



# **West Central Pelleting Ltd.**

Financial statements

February 28, 2021 and February 29, 2020

## Independent auditor's report

To the Shareholders of  
**West Central Pelleting Ltd.**

### Opinion

We have audited the financial statements of **West Central Pelleting Ltd.** ["the Company"], which comprise the statements of financial position as at February 28, 2021 and February 29, 2020, and the statements of income and comprehensive income, statements of changes in equity, and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2021 and February 29, 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRSs"].

### Basis for opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the management in accordance with the ethical requirements that are relevant to our audits 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.

### Other information

Management is responsible for the other information. The other information comprises of Management Discussion and Analysis filed with relevant Canadian securities commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, and remain alert for indications that the other information appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

### 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 IFRSs, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 generally accepted auditing standards 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 generally accepted auditing standards, 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 Company'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 Company'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 Company 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.

Saskatoon, Canada  
June 1, 2021

*Ernst & Young LLP*

Chartered Professional Accountants



A member firm of Ernst & Young Global Limited

**West Central Pelleting Ltd.**

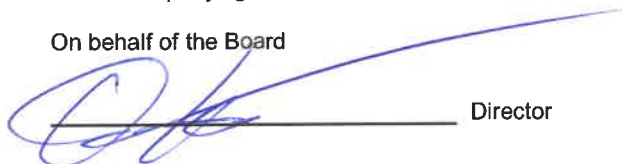
**Statements of financial position**

As at

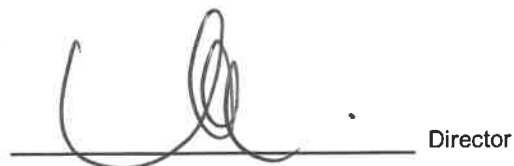
|                                                          | February 28,<br>2021<br>\$ | February 29,<br>2020<br>\$ |
|----------------------------------------------------------|----------------------------|----------------------------|
| <b>Assets</b>                                            |                            |                            |
| <b>Current</b>                                           |                            |                            |
| Cash <i>[note 3]</i>                                     | 2,216,832                  | 3,203,820                  |
| Short-term investments <i>[note 4]</i>                   | 1,000,000                  | -                          |
| Accounts receivable <i>[note 5]</i>                      | 747,116                    | 511,611                    |
| Inventories <i>[note 6]</i>                              | 1,100,732                  | 1,437,085                  |
| Prepaid expenses                                         | 41,085                     | 35,393                     |
| Income taxes recoverable                                 | 53,850                     | -                          |
| <b>Total current assets</b>                              | <b>5,159,615</b>           | <b>5,187,909</b>           |
| Long-term investments <i>[note 7]</i>                    | 45,412                     | 44,996                     |
| Property, plant and equipment <i>[note 8]</i>            | 2,505,603                  | 2,750,152                  |
|                                                          | <b>7,710,630</b>           | <b>7,983,057</b>           |
| <b>Liabilities and shareholders' equity</b>              |                            |                            |
| <b>Current</b>                                           |                            |                            |
| Accounts payable and accrued liabilities <i>[note 9]</i> | 530,985                    | 515,809                    |
| Deferred revenue                                         | -                          | 12,158                     |
| Income taxes payable                                     | -                          | 86,188                     |
| <b>Total current liabilities</b>                         | <b>530,985</b>             | <b>614,155</b>             |
| Deferred income taxes                                    | 4,328                      | 39,993                     |
| <b>Total liabilities</b>                                 | <b>535,313</b>             | <b>654,148</b>             |
| <b>Shareholders' equity</b>                              |                            |                            |
| Share capital <i>[note 10]</i>                           | 1,948,910                  | 1,948,910                  |
| Retained earnings                                        | 5,226,407                  | 5,379,999                  |
| <b>Total shareholders' equity</b>                        | <b>7,175,317</b>           | <b>7,328,909</b>           |
|                                                          | <b>7,710,630</b>           | <b>7,983,057</b>           |

