

**The Western Investment
Company of Canada
Limited**

Condensed Interim Financial Statements
(Unaudited)
September 30, 2020

Notice of no Auditor Review of Condensed Interim Financial Statements

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of The Western Investment Company of Canada Limited (the Corporation) for the interim reporting period ended September 30, 2020 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board, and are the responsibility of the Corporation's management.

The Corporation's independent auditors, PricewaterhouseCoopers LLP, have not performed a review of these unaudited condensed interim financial statements in accordance with the standards established by Chartered Professional Accountants of Canada for a review of condensed interim financial statements by an entity's auditor.

The Western Investment Company of Canada Limited

Condensed Interim Statement of Financial Position (Unaudited)

	September 30, 2020 \$	December 31, 2019 \$
Assets		
Current assets		
Cash	5,335	149,868
Accounts receivable	-	220
Other receivables	-	600,000
Due from related parties (note 11)	48,131	23,172
Prepays	8,550	2,477
	62,016	775,737
Due from related parties (note 11)	975,177	313,208
Investment in associates (note 4)	18,685,563	21,487,906
Total assets	19,722,756	22,576,851
Liabilities		
Current liabilities		
Operating loan (note 5)	619,906	1,188,679
Accounts payable and accrued liabilities	150,030	163,180
	769,936	1,351,859
Loan from related party (note 6)	1,200,000	-
Convertible debentures (note 7)	3,068,675	3,003,866
Total liabilities	5,038,611	4,355,725
Shareholders' Equity		
Share capital (note 8)	15,793,530	15,840,148
Contributed surplus (note 8)	1,320,092	1,233,177
Equity component of convertible debentures (note 7)	793,815	793,815
Accumulated other comprehensive income	118,536	22,978
(Deficit) retained earnings	(3,341,828)	331,008
Total equity attributable to common shareholders	14,684,145	18,221,126
Total liabilities and equity attributable to common shareholders	19,722,756	22,576,851

Approved by the Board of Directors

“Scott Tannas” Director

“Jennie Moushos” Director

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

The Western Investment Company of Canada Limited

Condensed Interim Statement of Operations

(Unaudited)

	For the three months ended September 30, 2020 \$	For the three months ended September 30, 2019 \$	For the nine months ended September 30, 2020 \$	For the nine months ended September 30, 2019 \$
Income				
Income (loss) from equity investments (note 4)	535,684	518,638	(2,897,901)	994,730
Gain on acquisition (note 4)	-	-	-	230,358
Finance income	18,567	1	63,847	2,896
Management fees (note 11)	112,500	87,500	337,500	262,500
	666,751	606,139	(2,496,554)	1,490,484
Expenses				
Legal	9,939	3,230	34,211	45,780
Accounting	29,971	33,690	98,279	94,577
Regulatory	4,761	5,635	38,032	37,612
Consulting	18,345	-	32,608	4,214
Other	6,982	9,540	23,796	34,398
Management compensation	82,895	72,182	327,160	326,885
Interest on debentures (note 7)	122,820	116,825	364,809	222,266
Interest on operating loan (note 5)	4,696	-	11,919	30,555
Interest on related party loan (note 6)	12,270	-	32,720	-
Share-based compensation expense (note 8)	-	74,647	62,748	74,647
Credit losses (note 11)	25,000	-	150,000	-
	317,679	315,749	1,176,282	870,934
Net income (loss) for the period	349,072	290,390	(3,672,836)	619,550
Other comprehensive income (loss) – net of tax				
Item that may be reclassified to profit or loss				
Cumulative translation adjustment (note 4)	-	13,535	95,558	(87,752)
Net income (loss) and comprehensive income (loss) for the period	349,072	303,925	(3,577,278)	531,798
Net income (loss) per share				
Basic and diluted	0.011	0.009	(0.120)	0.020
Weighted average number of shares outstanding				
Basic and diluted	30,510,973	30,580,756	30,538,493	30,615,855

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

The Western Investment Company of Canada Limited

Condensed Interim Statement of Changes in Equity

(Unaudited)

	Number of shares	Share capital \$	Contributed surplus \$	Equity component of convertible debentures \$	Accumulated other comprehensive income \$	Retained earnings (deficit) \$	Total \$
Balance – December 31, 2019	30,580,756	15,840,148	1,233,177	793,815	22,978	331,008	18,221,126
Share repurchases	(90,000)	(46,618)	24,167	-	-	-	(22,451)
Cumulative translation adjustment	-	-	-	-	95,558	-	95,558
Issuance of share-based compensation	-	-	62,748	-	-	-	62,748
Net loss for the period	-	-	-	-	-	(3,672,836)	(3,672,836)
Balance – September 30, 2020	30,490,756	15,793,530	1,320,092	793,815	118,536	(3,341,828)	14,684,145

