

**Saskatchewan Oat Development Commission
operating as SaskOats**

FINANCIAL STATEMENTS

Year Ended July 31, 2018

Saskatchewan Oat Development Commission

Regina, Saskatchewan

July 31, 2018

Table of Contents

	Page
Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Operations	3
Statement of Cash Flows	4
Notes to Financial Statements	5-11
Independent Auditors' Report on Internal Controls	12
Auditors' Report on Legislative Compliance	13



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, 2018, and the Statements of Operations, Changes in Net Assets 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 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, 2018, 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
December 5, 2018

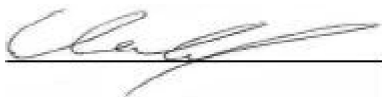
Saskatchewan Oat Development Commission

Regina, Saskatchewan

Statement of Financial Position as at July 31, 2018

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	344,607	382,866
Short-term investments - note 4	1,087,500	1,250,500
Accounts receivable	175,680	64,232
Accrued interest receivable	10,518	6,514
Prepaid expenses	1,021	1,021
	<u>1,619,326</u>	<u>1,705,133</u>
Capital Assets - note 5	<u>1,088</u>	<u>1,682</u>
	<u>\$ 1,620,414</u>	<u>\$ 1,706,815</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	<u>60,082</u>	<u>104,629</u>
Net Assets, Unrestricted		
Balance, beginning of year	1,602,186	1,773,060
Add: Excess (deficiency) of revenue over expenses for the year	<u>(41,854)</u>	<u>(170,874)</u>
Balance, end of year	<u>1,560,332</u>	<u>1,602,186</u>
	<u>\$ 1,620,414</u>	<u>\$ 1,706,815</u>

Approved on behalf of the board:



Saskatchewan Oat Development Commission

Statement of Operations
For the year ended July 31, 2018

	Budget	2018	2017
Revenue			
Producer check-off fees	845,000	714,309	684,151
Less: Producer check-off refunds	(50,700)	(56,535)	(41,370)
	<u>794,300</u>	<u>657,774</u>	<u>642,781</u>
Grants		38,796	
Investment and other income	9,000	14,830	11,359
	<u>803,300</u>	<u>711,400</u>	<u>654,140</u>
Expenses			
Amortization		594	49
Board of Directors	16,000	12,568	16,187
Communications - education	21,100	15,000	16,000
Grants for capital purchases	13,000	11,824	156,284
Levy administration fees	26,500	24,947	24,915
Producer meetings	9,000	9,103	7,981
Proportionate expenses of POGA - note 6	608,000	504,400	458,758
Research and development grants - note 7	158,410	157,864	133,077
General and administrative:	8,600		
Election expense		225	
Interest and bank charges		14	203
Memberships		1,500	1,500
Newsletter, promotion and website		8,013	3,197
Office and other administrative		1,319	1,308
Professional fees		5,883	5,555
	<u>860,610</u>	<u>753,254</u>	<u>825,014</u>
Excess (Deficiency) of Revenue Over Expenses for the Year	<u>\$(57,310)</u>	<u>\$(41,854)</u>	<u>\$(170,874)</u>

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

Saskatchewan Oat Development Commission

Statement of Cash Flows
For the year ended July 31, 2018

	2018	2017
Cash Provided By (Used In):		
Operations		
Excess (deficiency) of revenue over expenses for the year	(41,854)	(170,874)
Add items not requiring cash resources		
Amortization	594	49
Net change in working capital	(159,999)	7,641
	<u>(201,259)</u>	<u>(163,184)</u>
Investing activities		
Additions to short-term investments	(1,104,000)	(1,541,189)
Proceeds on disposal of short-term investments	1,267,000	1,304,870
	<u>163,000</u>	<u>(236,319)</u>
Net Cash Increase (Decrease) for the Year	(38,259)	(399,503)
Cash position, beginning of year	<u>382,866</u>	<u>782,369</u>
Cash Position, End of Year	<u>\$ 344,607</u>	<u>\$ 382,866</u>
Represented By:		
Cash and cash equivalents	<u>\$ 344,607</u>	<u>\$ 382,866</u>
Net change in working capital consists of:		
Decrease (increase) - accounts receivable	(111,448)	27,506
- other current assets	(4,004)	(2,483)
Increase (decrease) - accounts payable and accrued liabilities	(44,547)	(17,382)
	<u>\$(159,999)</u>	<u>\$ 7,641</u>

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

Saskatchewan Oat Development Commission

Notes to Financial Statements
For the year ended July 31, 2018

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.