See accompanying notes

On behalf of the Board



Director



Director

**West Central Pelleting Ltd.**

**Statements of income and comprehensive income**

|                                                          | Year ended<br>February 28,<br>2021<br>\$ | Year ended<br>February 29,<br>2020<br>\$ |
|----------------------------------------------------------|------------------------------------------|------------------------------------------|
| <b>Sales</b>                                             |                                          |                                          |
| Pellets                                                  | 8,412,718                                | 10,444,898                               |
| Freight                                                  | 586,787                                  | 718,454                                  |
|                                                          | 8,999,505                                | 11,163,352                               |
| <b>Cost of sales [notes 6 &amp; 11]</b>                  | 8,357,073                                | 9,584,429                                |
| <b>Gross profit</b>                                      | 642,432                                  | 1,578,923                                |
| <b>Operating expenses</b>                                |                                          |                                          |
| Administration                                           | 313,838                                  | 392,454                                  |
| Bad debts                                                | 2,307                                    | 32,901                                   |
| Depreciation                                             | 7,848                                    | 4,616                                    |
| Interest on long-term debt                               | -                                        | 2,293                                    |
| Wages and benefits [note 11]                             | 433,689                                  | 404,035                                  |
|                                                          | 757,682                                  | 836,299                                  |
| Income (loss) before the following                       | (115,250)                                | 742,624                                  |
| Other income                                             |                                          |                                          |
| Other income                                             | 63,876                                   | 100,545                                  |
| Gain on foreign exchange                                 | 84                                       | 226                                      |
| Government subsidies [note 15]                           | 311,731                                  | -                                        |
|                                                          | 375,691                                  | 100,771                                  |
| Income before income taxes                               | 260,441                                  | 843,395                                  |
| Income tax (recovery) [note 13]                          |                                          |                                          |
| Current                                                  | 41,080                                   | 167,507                                  |
| Deferred                                                 | (35,665)                                 | (32,816)                                 |
|                                                          | 5,415                                    | 134,691                                  |
| <b>Net income and comprehensive income for the years</b> | 255,026                                  | 708,704                                  |
| Basic and diluted income per share [note 12]             | 15.84                                    | 44.02                                    |

*See accompanying notes*

**West Central Pelleting Ltd.**

**Statements of changes in equity**

|                                                  | <b>Share capital</b> | <b>Retained earnings</b> | <b>Total equity</b> |
|--------------------------------------------------|----------------------|--------------------------|---------------------|
|                                                  | <b>\$</b>            | <b>\$</b>                | <b>\$</b>           |
| <b>Balance, February 28, 2019</b>                | 1,948,910            | 4,832,295                | <b>6,781,205</b>    |
| Net income and comprehensive income for the year | -                    | 708,704                  | <b>708,704</b>      |
| Dividends                                        | -                    | (161,000)                | <b>(161,000)</b>    |
| <b>Balance, February 29, 2020</b>                | 1,948,910            | 5,379,999                | <b>7,328,909</b>    |
| Net income and comprehensive income for the year | -                    | 255,026                  | <b>255,026</b>      |
| Dividend                                         | -                    | (408,618)                | <b>(408,618)</b>    |
| <b>Balance, February 28, 2021</b>                | <b>1,948,910</b>     | <b>5,226,407</b>         | <b>7,175,317</b>    |

During the year, the Company declared and paid a dividend of \$25.38 [2020 - \$10.00] per Class B share.

