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Financial statements of  
SK Livestock Finance  
Co-operative Ltd.

August 31, 2020

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## Independent Auditor's Report

To the Members of  
SK Livestock Finance Co-operative Ltd.

### Opinion

We have audited the financial statements of SK Livestock Finance Co-operative Ltd. (the "Co-operative"), which comprise the balance sheet as at August 31, 2020, and the statements of income and retained deficit and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Co-operative as at August 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises ("ASPE").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Co-operative in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with ASPE, 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.

In preparing the financial statements, management is responsible for assessing the Co-operative's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Co-operative or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Co-operative's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Co-operative's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Co-operative's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Co-operative to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Deloitte LLP*

Chartered Professional Accountants  
February 17, 2021  
Regina, Saskatchewan

**SK Livestock Finance Co-operative Ltd.****Balance sheet**

As at August 31, 2020

	Notes	2020 \$	2019 \$
<b>Assets</b>			
Current assets			
Cash	4	8,473,806	—
Investments	5	99,384	—
Members' loans	6	25,506,309	—
Accounts receivable		—	3,952
Prepaid expenses		—	4,742
		<b>34,079,499</b>	8,694
Members' loans	6	<b>38,077,739</b>	—
Property and equipment	7	<b>18,214</b>	—
<b>Total assets</b>		<b>72,175,452</b>	8,694
<b>Liabilities</b>			
Current liabilities			
Loans payable	8	64,439,103	1,500
Bank indebtedness	9	—	142,550
Accounts payable and accrued liabilities		342,999	35,538
Assurance fund deposits	10	7,488,727	—
Deferred revenue		—	150
		<b>72,270,829</b>	179,738
<b>Members' equity</b>			
Retained deficit		<b>(95,377)</b>	(171,044)
<b>Total Liabilities and Members' equity</b>		<b>72,175,452</b>	8,694

The accompanying notes are an integral part of the financial statements.

Approved by the Board

DocuSigned by:



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, Director

DocuSigned by:



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, Director

**SK Livestock Finance Co-operative Ltd.**  
**Statement of income and retained deficit**  
Year ended August 31, 2020

	Notes	2020 \$	2019 \$ (Five months)
<b>Revenue</b>			
Interest income		1,798,583	—
Purchasing fees		303,206	—
Membership application fees		100,333	120,500
Ministry of Agriculture government grant		130,300	120,000
Inventory fees		124,590	—
Investment income		43,900	—
Other		19,292	6,127
		<b>2,520,204</b>	<b>246,627</b>
<b>Expenses</b>			
Interest expense		1,160,770	—
Salaries, wages and benefits		505,378	50,570
Region expenses		247,858	—
Professional fees		181,866	250,850
Administration		213,373	22,386
Office		89,551	14,879
Legal		43,860	37,236
Personal Property Security Act ("PPSA") charges		10,678	41,750
Depreciation		1,777	—
		<b>2,455,111</b>	<b>417,671</b>
Income from operations		<b>65,093</b>	<b>(171,044)</b>
<b>Other income</b>			
Government assistance	11	10,574	—
Net income (loss) before taxes		<b>75,667</b>	<b>(171,044)</b>
Income taxes	12	—	—
<b>Net income (loss)</b>		<b>75,667</b>	<b>(171,044)</b>
Retained deficit, beginning of year		<b>(171,044)</b>	—
<b>Retained deficit, end of year</b>		<b>(95,377)</b>	<b>(171,044)</b>

The accompanying notes are an integral part of the financial statements.

**SK Livestock Finance Co-operative Ltd.****Statement of cash flows**

Year ended August 31, 2020

	2020 \$	2019 \$
		(Five months)
<b>Operating activities</b>		
Net income (loss)	<b>75,667</b>	(171,044)
Adjustments for non-cash items		
Depreciation	<b>1,777</b>	—
Adjustments for net changes in operating assets and liabilities		
Change in members' loans	<b>(63,584,048)</b>	—
Change in assurance fund deposits	<b>7,488,727</b>	—
Net change in		
Accounts receivable	<b>3,952</b>	(3,952)
Prepaid expenses	<b>4,742</b>	(4,742)
Accounts payable and accrued liabilities	<b>307,461</b>	35,538
Deferred revenue	<b>(150)</b>	150
	<b>(55,701,872)</b>	(144,050)
<b>Financing activities</b>		
Proceeds from loans payable	<b>64,439,103</b>	1,500
Repayment of loans payable	<b>(1,500)</b>	—
	<b>64,437,603</b>	1,500
<b>Investing activities</b>		
Purchase of property and equipment	<b>(19,991)</b>	—
Purchase of investments	<b>(99,384)</b>	—
	<b>(119,375)</b>	—
Net increase (decrease) in cash	<b>8,616,356</b>	(142,550)
Cash (Bank indebtedness), beginning of year	<b>(142,550)</b>	—
<b>Cash (Bank indebtedness), end of year</b>	<b>8,473,806</b>	(142,550)

The accompanying notes are an integral part of the financial statements.

