan Oat Development Commission
operating as SaskOats**

Notes to Financial Statements
For the year ended July 31, 2017

1. Nature of Operations

The organization was formed on April 12, 2006 pursuant to The Oat Development Plan Regulations, under the authority of The Agri-Food Act, 2004. The Saskatchewan Oat Development Commission, which operates under the name SaskOats, develops the oat industry in Saskatchewan by engaging in research and development projects intending to research new market opportunities, improve yields, decrease input costs, increase demand and create an overall better product. The organization is not subject to income tax.

2. Significant Accounting Policies

These financial statements are the responsibility of management and have been prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNFPO) using the accounting policies as summarized below:

(a) Cash and cash equivalents

Cash and cash equivalents represents cash on hand and cash held in banks.

(b) Capital assets

Capital assets are recorded at cost less accumulated amortization.

The assets are amortized until the the value has diminished using the following methods and rates:

	Method of Amortization	Rate of Amortization
Furniture, fixtures and equipment	straight-line	3 years

In the year of acquisition, capital assets are amortized starting in the month of acquisition.

In the year of disposition, capital assets are amortized until the month of disposition.

(c) Revenue

Under the Regulation, each producer is required to pay the organization a check-off fee of \$0.50 per tonne of oats sold in Saskatchewan, collected upon the purchasing of the grain from the producer. Producers may request a refund for check-off fees paid in the year by submitting a written request within time limits as defined in the Regulation.

Producer check-off fees are recognized when they are collected by registered oat buyers. Refunds are recognized as requested by producers in the same fiscal year as the related revenue is reported.

Investment revenues are recognized on an accrual basis as the income is earned.

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operating as SaskOats

Notes to Financial Statements
For the year ended July 31, 2017

2. Significant Accounting Policies - continued

(d) Financial instruments

Measurement of financial instruments

The organization initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions.

The organization subsequently measures all its financial assets and liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in excess of revenue over expenses.

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in excess of revenue over expenses. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in excess of revenue over expenses.

(e) Estimates

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in the statement of operations in the period in which they became known.

3. Risks Arising from Financial Instruments

The organization is exposed to various risks through its financial instruments. The following analysis presents the organization's risk exposure and concentrations at the reporting date.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The organization is exposed to fair value risk on its fixed interest rate financial instruments.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The organization is exposed to other price risk from its investments.

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Notes to Financial Statements
For the year ended July 31, 2017

	2017	2016
4. Short-Term Investments		
Description - GICs maturing within 6 months of year end		
Measurement basis - amortized cost		
Significant terms - rates 0.35% to 0.9% (2016 - 0.9% -1.15%)	800,500	564,181
Description - GICs maturing within 6 to 12 months of year end		
Measurement basis - amortized cost		
Significant terms - rates 0.9% (2016 - 0.9%)	<u>450,000</u>	<u>450,000</u>
	<u>\$ 1,250,500</u>	<u>\$ 1,014,181</u>

5. Capital Assets

	Cost	Accumulated Amortization	Net Book Value 2017	Net Book Value 2016
Furniture, fixtures and equipment	<u>\$ 1,781</u>	<u>\$ 99</u>	<u>\$ 1,682</u>	<u>\$ 1,732</u>

6. Transactions with Related Parties

Included in these financial statements are transactions with the Prairie Oat Growers Association Inc. (POGA), an organization related by virtue of common board members. POGA provides administration services, overhead expenses, and research and development projects of mutual benefit to the Saskatchewan Oat Development Commission (SaskOats), the Manitoba Oat Growers Association (MOGA), and the Alberta Oat Growers Commission (AOGC). SaskOats, MOGA, and AOGC have agreed to jointly fund the net administrative and project expenses of POGA via a cost-sharing arrangement based on levy income net of levy refunds. The proportionate share of the actual costs attributable to each organization was determined at two points in the current fiscal year. From August 1, 2016 - March 22, 2017 the proportionate share the net administrative and project expenses of POGA split between SaskOats, MOGA and AOGC. From March 23, 2017 - July 31, 2017 the proportionate share the net administrative and project expenses of POGA split between SaskOats and MOGA.