*See accompanying notes*

**West Central Pelleting Ltd.**

**Statements of cash flows**

|                                                         | Year ended<br>February 28,<br>2021<br>\$ | Year ended<br>February 29,<br>2020<br>\$ |
|---------------------------------------------------------|------------------------------------------|------------------------------------------|
| <b>Operating activities</b>                             |                                          |                                          |
| Net income and comprehensive income for the years       | 255,026                                  | 708,704                                  |
| Add (deduct) items not involving cash                   |                                          |                                          |
| Depreciation                                            | 372,953                                  | 362,892                                  |
| Deferred income taxes                                   | (35,665)                                 | (32,816)                                 |
| Net change in non-cash working capital balances         |                                          |                                          |
| Accounts receivable                                     | (235,505)                                | 201,124                                  |
| Inventories                                             | 336,353                                  | (117,585)                                |
| Prepaid expenses                                        | (5,692)                                  | 1,925                                    |
| Income taxes recoverable                                | (53,850)                                 | 67,533                                   |
| Accounts payable and accrued liabilities                | 15,176                                   | (218,038)                                |
| Deferred revenue                                        | (12,158)                                 | (7,403)                                  |
| Income taxes payable                                    | (86,188)                                 | 86,188                                   |
| <b>Cash provided by operating activities</b>            | <b>550,450</b>                           | <b>1,052,524</b>                         |
| <b>Investing activities</b>                             |                                          |                                          |
| Purchase of short-term investments                      | (416)                                    | (1,619)                                  |
| Purchase of short-term investments                      | (1,000,000)                              | -                                        |
| Additions to property, plant and equipment              | (128,404)                                | (19,420)                                 |
| <b>Cash used in investing activities</b>                | <b>(1,128,820)</b>                       | <b>(21,039)</b>                          |
| <b>Financing activities</b>                             |                                          |                                          |
| Repayment of long-term debt                             | -                                        | (133,820)                                |
| Dividends                                               | (408,618)                                | (161,000)                                |
| <b>Cash used in financing activities</b>                | <b>(408,618)</b>                         | <b>(294,820)</b>                         |
| <b>Net increase (decrease) in cash during the years</b> | <b>(986,988)</b>                         | <b>736,665</b>                           |
| Cash, beginning of years                                | 3,203,820                                | 2,467,155                                |
| <b>Cash, end of years</b>                               | <b>2,216,832</b>                         | <b>3,203,820</b>                         |
| <b>Supplemental disclosure of cash flow information</b> |                                          |                                          |
| Interest paid                                           | -                                        | 2,635                                    |
| Income taxes paid                                       | 178,038                                  | 13,786                                   |

*See accompanying notes*



## **West Central Pelleting Ltd.**

### **Notes to financial statements**

February 28, 2021 and February 29, 2020

#### **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 financial statements have been prepared in accordance with Part I of the *CPA Canada Handbook - Accounting*, "International Financial Reporting Standards" [IFRS]. The consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board [IASB] and interpretations by the International Financial Reporting Committee [IFRIC].

The financial statements were authorized for issuance by the Board of Directors of the Company on June 1, 2021.

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.

##### **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.

## **West Central Pelleting Ltd.**

### **Notes to financial statements**

February 28, 2021 and February 29, 2020

#### **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.

## **West Central Pelleting Ltd.**

### **Notes to financial statements**

February 28, 2021 and February 29, 2020

#### **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 substantially enacted tax rates at the reporting date and 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 effects of the remeasurement or reassessment are recognized in the period of change, except when they relate to items recognized directly in other comprehensive income. The Company is taxed at an effective rate of 27% [February 29, 2020 - 27%] on taxable earnings.

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**

The sale of goods consists of the sale of pellets to customers and freight revenue realized to deliver the pellets to the customer. Each promised good is accounted for separately as a performance obligation if it is distinct and revenue is recognized when performance obligations are fulfilled.

Revenue from sale of goods is recognized at the point in time when control of products have been transferred to the customer which is upon delivery of goods. Revenue is measured based on the transaction price specified in the contract with the customer.

Freight revenue is recognized separately as a performance obligation if it is distinct and revenue is recognized when performance obligations are fulfilled. For freight revenue, the revenue is recognized over the time that the service is provided to the customer. Revenue is measured based on the transaction price specified in the contract with the customer.

##### **Government assistance**

Amounts received or receivable resulting from government assistance programs are accounted for as other income when the company becomes eligible to accrue them, provided there is reasonable assurance the benefits will be realized.

## **West Central Pelleting Ltd.**

### **Notes to financial statements**

February 28, 2021 and February 29, 2020

#### **2. Summary of significant accounting policies [continued]**

##### **Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

##### **Financial assets**

###### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income ["OCI"], and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest ["SPPI"] on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial asset, or both.

Purchases or sales of financial assets that required delivery of assets within a time frame established by regulation or convention in the market place are recognised on the trade date.

###### *Subsequent measurement*

For the purpose of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost
- Financial assets at fair value through OCI ["FVOCI"] with recycling of cumulative gain and losses (debt instrument)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instrument)
- Financial assets at fair value through profit or loss ["FVTPL"]

###### *Financial assets at amortized cost*

The Company has classified cash, and accounts receivable at amortized cost.

The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount owing.

Financial assets at amortized cost are subsequently measured using the effective interest ["EIR"] method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is unrecognized, modified or impaired.

## West Central Pelleting Ltd.

### Notes to financial statements

February 28, 2021 and February 29, 2020

#### 2. Summary of significant accounting policies [continued]

##### Financial instruments [continued]

###### *Financial assets at fair value through OCI (debt instrument)*

The Company has not classified any financial asset as fair value through OCI (debt instrument).