**SK Livestock Finance Co-operative Ltd.****Notes to the financial statements**August 31, 2020

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**1. Description of business**

SK Livestock Finance Co-operative Ltd. (the "Co-operative") was incorporated as a co-operative corporation under *The Co-operatives Act, 1996* (the "Act") on March 29, 2019 to replace the Saskatchewan Ministry of Agriculture Livestock Loan Guarantee Program, which ceased active operations on July 31, 2019. In accordance with the Act, there is no share capital in the Co-operative. However, the interest of each member is the same as that of every other member.

The Co-operative's principal business activity is to provide financing and supervisory services for Saskatchewan livestock producers. The Co-operative's financing programs for livestock is largely modeled off the previous Saskatchewan Ministry of Agriculture Livestock Loan Guarantee Program. The Co-operative borrows funds from the lender and in turn loans the funds to members subject to the restrictions and limitations specified under the Co-operative's Policies & Procedures Manual.

On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. The duration and impact of COVID-19 is unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the Co-operative in future periods. The Co-operative applied for government assistance as disclosed in Note 11.

**2. Significant accounting policies**

These financial statements have been prepared in accordance with Canadian accounting standards for private enterprises ("ASPE") and reflect the following significant accounting policies:

*(a) Use of estimates*

The preparation of financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. The main estimates relate to the allowance for impairment of members' loans and the useful life of property and equipment. Actual results could differ from those estimates.

*(b) Financial instruments*

Financial assets and financial liabilities are initially recognized at fair value when the Co-operative becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost.

Transaction costs related to other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the straight-line method.

With respect to financial assets measured at cost or amortized cost, the Co-operative recognizes in net earnings an impairment loss, if any, when there are indicators of impairment and it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to net earnings in the period the reversal occurs.



## **SK Livestock Finance Co-operative Ltd.**

### **Notes to the financial statements**

August 31, 2020

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## **2. Significant accounting policies (continued)**

### *(c) Revenue recognition*

Interest income earned and charged on members' loans are recognized within interest income using the straight-line method over the term of the members' loan.

Purchasing fees and inventory fees are recognized as services are provided.

Ministry of Agriculture grant revenue is recognized when collection is reasonably assured and compliance with the provisions of the grant are met.

Membership application fees are recognized upon the date that the membership application is received in exchange for the service of processing the application form, as that is when collection is reasonably assured, performance is achieved, and reasonable assurance exists regarding the measurement of the consideration.

Investment transactions are recognized on the transaction date. Gains or losses on the disposal of investments measured at cost or amortized cost are determined using the weighted average cost method. Investment income is recognized in the period in which it is earned.

Government assistance related to non-capital items is recognized as revenue when received.

### *(d) Income taxes*

The Co-operative follows the taxes payable method of accounting for income taxes. Under this method, only current income taxes for the period, determined in accordance with the rules established by taxation authorities are recognized as an expense.

### *(e) Cash*

Cash consist of cash on hand and bank balances. Bank indebtedness include overdrafts on bank accounts with a balance that fluctuates from being positive to overdraft. The use of amounts in Cash – Assurance Fund is restricted as the Co-operative cannot use this cash for day-to-day transactions.

## **3. Financial instruments and risk management**

### *(a) Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets and liabilities, known as price risk.

The Co-operative is exposed to interest rate cash flow risk with respect to its loans payable, which is expected to be realized within one year. The Co-operative is not exposed to interest rate price risk.

**SK Livestock Finance Co-operative Ltd.****Notes to the financial statements**

August 31, 2020

**3. Financial instruments and risk management (continued)***(b) Credit risk*

Credit risk is the risk that one party to a financial asset will cause a financial loss for the Co-operative by failing to discharge an obligation. The Co-operative's principal financial assets are members' loans, which are subject to credit risk. The carrying amount of financial assets on the balance sheet represents the Co-operative's maximum credit exposure at the balance sheet date. The wide number of members mitigate the Co-operative's exposure to this risk.

*(c) Liquidity risk*

Liquidity risk is the risk that the Co-operative will encounter difficulty in meeting obligations with financial liabilities. The Co-operative's objective is to have sufficient liquidity to meet its liabilities when due. The Co-operative monitors its cash balances and cash flows generated from operations to meet its requirements. As at August 31, 2020, the Co-operative's principal financial liabilities are: loans payable, assurance fund deposits and accounts payable and accrued liabilities.

**4. Cash**

	<b>2020</b>	2019
	\$	\$
Cash - operating (Bank indebtedness)	<b>1,685,192</b>	(142,550)
Cash - Assurance fund: Feeder*	<b>1,882,388</b>	—
Cash - Assurance fund: Breeder*	<b>4,906,226</b>	—
	<b>8,473,806</b>	(142,550)

\*Denotes restricted cash, which are not available for use in the Co-operative's day-to-day operations.

**5. Investments**

	<b>2020</b>	2019
	\$	\$
GICs - operating	<b>2,197</b>	—
GICs - Assurance fund: Feeder*	<b>20,625</b>	—
GICs - Assurance fund: Breeder*	<b>76,562</b>	—
	<b>99,384</b>	—

\*Denotes restricted investments, which are not available for use in the Co-operative's day-to-day operations.

