Building a better
working world

West Central Pelleting Ltd.

Financial Statements
February 28, 2018 and 2017

Independent auditors' report

To the Shareholders of
West Central Pelleting Ltd.

We have audited the accompanying financial statements of **West Central Pelleting Ltd.**, which comprise the statements of financial position as at February 28, 2018 and 2017, and the statement of income and comprehensive income, changes in equity and cash flowsfor the years 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 International Financial Reporting Standards, 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 audits. We conducted our audits 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 auditors consider internal control relevant to the management'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 management'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 in our audits 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 **West Central Pelleting Ltd.** as at February 28, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants

Saskatoon, Canada
May 23, 2018

West Central Pelleting Ltd.

Statements of financial position

As at February 28

	2018	2017
	$	$
Assets		
Current		
Cash [note 3]	**2,122,992**	1,956,538
Accounts receivable *[note 4]*	**890,665**	685,792
Inventories *[note 5]*	**1,352,513**	846,738
Prepaid expenses	**35,858**	34,198
Income taxes recoverable	**-**	168,516
Total current assets	**4,402,028**	3,691,782
Long-term investments *[note 6]*	**42,116**	40,720
Property, plant and equipment *[note 7]*	**3,390,832**	3,753,247
	7,834,976	7,485,749
Liabilities and shareholders' equity		
Current		
Accounts payable and accrued liabilities *[note 8]*	**449,969**	643,105
Deferred revenue	**61,411**	36,120
Income taxes payable	**94,305**	-
Current portion of long-term debt *[note 9]*	**331,310**	215,324
Total current liabilities	**936,995**	894,549
Long-term debt *[note 9]*	**133,824**	464,979
Deferred income taxes *[note 11]*	**95,061**	106,676
Total liabilities	**1,165,880**	1,466,204
Shareholders' equity		
Share capital *[note 10]*	**1,948,910**	1,948,910
Retained earnings	**4,720,186**	4,070,635
Total shareholders' equity	**6,669,096**	6,019,545
	7,834,976	7,485,749

See accompanying notes

On behalf of the Board

____________________ Director ____________________ Director

West Central Pelleting Ltd.

Statements of income and comprehensive income

Years ended February 28

	2018 $	2017 $
Sales	**11,567,803**	10,672,092
Cost of sales	**10,129,620**	9,584,398
Gross profit	**1,438,183**	1,087,694
Operating expenses		
Administration	**284,716**	447,748
Bad debts	**5,706**	5,811
Depreciation	**7,372**	9,324
Interest on long-term debt	**25,593**	27,973
Wages and benefits	**412,248**	377,670
	735,635	868,526
Income before the following	**702,548**	219,168
Other income (expense)		
Other income	**75,343**	150,119
Loss on foreign exchange	**(555)**	(341)
	74,788	149,778
Income before income taxes	**777,336**	368,946
Income tax (recovery) *[note 11]*		
Current	**139,400**	43,500
Deferred	**(11,615)**	5,442
	127,785	48,942
Net and comprehensive income for the year	**649,551**	320,004
Basic and diluted income per share *[note 12]*	**40.34**	19.88

See accompanying notes

West Central Pelleting Ltd.

Statements of changes in equity

Years ended February 28, 2018 and 2017

	Share capital	Retained earnings	Total
	$	$	$
Balance, February 29, 2016	1,948,910	4,072,631	**6,021,541**
Net and comprehensive income for the year	-	320,004	**320,004**
Dividends	-	(322,000)	**(322,000)**
Balance, February 28, 2017	1,948,910	4,070,635	**6,019,545**
Net and comprehensive income for the year	-	**649,551**	**649,551**
Balance, February 28, 2018	**1,948,910**	**4,720,186**	**6,669,096**

See accompanying notes

West Central Pelleting Ltd.