The Company measures financial assets at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling and,
- The contractual term of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount owing.

For financial assets at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measure at amortized cost. The remaining fair value changes are recognized in OCI, upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit of loss.

###### *Financial assets at fair value through OCI (equity instrument)*

The Company has not classified any financial asset as fair value through OCI (equity instrument).

Upon initial recognition, the Company can elect to classify irrevocably its equity investment as equity investments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial instruments. Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

###### *Financial assets at fair value through profit or loss*

The Company has classified short-term and long-term investments at fair value through profit or loss.

Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not SPPI are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes equity investments which the Company has not irrevocably elected to classify at fair value through OCI. Dividends on equity instruments are recognized as other income in the statement of profit and loss when the right of payment has been established.

## **West Central Pelleting Ltd.**

### **Notes to financial statements**

February 28, 2021 and February 29, 2020

#### **2. Summary of significant accounting policies [continued]**

##### **Financial liabilities**

###### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities includes, accounts payable and accrued liabilities.

###### *Subsequent measurement*

The measurement of financial liabilities depends on their classification as described below:

###### *Financial liabilities at fair value through profit or loss*

The Company has not classified any financial liability as at fair value through profit or loss.

Financial liabilities measured at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognized in the statement of profit or loss. Financial liabilities designated upon initial recognition at FVTPL are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

###### *Loans and borrowings*

The Company has designated accounts payable and accrued liabilities as loans and borrowings.

After initial recognition, loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

##### **Derecognition**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

## **West Central Pelleting Ltd.**

### **Notes to financial statements**

February 28, 2021 and February 29, 2020

#### **2. Summary of significant accounting policies [continued]**

##### **Financial asset impairment**

The Company recognizes an allowance for expected credit losses ["ECLs"] for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months [a 12-month ECL]. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default [a lifetime ECL].

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

##### **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.

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.

## **West Central Pelleting Ltd.**

### **Notes to financial statements**

February 28, 2021 and February 29, 2020

#### **2. Summary of significant accounting policies [continued]**

##### **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.

##### **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. The Company has not yet applied the new standards, interpretations and amendments to standards that have been issued as at February 28, 2021 but are not yet effective. Unless otherwise stated, the Company does not plan to early adopt any of these new amended standards and interpretations. None of the new or amended standards are expected to have a material 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 financial statements

February 28, 2021 and February 29, 2020

#### 4. Short-term investments

The Company has an investment in a short-term investment account, which is made up of a deposit at a financial institution, that earns interest at 0.6% maturing February 2022.

#### 5. Accounts receivable

|                                 | February 28,<br>2021<br>\$ | February 29,<br>2020<br>\$ |
|---------------------------------|----------------------------|----------------------------|
| Accounts receivable             | 749,227                    | 513,722                    |
| Allowance for doubtful accounts | (2,111)                    | (2,111)                    |
|                                 | <u>747,116</u>             | <u>511,611</u>             |
|                                 | \$                         | \$                         |
| Current                         | 509,895                    | 435,228                    |
| 30 days                         | 209,741                    | 69,812                     |
| 60 days                         | 14,330                     | -                          |
| Over 90 days                    | 13,150                     | 6,571                      |
|                                 | <u>747,116</u>             | <u>511,611</u>             |

#### 6. Inventories

|                          | February 28,<br>2021<br>\$ | February 29,<br>2020<br>\$ |
|--------------------------|----------------------------|----------------------------|
| Grain and screenings     | 687,602                    | 1,033,765                  |
| Parts and supplies       | 201,891                    | 208,463                    |
| Minerals and medications | 122,062                    | 137,070                    |
| Finished product         | 89,177                     | 57,787                     |
|                          | <u>1,100,732</u>           | <u>1,437,085</u>           |

The amount of inventories recognized as an expense and included in cost of sales is \$7,764,737 [2020 - \$8,862,364].