Saskatchewan Oat Development Commission

Notes to Financial Statements
For the year ended July 31, 2018

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.

Significant estimates have been made in the following financial statement areas:

- expected service lives of capital assets
- grant revenues are recognized when management determines that the criteria for earning the funding has been met; however, the final determination of the qualification of expenses for funding commitments is determined by the granting body

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.

Saskatchewan Oat Development Commission

Notes to Financial Statements
For the year ended July 31, 2018

	2018	2017
4. Short-Term Investments		
Description - GICs maturing within 6 months of year end		
Measurement basis - amortized cost		
Significant terms - rates 1.0% to 1.6% (2017 - 0.35% - 0.9%)	637,500	800,500
Description - GICs maturing within 6 to 12 months of year end		
Measurement basis - amortized cost		
Significant terms - rates 2.03% (2017 - 0.9%)	<u>450,000</u>	<u>450,000</u>
	<u>\$ 1,087,500</u>	<u>\$ 1,250,500</u>

5. Capital Assets

	Cost	Accumulated Amortization	Net Book Value 2018	Net Book Value 2017
Furniture, fixtures and equipment	<u>\$ 1,781</u>	<u>\$ 693</u>	<u>\$ 1,088</u>	<u>\$ 1,682</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 in the fiscal year. The proportionate share of the actual costs attributable to each organization was determined at two points in the prior 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	2018	2017
Assets		
Accounts receivable - POGA (overpayment of funding contributions)	\$ 96,872	\$ 1,342
Liabilities		
Accounts payable (Board of Director expenses)	1,352	
Expenses		
Proportionate expenses of POGA	504,400	458,758

Saskatchewan Oat Development Commission

Notes to Financial Statements
For the year ended July 31, 2018

6. Transactions with Related Parties - continued

In the current year, SaskOats' share of POGA's net operating deficit from August 1, 2017 - July 31, 2018 is 57% (63% from August 1, 2016 - March 22, 2017 and 71% from March 22, 2017 - July 31, 2017, in the prior year annual allocation). A summary of POGA's total revenues and expenses appears below:

	2018	2017
Revenues before funding contributions:		
Grant revenues	245,562	311,685
POBC contributions	147,931	221,776
Other revenues	98,234	139,804
	<u>491,727</u>	<u>673,265</u>
Expenses:		
Research projects	469,932	564,253
Market development projects	370,814	350,604
Communications expenses	79,605	92,362
General operating expenses	432,551	375,228
	<u>1,352,902</u>	<u>1,382,447</u>
Deficiency of Revenue over Expenses before Funding Contributions	(861,175)	(709,182)
Funding contributions:		
MOGA	241,449	180,068
SaskOats	504,400	458,758
AOGC	115,326	70,356
	<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 the 2018 year, the project term was amended to conclude January 31, 2019. These expenses are included in research and development grant expenses.

Subsequent to year end, the organization entered into a new agreement with the University of Saskatchewan to provide annual payments of \$75,000 for the five-year period commencing April 1, 2019 and ending March 31, 2024 for an oat breeding research project.

In 2016, the organization committed to budget a maximum of \$12,000 per year for three years to post registration variety performance trials by the Saskatchewan Variety Performance Group. Actual costs are determined and invoiced annually. The current year's \$8,600 expense is included in research and development grant expenses.

In the 2018 year, 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". The contribution is included in current year promotion expenses.

Saskatchewan Oat Development Commission

Notes to Financial Statements
For the year ended July 31, 2018

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. This project was concluded in the current year. These expenses are included in research and development grant expenses.

In 2018, the organization applied for three ADOPT grants on behalf of Agri-arm locations across the province for the research period commencing April 1, 2018 and ending March 31, 2019. The organization received and disbursed \$8,840 for the project entitled, "Managing Fertilizer use to Optimize Yield and Quality of Oat" (total project \$11,050), \$13,456 for the project entitled, "Oat Vigour Improves with Larger Seed Size" (total project \$16,820), and \$6,500 for the project entitled, "Improving Oat Yields in Intensive Agronomy" (total project \$8,125). These expenses are included in research and development grant expenses.

In 2018, the organization committed to providing a total of \$30,000 to the Northeast Agriculture Research Foundation (NARF), commencing May 1, 2018 and ending June 30, 2021, for a research project entitled, "Improved Integrated Disease Management for Oats in Saskatchewan". The organization is obligated to provide funding of \$10,000 annually upon receipt of an invoice from NARF. No expenses for this project have been recognized in the current year.