Statements of cash flows

Years ended February 28

	2018	2017
	$	$
Operating activities		
Net and comprehensive income for the year	**649,551**	320,004
Items not involving cash		
Depreciation	**368,949**	379,948
Deferred income taxes	**(11,615)**	5,442
Net change in non-cash working capital balances		
Accounts receivable	**(204,873)**	(56,017)
Inventories	**(505,775)**	649,886
Prepaid expenses	**(1,660)**	7,837
Income taxes recoverable	**168,516**	(168,516)
Accounts payable and accrued liabilities	**(193,137)**	851
Deferred revenue	**25,291**	(19,976)
Income taxes payable	**94,305**	(253,733)
Cash provided by operating activities	**389,552**	865,726
Investing activities		
Purchase of long-term investments	**(1,395)**	-
Additions to property, plant and equipment	**(6,534)**	(655,234)
Cash used in investing activities	**(7,929)**	(655,234)
Financing activities		
Repayment of long-term debt	**(215,169)**	(271,487)
Proceeds from issuance of long-term debt	**-**	218,048
Dividends	**-**	(322,000)
Cash used in financing activities	**(215,169)**	(375,439)
Net increase (decrease) in cash during the year	**166,454**	(164,947)
Cash, beginning of year	**1,956,538**	2,121,485
Cash, end of year	**2,122,992**	1,956,538

See accompanying notes

Notes to the financial statements

February 28, 2018 and 2017

1. Nature of operations

West Central Pelleting Ltd. [the "Company"] was incorporated on February 9, 1996, under the laws of Saskatchewan. The Company has operations in Wilkie, Saskatchewan and Wolseley, Saskatchewan, which process grain screenings and feed grains into livestock feed.

The Company is located in the province of Saskatchewan, Canada with its head office in Wilkie, Saskatchewan at a postal address of Box 298, 313-2nd Avenue East.

2. Summary of significant accounting policies

Basis of presentation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ["IFRS"], as issued by the International Accounting Standards Board ["IASB"].

The financial statements were authorized for issuance by the Board of Directors of the Company on May 23, 2018.

The financial statements have been prepared using the historical cost basis, except for certain items which are measured at fair value, as explained in note 2, fair value of financial instruments.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2, use of estimates and judgments. The Company has also determined that there is only one operating segment which represents the Company's total profits, assets, liabilities all of which are operated in Saskatchewan.

The financial statements are presented in Canadian dollars, which is the Company's functional currency.

Cash and cash equivalents

Cash and cash equivalents are defined as cash and highly liquid investments, consisting primarily of term deposits, with terms to maturity of three months or less at the date of purchase.

Accounts receivable

Accounts receivable are reviewed for collectability at each reporting period. If it is determined that it is probable that the receivable will not be collected, an allowance for doubtful accounts is recognized and bad debt expense is charged to income.

Inventories

Finished product is valued at the lower of cost and net realizable value and includes variable and fixed production overhead incurred in the production of product allocated based on normal production capacity. All other inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method.

2. Summary of significant accounting policies [continued]

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation, accumulated impairment losses and related tax credits. Depreciation is calculated on a straight-line basis to write-off the cost of each depreciable item of property, plant and equipment to its residual value over its estimated useful life at the following annual rates:

Buildings	25 years
Computer equipment	3.3 years
Equipment	10 years
Paving	12.5 years

The carrying amount of the Company's property, plant and equipment are reviewed at each reporting date for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of the impairment, if any. The recoverable amount of an asset is evaluated at the Cash Generating Unit ["CGU"] level, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

An impairment loss is recognized in earnings for the period to the extent that the carrying amount of the asset, or CGU, exceeds the recoverable amount.

Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset, or CGU, does not exceed the carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the asset, or CGU.

A reversal of an impairment loss is recognized immediately in earnings.

Accounts payable and accrued liabilities

Accounts payable are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. Such liabilities are subsequently carried at amortized cost and because of their short-term nature they are not discounted. The amounts are unsecured and typically are paid within 30 days of recognition.

Borrowing costs

Borrowing costs directly attributable to an acquisition, construction or production of a qualifying asset, are added to the cost of these assets. Other borrowing costs are expensed.

Notes to the financial statements

February 28, 2018 and 2017

2. Summary of significant accounting policies [continued]

Taxation

Income tax expense is comprised of current and deferred taxes, which are recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years.

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts and amounts used for tax purposes. These amounts are measured using enacted or substantively enacted tax rates at the reporting date and are remeasured annually for rate changes. Deferred income tax assets are recognized for the benefit of deductions available to be carried forward to future periods for tax purposes to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Any effect of the remeasurement or reassessment is recognized in the period of change, except when they relate to items recognized directly in profit or loss in other comprehensive income.