**SK Livestock Finance Co-operative Ltd.****Notes to the financial statements**

August 31, 2020

**6. Members' loans**

	2020 \$	2019 \$
Feeder program	23,688,689	—
Breeder program	38,413,347	—
	<b>62,102,036</b>	—
Accrued interest	1,482,012	—
	<b>63,584,048</b>	—
Less: current portion	<b>(25,506,309)</b>	—
	<b>38,077,739</b>	—

**7. Property and equipment**

	Cost \$	Accumulated depreciation \$	2020 Net book value \$	2019 Net book value \$
Leasehold improvements	16,661	(1,111)	15,550	—
Furniture and equipment	3,330	(666)	2,664	—
	<b>19,991</b>	<b>(1,777)</b>	<b>18,214</b>	—

**8. Loans payable**

The Co-operative has access to the following credit facilities by way of an executed loan agreement signed on September 18, 2019:

The Co-operative has access to an overdraft lending facility with an authorized limit of \$70,000,000, by way of prime loans bearing interest at bank prime, Bankers' Acceptance (BA) advances bearing interest at BA + 1.25%, or Canadian Dollar Offered Rate (CDOR) Loans bearing interest at CDOR plus 1.25%, with a general security agreement pledged as collateral.

The Co-operative also has access to a revolving working capital facility with an authorized limit of \$250,000, bearing interest at bank prime plus 1.00%, with a general security agreement pledged as collateral. These facilities are due on demand. The Co-operative has drawn from its overdraft lending facility as at August 31, 2020, with maturities ranging from September 1, 2020 to October 19, 2020 and interest rates ranging from 1.7475% - 1.7775%.

The loan agreement sets out certain covenants to be maintained by the Co-operative. Currently the Co-operative is in breach of its reporting requirements, whereby audited financial statements are due within 120 days of the end of each fiscal year. The Co-operative has already classified its loans payable as current liabilities due to its demand feature.

**SK Livestock Finance Co-operative Ltd.****Notes to the financial statements**August 31, 2020

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**9. Bank indebtedness**

The Co-operative had access to the following credit facilities by way of an authorized term sheet signed on July 18, 2019. The Co-operative had access to an overdraft lending facility with an authorized limit of \$70,000,000, by way of prime loans bearing interest at bank prime, with a general security agreement pledged as collateral. The Co-operative also had access to a revolving working capital facility with an authorized limit of \$250,000, bearing interest at bank prime plus 1.00%, with a general security agreement pledged as collateral. These facilities were due on demand. The Co-operative had drawn from its revolving working capital facility as at August 31, 2019.

Subsequent to August 31, 2019, the Co-operative executed the loan agreement with the bank dated September 18, 2019 in Note 8.

**10. Assurance fund deposits**

	<b>2020</b>	2019
	<b>\$</b>	<b>\$</b>
Feeder program	<b>2,011,526</b>	—
Breeder program	<b>5,477,201</b>	—
	<b><u>7,488,727</u></b>	<b><u>—</u></b>

In accordance with the Assurance Fund Bylaw, the Co-operative maintains an assurance fund for each commodity consisting of monies contributed by members in accordance with the program agreements. The assurance fund is maintained separately from all other operating funds and accounts, and may be used to pay amounts due to the Co-operative's lender with respect to the purchase of livestock on behalf of a member as a result of default under the program agreements. Upon cessation of membership, the assurance fund deposits are returned to the member on a pro-rated share basis. Assurance fund deposits of 5% for the feeder program and 10% for the breeder program are required upon member loan issuance.

**11. Government assistance**

Government assistance relates to COVID-19 and the federal wage subsidy (Temporary Wage Subsidy) available for those entities that qualify. The program provides a subsidy of up to \$1,325 for each eligible employee for the period from March 18, 2020 to June 19, 2020.

**SK Livestock Finance Co-operative Ltd.****Notes to the financial statements**

August 31, 2020

**12. Income taxes**

The income tax expense reported differs from the amount computed by applying the Canadian statutory rate to income before taxes for the following reasons:

	<b>2020</b>	2019
	<b>\$</b>	\$
Income (loss) before income taxes	<b>75,667</b>	(171,044)
Expected income tax expense (benefit) at the combined rate of 27%	<b>20,430</b>	(46,182)
Increase (decrease) in income tax benefit resulting from:		
Difference between tax depreciation and accounting treatment	<b>6,462</b>	5,108
Loss carryforward	<b>(26,892)</b>	41,074
Income tax benefit	<b>—</b>	—

Losses of \$52,528 (\$152,127 in 2019) are available to reduce income for tax purposes until 2040.

**13. Related party transactions**

Transactions with related parties were conducted in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Transactions and balances with directors are as follows:

	<b>2020</b>	2019
	<b>\$</b>	\$
Members' loans	<b>2,549,380</b>	—
Assurance fund deposits	<b>233,242</b>	—
Salaries, wages and benefits	<b>59,076</b>	12,345
Membership application fees	<b>2,050</b>	1,200
Accounts payable and accrued liabilities	<b>—</b>	2,645
Administration	<b>—</b>	2,491