In 2018, the organization committed to providing a total of \$10,264 to the Saskatchewan Soil Conservation Association, commencing December 5, 2017 and ending April 1, 2020, for a research project entitled, "Monitoring SOC on commercial direct-seeded fields across Saskatchewan". The organization is obligated to provide funding of \$7,848 in F2018, \$1,812 in F2019 and \$604 in F2020. The current year contribution is included in research and development grant expenses.

In 2018, the organization entered into an agreement on behalf of POGA for the completion of a strategy for ongoing research with a focus of encompassing the needs of the entire value chain, and facilitate a strategy session with the oat value chain, including oat growers. The project is eligible for a grant of up to \$10,000 from the Government of Saskatchewan as represented by the Ministry of Agriculture through the Ministry's Industry Organization Development Fund. The expenses are included in research and development grant expenses. This project was completed in the current fiscal year.

Saskatchewan Oat Development Commission

Notes to Financial Statements
For the year ended July 31, 2018

7. Commitments and Projects - continued

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
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, \$171,379 of which was expended in the current year. The initial phase of the project was completed in the current fiscal year; however, a new project agreement was signed under the above arrangement for \$1,189,750 over five years commencing April 1, 2018. No payments were made under the new arrangement in the current year. - 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 funding agreement.
Post Doctoral Researcher	<ul style="list-style-type: none"> - \$112,500 over the period commencing April 1, 2017 and ending October 31, 2018, \$75,000 of which was expended in the current year (\$100,000 to date). - POGA has received \$33,295 per year in funding from industry partners for this project (\$66,590 to date).
Development of Oat Cultivars (Oat Advantage)	<ul style="list-style-type: none"> - \$20,000 annually over eight years commencing April 1, 2013, \$20,000 of which was expended in the current year (\$120,000 to date).
Investigation of Avenanthramides	<ul style="list-style-type: none"> - \$90,000 commencing December 5, 2014 and ending December 31, 2018. No payments were made in the current year (\$80,000 to date).
Developing New Strategies to Efficiently Utilize Oat Grains in High Production Dairy Cows	<ul style="list-style-type: none"> - \$228,290 commencing September 2, 2017 and ending August 30, 2023. No payments were made in the current year (\$28,750 to date). - 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	<ul style="list-style-type: none"> - Maximum of \$100,000 denoted in US dollars commencing October 1, 2015 and ending June 30, 2020. No payments were made in the current year (\$27,466 CAD to date).

Saskatchewan Oat Development Commission

Notes to Financial Statements
For the year ended July 31, 2018

7. Commitments and Projects - continued

Project	Terms
Estimation of Beta Glucans Content and Yield of Seeds from Different Oat Varieties in Alberta	<ul style="list-style-type: none"> - \$36,250 over two years commencing April 1, 2017, \$18,125 of which was expended during the year (\$27,000 to date). - POGA has received \$11,750 in funding from industry partners for this project this year (\$22,750 to date).
Development of an Oat-Based Beverage Rich in Dietary Fibre and Protein	<ul style="list-style-type: none"> - \$60,000 commencing July 1, 2016 and ending August 31, 2019, \$45,000 of which was expended during the year (\$45,000 to date).
Development of the Mexican Oat Market	<ul style="list-style-type: none"> - \$341,000 by March 31, 2018, \$83,659 of which was expended in the current year. The initial phase of the project was completed in the current fiscal year; however, a new agreement for this project signed in the year commencing April 1, 2018 for \$633,000 to be spent by March 31, 2021, \$59,700 of which was expended in the current year. - POGA is eligible for up to \$161,250 in grant funds for the initial phase of this project, \$32,407 of which was recognized in the current year. POGA is eligible for up to \$348,150 in grant funds for the second phase, \$32,835 of which was recognized in the current year.
Grain Safety Sponsorship	<ul style="list-style-type: none"> - \$10,000 commencing July 19, 2016 and ending August 31, 2017, \$5,000 of which was expended during the year, concluding the initial agreement. - \$10,000 commencing August 1, 2018 and ending September 30, 2020. No payments were made in the current year.
Expanding the Canadian Oat Market - China Project	<ul style="list-style-type: none"> - \$262,000 by March 31, 2021, \$54,827 of which was expended in the current year . - POGA is eligible for up to \$102,300 in grant funds for this project; \$17,777 is which was recognized in the current year.
Monitoring Pests and Fusarium Head Blight Risk Model	<ul style="list-style-type: none"> - \$22,500 over five years commencing April 1, 2018 and ending March 31, 2023. No payments were made in the current year.

8. Budget

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