Deferred taxes are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same taxable entity, or for different tax entities where the Company intends to settle its current tax assets and liabilities on a net basis or simultaneously.

Revenue recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received, or receivable, taking into account contractually defined terms of payment and excluding taxes or duties. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as agent only on the freight charges where the Company recovers the cost from its customers.

Revenue from the sale of goods is recognized when significant risks and rewards of ownership are transferred to the customer, collection of the related receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. This happens at the time of shipment.

Notes to the financial statements

February 28, 2018 and 2017

2. Summary of significant accounting policies [continued]

Financial instruments

All financial instruments are initially recognized at fair value. Transaction costs are included in the initial carrying amount, except in the case of financial assets and liabilities classified as fair value through profit or loss, in which case they are expensed as incurred. The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the instruments were acquired and the item's characteristics. The Company uses settlement date accounting for regular way contracts when recording financial asset transactions. All financial instruments are classified as fair value through profit or loss, loans and receivables, held to maturity, available for sale or other financial liabilities.

The most significant uses of financial instruments are as follows:

Fair value through profit or loss

Financial assets and financial liabilities are classified as fair value through profit loss "FVTPL" when the instrument is held for trading or is initially designated as FVTPL. Financial instruments which are purchased for the intention of generating profits in the near term are classified as held for trading. Financial assets and financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized immediately in profit or loss.

The Company has classified the following financial asset as FVTPL: cash.

Loans and receivables

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment. Interest income, calculated using the effective interest rate method, is recognized in profit or loss.

The Company has classified the following financial asset as loans and receivables: accounts receivable.

Held to maturity

Held to maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intention and ability to hold until the maturity date and which are not designated as another category. Held to maturity financial assets are subsequently measured at amortized cost using the effective interest method, less any impairment, with interest revenue recognized in profit or loss.

The Company has no financial assets classified as held to maturity.

Available for sale

Available for sale financial assets are non-derivative financial assets that are designated as available for sale and are not classified in any of the previous categories. Financial assets classified as available for sale are measured at fair value with unrealized gains or losses recognized in other comprehensive income until the financial instrument is disposed of or impaired, at which time it is recognized in earnings.

The Company has classified the following financial asset as available for sale: long-term investments.

2. Summary of significant accounting policies [continued]

Financial instruments [continued]

Other financial liabilities

Other financial liabilities are those liabilities which have not been classified as FVTPL. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense, calculated using the effective interest rate method, is recognized in profit or loss.

The Company has classified the following financial liabilities as other financial liabilities: accounts payable and accrued liabilities and long-term debt.

Financial asset impairment

The Company assesses financial assets, other than those recorded at FVTPL, for indicators of impairment at each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows of the asset have been negatively affected.

Objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, default or delinquency, disappearance of an active market for the security or prolonged decline in fair value of a security.

Impairment losses on financial assets carried at amortized cost are measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets. When available for sale financial assets are considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

With the exception of available for sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed, does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent recovery in the fair value of an impaired available for sale equity instrument is recognized in other comprehensive income.

Fair value of financial instruments

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's-length transaction on the measurement date. Fair values are determined by reference to quoted bid or asking prices in an active market. In the absence of an active market, the Company determines fair value based on internal or external valuation models, such as discounted cash flow analysis or using observable market based inputs (bid and ask price) for instruments with similar characteristics and risk profiles.

2. Summary of significant accounting policies [continued]

Fair value of financial instruments [continued]

The Company classifies fair value measurement recognized in the statement of financial position using a three tier fair value hierarchy, which reflects the significance of inputs used in measuring fair value as follows:

• Level 1: Quoted prices [unadjusted] are available in active markets for identical assets or liabilities;
• Level 2: Inputs other than quoted prices in active markets [from level 1] that are observable for the asset or liability, either directly or indirectly; and
• Level 3: Valuation techniques that include significant unobservable inputs.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy. The long-term investments are classified as a level 3 investment.