Related party balances bear no specific terms of repayment. Related party transactions and balances included in the financial statements are as follows:

Financial Statement Accounts	2017	2016
Assets		
Accounts receivable - POGA (overpayment of funding contributions)	\$ 1,342	\$ 0
Liabilities		
Accounts payable - POGA (underpayment of funding contributions)		68,341
Expenses		
Proportionate expenses of POGA	458,758	442,254
Grant funds paid to POGA		15,000

**Saskatchewan Oat Development Commission
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Notes to Financial Statements
For the year ended July 31, 2017

6. Transactions with Related Parties - continued

In the current year, SaskOats' share of POGA's net operating deficit from August 1, 2016 - March 22, 2017 is 63%, SaskOats' share of POGA's net operating deficit from March 22, 2017 - July 31, 2017 is 72% (65% in the prior year annual allocation). A summary of POGA's total revenues and expenses appears below:

	2017	2016
Revenues before funding contributions:		
Grant revenues	311,685	360,259
POBC contributions	221,776	221,716
Other revenues	137,804	38,137
	<u>671,265</u>	<u>620,112</u>
Expenses:		
Research projects	564,253	555,893
Market development projects	350,604	292,151
Communications expenses	92,362	85,303
General operating expenses	373,228	367,691
	<u>1,380,447</u>	<u>1,301,038</u>
Deficiency of Revenue over Expenses Before Funding Contributions	(709,182)	(680,926)
Funding contributions:		
MOGA	180,068	165,807
SaskOats	458,758	442,254
AOGC	70,356	72,865
	<u>709,182</u>	<u>780,926</u>
	<u>\$ 0</u>	<u>\$ 0</u>

7. Commitments and Projects

In 2013, the organization committed to providing \$80,000 per year for three years to the University of Saskatchewan, commencing in 2014, for research relating to advancing the oat industry. The \$80,000 contribution of the current year is included in research and development grant expenses. In the 2016 year, the organization committed to extend the original contract for an additional three-year term, ending June 30, 2019.

In 2014, the organization committed to budget \$12,000 per year for three years to post registration variety performance trials by the Saskatchewan Variety Performance Group. In 2016, the organization committed to budget an additional \$12,000 per year for an additional three years.

In 2015, the organization entered into an agreement to provide \$4,000 to the University of Saskatchewan and \$14,000 to Agriculture Canada for a joint project for the 2016 year. The organization is obligated to provide these funds for the research on alternate harvesting approaches for oats for one year, with the possibility of extending the project for an additional year. The project was completed in the current fiscal year.

Subsequent to year end, the organization entered into an agreement to contribute a total of \$5,000 to the Yorkton Exhibition Association for the production of a short video titled "Telling the Oat Story".

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Notes to Financial Statements
For the year ended July 31, 2017

7. Commitments and Projects - continued

In 2016, the organization entered into an agreement to provide a total of \$64,773 to the University of Saskatchewan to provide funds for a project to assess the effect of glyphosate on the quality of milling oats. The organization is obligated to provide \$15,077 in 2016, \$27,077 in 2017 and \$22,620 in 2018. These expenses are included in research and development grant expenses.

POGA has committed to funding certain projects, of which SaskOats will provide proportionate funding based on the overall cost-sharing formula as agreed upon between the parties as detailed in note 6. POGA's commitments are as follows:

Project	Terms
Oats Improve the Gastrointestinal Health of Horses	<ul style="list-style-type: none"> - \$116,106 denoted in US dollars commencing August 1, 2015 and ending August 1, 2017, \$75,730 in Canadian dollars of which was expended in the current year (\$152,151 to date) - POGA is eligible for up to \$110,000, denoted in Canadian dollars, in grant funds for this project
Developing Superior Oat Cultivars and Prairie Oat Breeding Consortium	<ul style="list-style-type: none"> - \$1,098,581 over five years commencing April 1, 2013, \$225,143 of which was expended in the current year (\$927,203 to date) - The Prairie Oat Breeding Consortium, a group of oat industry stakeholders, has agreed to provide funds towards POGA's commitments to this project via annual membership fees
Post Doctoral Researcher	<ul style="list-style-type: none"> - \$150,000 over two years commencing April 1, 2017, \$25,000 of which was expended in the current year - POGA has received \$33,295, in funding from industry partners for this project
Development of Oat Cultivars (Oat Advantage)	<ul style="list-style-type: none"> - \$20,000 annually over five years commencing April 1, 2013, with a two-year extension option, \$20,000 of which was expended in the current year (\$100,000 to date)
Occurrence and Fate of Toxigenic Fungi and their Associated Mycotoxins in Saskatchewan-grown Oats and Oat Milling Projects	<ul style="list-style-type: none"> - \$311,695 over four years commencing April 2014, \$96,159 of which was expended in the current year (\$296,910 to date) - POGA is eligible for up to \$233,722 in grant funds for this project, \$76,678 of which was received in the current year (\$219,062 to date)
Transposon-Mediated Activation Tagging in Oat	<ul style="list-style-type: none"> - \$197,801 over four years commencing April 1, 2014, \$50,600 of which was expended in the current year (\$149,500 to date) - POGA is eligible for up to \$151,000 in grant funds for this project, \$38,737 of which was received in the current year (\$114,486 to date)