#### 7. Long-term investments

|                                | 2021<br>\$    | 2020<br>\$    |
|--------------------------------|---------------|---------------|
| Conexus Credit Union equity    | 30,720        | 30,720        |
| Innovation Credit Union equity | 14,274        | 13,865        |
| Co-op equity                   | 418           | 411           |
|                                | <u>45,412</u> | <u>44,996</u> |

# West Central Pelleting Ltd.

## Notes to financial statements

February 28, 2021 and February 29, 2020

### 8. Property, plant and equipment

Cost:

|                    | Balance at<br>February 28,<br>2019<br>\$ | Net additions<br>\$ | Balance at<br>February 29,<br>2020<br>\$ | Net additions<br>\$ | Balance at<br>February 28,<br>2021<br>\$ |
|--------------------|------------------------------------------|---------------------|------------------------------------------|---------------------|------------------------------------------|
| Buildings          | 5,582,819                                | 2,266               | 5,585,085                                | 59,160              | 5,644,245                                |
| Computer equipment | 199,961                                  | 5,390               | 205,351                                  | 9,967               | 215,318                                  |
| Equipment          | 3,230,078                                | 11,764              | 3,241,842                                | 59,277              | 3,301,119                                |
| Paving             | 115,248                                  | -                   | 115,248                                  | -                   | 115,248                                  |
|                    | 9,128,106                                | 19,420              | 9,147,526                                | 128,404             | 9,275,930                                |
| Land               | 48,950                                   | -                   | 48,950                                   | -                   | 48,950                                   |
|                    | 9,177,056                                | 19,420              | 9,196,476                                | 128,404             | 9,324,880                                |

Accumulated depreciation:

|                    | Balance at<br>February 28,<br>2019<br>\$ | Net changes<br>\$ | Balance at<br>February 29,<br>2020<br>\$ | Net changes<br>\$ | Balance at<br>February 28,<br>2021<br>\$ |
|--------------------|------------------------------------------|-------------------|------------------------------------------|-------------------|------------------------------------------|
| Buildings          | 3,267,035                                | 223,403           | 3,490,438                                | 225,770           | 3,716,208                                |
| Computer equipment | 171,619                                  | 3,848             | 175,467                                  | 5,531             | 180,998                                  |
| Equipment          | 2,529,530                                | 135,641           | 2,665,171                                | 141,652           | 2,806,823                                |
| Paving             | 115,248                                  | -                 | 115,248                                  | -                 | 115,248                                  |
|                    | 6,083,432                                | 362,892           | 6,446,324                                | 372,953           | 6,819,277                                |

Carrying amount:

|                    | February 28,<br>2021<br>\$ | February 29,<br>2020<br>\$ |
|--------------------|----------------------------|----------------------------|
| Buildings          | 1,928,037                  | 2,094,647                  |
| Computer equipment | 34,320                     | 29,884                     |
| Equipment          | 494,296                    | 576,671                    |
|                    | 2,456,653                  | 2,701,202                  |
| Land               | 48,950                     | 48,950                     |
|                    | 2,505,603                  | 2,750,152                  |

## West Central Pelleting Ltd.

### Notes to financial statements

February 28, 2021 and February 29, 2020

#### 9. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are government remittances payable of \$9,199 [2020 - \$7,857].

#### 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

|                       | February 28,<br>2021<br>\$ | February 29,<br>2020<br>\$ |
|-----------------------|----------------------------|----------------------------|
| 16,100 Class B shares | 1,948,910                  | 1,948,910                  |

#### 11. Wages and benefits

Included in cost of sales is \$913,289 [2020 - \$1,032,222] of wages and benefits and included in expenses is \$433,689 [2020 - \$404,035] for total wages and benefits expense of \$1,346,978 [2020 - \$1,436,257].

The Company maintains a defined contribution pension plan that is administered by the Company. Contributions to the plan are expensed on an accrual basis and are recorded to wages and benefits. Pension expense included in cost of sales is \$22,736 [2020 - \$19,908] and included in expenses is \$18,860 [2020 - \$17,882] for total pension expense of \$41,596 [2020 - \$37,790].

#### 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, 2021 is 16,100 [February 29, 2020 - 16,100].

## West Central Pelleting Ltd.

### Notes to financial statements

February 28, 2021 and February 29, 2020

#### 13. Income taxes

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

|                                                                                             | February 28,<br>2021<br>\$ | February 29,<br>2020<br>\$ |
|---------------------------------------------------------------------------------------------|----------------------------|----------------------------|
|                                                                                             | 27.00%                     | 27.00%                     |
| Anticipated income tax                                                                      | 70,319                     | 227,717                    |
| Tax effect of the following:                                                                |                            |                            |
| Reduction of taxes due to small business deduction limit                                    | (43,825)                   | (90,000)                   |
| Reversal of prior year deferred income taxes realized at small business deduction tax rates | (21,153)                   | -                          |
| Manufacturing and processing rate reduction                                                 | -                          | (6,364)                    |
| Impact of current year timing differences at future tax rates                               | 346                        | 3,199                      |
| Other                                                                                       | (272)                      | 139                        |
| Income tax expense                                                                          | 5,415                      | 134,691                    |

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.