Use of estimates and judgments

The preparation of the financial statements required management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements, as well as, the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The most significant uses of judgments and estimates are as follows:

Allowance for doubtful accounts

The Company must make an assessment of whether accounts receivables are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment, taking into consideration individual customer credit worthiness, current economic and agronomic trends, as well as past experience. If future collections differ from estimates, future earnings would be affected.

Inventory valuation

The Company measures its inventories at the lower of cost and net realizable value. Given that the determination of net realizable value requires management to make estimates with respect to the selling value, costs to make the sale and, in some cases, the cost of completion, there is a certain level of measurement uncertainty. Assumptions are made based on past experience and actual grading standards may be subject to change. Estimates and assumptions are also required in determination of the fair values of commodity inventories. As such, actual inventory values realized may differ from estimated carrying amounts.

Property, plant and equipment

As part of the capitalization process, management must estimate the expected period of benefit over which capitalized costs should be depreciated. The considerations for estimated useful lives include the timing of technological obsolescence and competitive pressures, as well as historical experience and internal business plans for the projected use of related assets. Given that the expected period of benefit is an estimate, future results could be affected if management's current assessment of its property, plant and equipment's useful lives differs from actual performance.

2. Summary of significant accounting policies [continued]

Standards issued but not yet effective

The IASB has issued new and amended IFRS standards under Part I of the CPA Handbook, which are not yet effective for the Company. None of the new or amended standards have been implemented in our financial statements. The significant changes to the standards are as follows:

- IFRS 9 Financial Instruments: sets out the requirements for the classification, measurement and impairment of financial assets and liabilities and a substantially reformed approach to hedge accounting. The new standard will come into effect on January 1, 2018.

- IFRS 15 Revenue from Contracts with Customers: applies to revenue from contracts with customers and replaced all of the revenue standards and interpretations in IFRS. The standard outlines the principles an entity must apply to measure and recognize revenue and the related cash flows. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018.

- IFRS 16 Leases: outlines requirements for lessees to recognize assets and liabilities for most leases. Lessees are required to recognize the lease liability for the obligations to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Lease liability is measured at the present value of lease payments to be made over the term of the lease. The right-of-use asset is initially measured at the amount of the lease liability and adjusted for prepayments, direct costs and incentives received. The new standard will be effective for annual periods beginning on or after January 1, 2019. Early recognition is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied or is applied at the same date as IFRS 16.

The Company has not yet determined the effect, if any, of the above standard and amendments on the financial statements.

Adoption of new accounting policies

The IASB has issued new and amended IFRS standards under Part I of the CPA handbook, which became effective for the Company during the year. The significant changes to the standards are as follows:

- IAS 7 Disclosure Initiative - Amendments to IAS 7: The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The amendment did not have any impact on the Company.

3. Cash

The Company has an authorized operating line-of-credit with a maximum limit of $1,500,000, bearing interest at bank prime, plus 1% and secured by inventory and accounts receivable. The operating line-of-credit limit is adjusted monthly, based on the accounts receivable and accounts payable balances. At year end, the authorized limit of the line of credit was $1,500,000, however, the Company has not utilized the operating line-of-credit at year-end.

West Central Pelleting Ltd.

Notes to the financial statements

February 28, 2018 and 2017

4. Accounts receivable

	2018	2017
	$	$
Accounts receivable	**895,147**	685,792
Allowance for doubtful accounts	**(4,482)**	-
	890,665	685,792

	$	$
Current	**817,647**	671,231
30 days	**48,613**	2,188
60 days	**917**	2,583
Over 90 days	**23,488**	9,790
	890,665	685,792

5. Inventories

	2018	2017
	$	$
Grain and screenings	**876,885**	440,621
Parts and supplies	**229,894**	244,803
Minerals and medications	**159,848**	120,356
Finished product	**85,886**	40,958
	1,352,513	846,738

The amount of inventories recognized as an expense and included in cost of sales is $10,129,620 [2017 - $9,584,398].

6. Long-term investments

	2018	2017
	$	$
Conexus Credit Union equity	**30,720**	30,720
Innovation Credit Union equity	**11,027**	10,000
Co-op Equity	**369**	-
	42,116	40,720

West Central Pelleting Ltd.