**Saskatchewan Oat Development Commission
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Notes to Financial Statements
For the year ended July 31, 2017

7. Commitments and Projects - continued

Project	Terms
Crop Sequencing of Large Acreage Crops	- \$32,500 commencing December 5, 2014 and ending July 20, 2020, \$10,000 of which was expended in the current year (\$22,500 to date)
Investigation of Avenanthramides	- \$90,000 commencing December 5, 2014 and ending December 31, 2017, \$30,000 of which has been expended during the year (\$80,000 to date)
Breeding for Resistance to Leaf Blotch Pathogens in Saskatchewan Oats	- \$45,000 commencing December 5, 2014 and ending November 15, 2017, \$15,000 of which was expended during the year (\$30,000 to date)
Developing New Strategies to Efficiently Utilize Oat Grains in High Production Dairy Cows	- \$228,290 commencing September 2, 2017 and ending August 30, 2023, \$28,750 of which was expended in the current year - Funds are to be used by the University on a matching basis, with the other 50% of the project funded by the Natural Sciences and Engineering Research Council of Canada (NSERC)
Crown Rust Initiative	- Maximum of \$100,000 denoted in US dollars commencing October 1, 2015 and ending July 1, 2019. No payments were made in the current year (\$27,466 to date).
Mitigating Mycotoxins in the Canadian Food Value Chain	- \$40,000 plus GST, commencing March 31, 2016 and ending March 31, 2018, \$14,000 of which was expended during the year (\$28,000 to date)
Estimation of Beta Glucans Content and Yield of Seeds from Different Oat Varieties in Alberta	- \$35,500 over two years commencing April 1, 2017, \$8,875 of which was expended during the year - POGA has received \$11,000, in funding from industry partners for this project
Development of an Oat Based Beverage Rich in Dietary Fibre and Protein	- \$60,000 commencing July 1, 2016 and ending August 31, 2019. No expenses have been incurred to date.
Development of the Mexican Oat Market	- \$341,000 by March 31, 2018, \$143,649 of which was expended in the current year (\$263,696 to date) - POGA is eligible for up to \$161,250 in grant funds for this project, \$73,942 of which was recognized in the current year (\$131,186 to date)

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Notes to Financial Statements
For the year ended July 31, 2017

7. Commitments and Projects - continued

Project	Terms
USA Marketing Campaign	<ul style="list-style-type: none">- \$284,000 by March 31, 2018, \$67,476 of which was expended in the current year- POGA is eligible for up to \$143,250 in grant funds for this project, \$65,612 was recognized in the current year- POGA has received \$75,000, in funding from industry partners for this project
Grain Safety Sponsorship	<ul style="list-style-type: none">- \$10,000 commencing July 19, 2016 and ending August 31, 2017, \$2,500 of which was expended during the year (\$5,000 to date)
Online Growers Manual	<ul style="list-style-type: none">- \$15,000 plus an additional \$5,000 for additional costs if needed, commencing June 2, 2016 and ending July 30, 2017. No expenses have been incurred by POGA to date.- POGA is eligible for up to \$10,000, in grant funds for this project
Development of Oat Research Strategy	<ul style="list-style-type: none">- \$16,950 for services to occur in the fiscal 2018 year- POGA is eligible for up to \$10,000 in grant funds for this project

8. Budget

The figures shown under the "Budget" column in the statement of operations are provided for information purposes only.