#### 14. Related party transactions

During the year, the Company sold 228 [2020 - 537] tonnes of pellets to the directors for proceeds of \$57,033 [2020 - \$123,885].

##### Compensation of key management

The Company's key management consists of three individuals including the general manager, operations manager, and one plant managers. Remuneration for the years ended February 28, 2021 and February 29, 2020 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,<br>2021<br>\$ | February 29,<br>2020<br>\$ |
|----------------------|----------------------------|----------------------------|
| Director honorariums | 29,575                     | 26,520                     |
| Salaries             | 410,129                    | 358,490                    |
|                      | 439,704                    | 385,010                    |

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.

## West Central Pelleting Ltd.

### Notes to financial statements

February 28, 2021 and February 29, 2020

#### 15. Government subsidies

In response to the negative economic impact of COVID-19, various government programs have been announced to provide financial relief to affected businesses. The company determined that it qualified for the Canada Emergency Wage Subsidy ["CEWS"]. The CEWS program provides government assistance in the form of a wage subsidy for qualifying businesses that have experienced specified levels of revenue decline designed to keep Canadians employed.

During the year ended February 28, 2021, the company recognized \$311,731 under these programs which has been recorded as other income in the statement of loss.

#### 16. 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, 2021 and February 29, 2020 was as follows:

|                      | February 28,<br>2021<br>\$ | February 29,<br>2020<br>\$ |
|----------------------|----------------------------|----------------------------|
| Shareholders' equity | 7,175,317                  | 7,328,909                  |

The Board of Directors does not establish quantitative 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.

#### 17. 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, 2021 was \$2,111 [February 29, 2020 - \$2,111].

##### 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.

##### Financial instrument carrying values and fair values

For all current assets and liabilities, the carrying 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, 2021 and February 29, 2020:

## West Central Pelleting Ltd.

### Notes to financial statements

February 28, 2021 and February 29, 2020

#### 17. Financial instruments risks and uncertainties [continued]

|                        | 2021<br>Fair value<br>\$ | 2020<br>Fair value<br>\$ |
|------------------------|--------------------------|--------------------------|
| Financial assets       |                          |                          |
| Cash                   | 2,216,832                | 3,203,820                |
| Short-term investments | 1,000,000                | -                        |
| Long-term investments  | 45,412                   | 44,996                   |
|                        | <u>3,262,244</u>         | <u>3,248,816</u>         |

|                       | 2021             |               |               |
|-----------------------|------------------|---------------|---------------|
|                       | Level 1<br>\$    | Level 2<br>\$ | Level 3<br>\$ |
| Cash                  | 2,216,832        | -             | -             |
| Short-term investment | 1,000,000        | -             | -             |
| Long-term investment  | -                | -             | 45,412        |
|                       | <u>3,216,832</u> | <u>-</u>      | <u>45,412</u> |

|                       | 2020             |               |               |
|-----------------------|------------------|---------------|---------------|
|                       | Level 1<br>\$    | Level 2<br>\$ | Level 3<br>\$ |
| Cash                  | 3,203,820        | -             | -             |
| Long-term investments | -                | -             | 44,996        |
|                       | <u>3,203,820</u> | <u>-</u>      | <u>44,996</u> |

#### 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 | 530,985 |
| 1 - 5 years        | 4,328   |

#### 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 \$68,760 [February 29, 2020 - \$103,377].

## **West Central Pelleting Ltd.**

### **Notes to financial statements**

February 28, 2021 and February 29, 2020

#### **18. Other uncertainties**

The outbreak of the Coronavirus disease ["COVID-19"] has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. The duration and impact of the COVID-19 outbreak is not known at this time, nor is the efficacy of the government and central bank monetary and fiscal interventions designed to stabilize economic conditions. As a result, it is not possible to reliably estimate the length and severity of these developments or the impact on the financial position and financial results of the Company in future periods. In the current period the Company noticed a decline in sales in the first half of the year but activity resumed back to normal levels by the second half of the year.