Notes to the financial statements

February 28, 2018 and 2017

7. Property, plant and equipment

Cost:

	Balance at February 29, 2016 $	Additions $	Balance at February 28, 2017 $	Additions $	Balance at February 28, 2018 $
Buildings	5,335,564	232,128	5,567,692	-	**5,567,692**
Computer equipment	190,946	2,439	193,385	4,653	**198,038**
Equipment	2,795,818	420,667	3,216,485	1,881	**3,218,366**
Paving	115,248	-	115,248	-	**115,248**
	8,437,576	655,234	9,092,810	6,534	**9,099,344**
Land	48,950	-	48,950	-	**48,950**
	8,486,526	655,234	9,141,760	6,534	**9,148,294**

Accumulated depreciation:

	Balance at February 29, 2016 $	Depreciation $	Balance at February 28, 2017 $	Depreciation $	Balance at February 28, 2018 $
Buildings	2,598,307	222,708	2,821,015	222,707	**3,043,722**
Computer equipment	160,345	4,449	164,794	3,788	**168,582**
Equipment	2,141,858	148,362	2,290,220	139,690	**2,429,910**
Paving	108,055	4,429	112,484	2,764	**115,248**
	5,008,565	379,948	5,388,513	368,949	**5,757,462**

Carrying amount:

	February 28, 2018 $	February 28, 2017 $
Buildings	2,523,970	**2,746,677**
Computer equipment	29,456	**28,591**
Equipment	788,456	**926,265**
Paving	-	**2,764**
	3,341,882	**3,704,297**
Land	48,950	**48,950**
	3,390,832	**3,753,247**

8. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are government remittances payable of $5,207 [2017 - $42,698].

Notes to the financial statements

February 28, 2018 and 2017

9. Long-term debt

	2018	2017
	$	$
Prime, plus 0.564% Farm Credit Canada loan, repayable in blended monthly instalments of $4,611, secured by property, due February 2019	**289,488**	330,681
4.70% Farm Credit Canada loan, repayable in blended monthly payments of $4,084, secured by equipment, due January 2022	**175,646**	215,556
5.20% Conexus Credit Union mortgage, repaid during the year	**-**	83,648
5.20% Conexus Credit Union mortgage, repaid during the year	**-**	43,437
4.75% Farm Credit Canada loan, repaid during the year	**-**	6,981
	465,134	680,303
Less current portion	**331,310**	215,324
	133,824	464,979

Principal repayments due in each of the next five years are as follows:

	$
2019	331,310
2020	43,830
2021	45,935
2022	44,059
	465,134

10. Share capital

Authorized

Unlimited Class A voting, common shares
Unlimited Class B voting, common shares
Unlimited Class C non-voting, preferred shares
Unlimited Class D non-voting, preferred shares

Issued

	2018	2017
	$	$
16,100 Class B shares	**1,948,910**	1,948,910

Notes to the financial statements

February 28, 2018 and 2017

11. Income taxes

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

	2018	2017
	$	$
	27.00%	27.00%
Anticipated income tax	**209,881**	99,615
Tax effect of the following:		
Reduction of taxes due to small business deduction limit	**(74,521)**	(53,497)
Manufacturing and processing rate reduction	**(5,748)**	-
Impact of current year timing differences at future tax rates	**286**	458
Other	**(2,113)**	2,366
Income tax expense	**127,785**	48,942

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Differences relating to property, plant and equipment make up the majority of the Company's deferred liability.

12. Basic and diluted total comprehensive income per share

The basic and diluted total comprehensive income per share have been calculated using the weighted average number of common shares outstanding during the year. Since there are not any items of a dilutive nature, the basic and dilutive share amounts are the same. The total basic and dilutive weighted average number of common shares for February 28, 2018 is 16,100 [February 28, 2017 - 16,100].

13. Related party transactions

During the year, the Company sold 1,033.860 [2017 - 639.260] tonnes of pellets to the directors for proceeds of $169,725 [2017 - $98,790]. The Company also purchased 282.800 [2017 - 29.310] tonnes of grain and screenings from the directors for a total cost of $50,325 [2016 - $2,619].

Compensation of key management

The Company's key management consists of four individuals including the general manager, operations manager, and the two plant managers. Remuneration for the years ended February 28, 2018 and February 28, 2017 for the Board of Directors and key management who have the authority and responsibility for planning, directing and continuing the activities of the Company are as follows:

	February 28, 2018	February 28, 2017
	$	$
Director honorariums	**28,150**	30,890
Salaries	**315,205**	308,755
	343,355	339,645

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Notes to the financial statements

February 28, 2018 and 2017

14. Capital management

The Company's objectives when managing capital are to continue as a going concern, to protect its ability to meet its ongoing liabilities and to maximize returns for shareholders over the long-term. For its own purposes, the Company defines capital as the sum of long-term debt and shareholders' equity.

The capital structure at February 28, 2018 and 2017 was as follows:

	February 28, 2018 $	February 28, 2017 $
Current portion of long-term debt	**331,310**	215,324
Long-term debt	**133,824**	464,979
	465,134	680,303
Shareholders' equity	**6,669,096**	6,019,545
	7,134,230	6,699,848

The Board of Directors does not establish quantitive return on capital criteria for management, but rather promotes sustainable operation goals. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary. The annual budgets are approved by the Board of Directors.

15. Financial instruments risks and uncertainties

The Company's activities expose it to a variety of market risks including foreign currency risk, interest or price risk, credit risk and liquidity risk.

Credit risk management

The Company is exposed to credit risks on the accounts receivable from its customers. In order to reduce its risk, management has adopted credit policies that include credit applications and regular review of credit limits. The allowance for bad debts at February 28, 2018 was $4,482 [2017 - $nil].

15. Financial instruments [continued]

Financial instrument carrying values and fair values

For all current assets and liabilities, the difference between cost and fair value is assumed to approximate fair value due to the short-term maturities of these items. The following table provides a summary of the financial assets and liabilities that are measured at fair value included in the statements of financial position, as at February 28, 2018 and 2017:

	2018 Fair value $	2017 Fair value $
Financial assets		
Cash	**2,122,992**	1,956,538
Long-term investments	**42,116**	40,720
	2,165,108	1,997,258

The fair value of the long-term investments is based on the amount that would be received on redemption of the shares. The long-term debt is valued using a discounted cash flow test taking into consideration the current market rate of interest for debt with similar term to maturity and the company's current credit quality.

The following table presents, as at February 28, 2018 and 2017, the level within the fair value hierarchy for each of the financial assets and liabilities measured at fair value:

			2018
	Level 1 $	**Level 2** $	**Level 3** $
Cash	**2,122,992**	-	-
Long-term investment	-	-	**42,116**
Long-term debt	-	-	**(465,134)**
	2,122,992	-	**(423,018)**

			2017
	Level 1 $	**Level 2** $	**Level 3** $
Cash	1,956,538	-	-
Long-term investments	-	-	40,720
Long-term debt	-	-	(680,303)
	1,956,538	-	(639,583)

15. Financial instruments [continued]

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. A change in market interest rates will have a direct effect on the fair value of the long-term debt. In an attempt to minimize the risk, the Company manages the exposure through holding mostly fixed rate interest loans. The Company's exposure to interest rate fluctuation is with respect to the use of its Farm Credit Canada loans some of which bear interest at floating rates and is minimal.

Foreign currency risk

The Company is not exposed to foreign currency risk as it does not hold any assets or liabilities in a currency other than the Canadian dollar.

Commodity price risk

Commodity price risk is the risk that the value of the inventory will fluctuate due to the change in market prices or a decline in quality of inventory. A change in price or quality will have a direct effect on the value of the inventory.

The Company is subject to commodity price risk of its raw materials inventory and finished feed stocks, as the Company must maintain competitive pricing levels, which can result in reduced margins. The Company's risk management policy provides limits within which management may maintain inventory and certain long or short commodity positions. A change of 10% in feed grain prices with all other variables held constant would result in a change in inventory costs of $87,681 [February 28, 2017 - $44,602].

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages liquidity risk through continuously monitoring and reviewing forecasted cash flows. Based on the forecasted cash flows, management believes that the Company will have sufficient capital to cover the likely short-term and long-term cash requirements. The Company estimates the following repayment of financial liabilities as follows:

Less than 3 months:	$ 688,513
3 - 12 months:	$ 248,483
1 - 5 years:	$ 228,885