	Number of shares	Share capital \$	Contributed surplus \$	Equity component of convertible debentures \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Total \$
Balance – December 31, 2018	30,703,756	15,903,859	1,111,161	-	71,808	(921,635)	16,165,193
Share repurchases	(123,000)	(63,711)	17,803	-	-	-	(45,908)
Cumulative translation adjustment	-	-	-	-	(87,752)	-	(87,752)
Debenture conversion feature (note 7)	-	-	-	793,814	-	-	793,814
Issuance of warrants (note 7)	-	-	29,566	-	-	-	29,566
Issuance of share-based compensation	-	-	74,647	-	-	-	74,647
Net income for the period	-	-	-	-	-	619,550	619,550
Balance – September 30, 2019	30,580,756	15,840,148	1,233,177	793,814	(15,944)	(921,635)	16,929,560

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

The Western Investment Company of Canada Limited

Condensed Interim Statement of Cash Flows

(Unaudited)

	For the nine months ended September 30, 2020 \$	For the nine months ended September 30, 2019 \$
Cash provided by (used in)		
Operating activities		
Net (loss) income for the period	(3,672,836)	619,550
Adjustments for non-cash items		
Loss (income) from equity investments (note 4)	2,897,901	(994,730)
Gain on acquisition	-	(230,358)
Interest on debentures	364,809	222,266
Share-based compensation (note 8)	62,748	74,647
Net change in non-cash working capital	556,037	(144,455)
Cash provided by (used in) operating activities	208,659	(453,080)
Investing activities		
Purchase of investment in associates (note 4)	-	(1,690,000)
Advances to associates	(661,969)	-
Dividends from associates	-	408,000
Cash used in investing activities	(661,969)	(1,282,000)
Financing activities		
Repayments on operating loan (note 5)	(568,773)	(1,519,896)
Proceeds from issuance of convertible debentures (note 7)	-	4,000,000
Debenture issuance costs (note 7)	-	(371,175)
Advance on shareholder loan (note 6)	1,200,000	-
Interest paid on debentures (note 7)	(300,000)	(143,014)
Repurchase of shares	(22,450)	(45,907)
Cash provided by financing activities	308,777	1,920,008
(Decrease) increase in cash	(144,533)	184,928
Cash – Beginning of period	149,868	8,183
Cash – End of period	5,335	193,111
Supplemental information		
Interest paid	344,639	173,569

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

The Western Investment Company of Canada Limited

Notes to Condensed Interim Financial Statements

(Unaudited)

September 30, 2020

1 Incorporation

The Western Investment Company of Canada Limited (“Western” or the “Corporation”) was incorporated pursuant to the provisions of the Business Corporations Act (Alberta) on October 28, 2015. The Corporation’s common shares began trading on December 20, 2016 and are listed on the TSX Venture Exchange under the stock symbol WI.

2 Nature of operations and continuance of operations

The head office and principal address of the Corporation is 1010 24th Avenue S.E., High River, Alberta T1V 2A7 and the address of the registered office is Suite 1600, Dome Tower, 333 – 7th Avenue S.W., Calgary, Alberta T2P 2Z1.

These unaudited condensed interim financial statements (“the interim financial statements”) of the Corporation for the period ended September 30, 2020 were approved and authorized for issuance by the Corporation’s Board of Directors on November 23, 2020.

Western’s strategy is to acquire a diversified portfolio of established Western Canadian private businesses and create value through the identification, acquisition and long-term ownership of private businesses with sustained cash flows and strong potential for organic growth.

Western’s targeted industry verticals align with the industry expertise of the Board of Directors and include: (i) financial services and insurance; (ii) retail and distribution; (iii) human services; (iv) agriculture and related services; and (v) special situations. Western’s ideal acquisition enterprise value is between \$10 million to \$100 million and it will consider ownership between 25% and 100%. Western will prospect acquisitions from: (i) director and executive networks; (ii) mid-market accounting and M&A advisors; and (iii) private equity and corporate divestitures.

Where an acquisition is warranted, additional funding may be required. The ability of the Corporation to fund its potential future operations and commitments is dependent on the ability of the Corporation to obtain additional financing.

GlassMasters – Equity Investment

On December 31, 2019, the Corporation purchased an additional 11.2% interest in GlassMasters ARG Autoglass Two Inc. (“GlassMasters”), adding to its original 50.1% investment made on December 16, 2016. This brings the total investment in GlassMasters to 61.3% (see note 4 for additional information on the acquisition).

GlassMasters is an automotive glass service company providing repair and replacement of automotive glass and an automotive glass warehouse that imports to sell wholesale a full line of quality aftermarket glass parts and materials at low prices. GlassMasters’ principal markets are in Alberta and Saskatchewan.

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Golden Health Care – Equity Investment

On September 1, 2017, the Corporation obtained a 30% equity investment in three Saskatchewan senior care homes (including Hill View Manor Ltd. in Estevan, The Good Shepherd Villas Inc. in Prince Albert and William Albert House Ltd. in the Regina suburb of Emerald Park), and a 25% interest in Golden Health Care Management Inc. (together referred to as “Golden”). The management company, Golden Health Care Management Inc., oversees the operations of a portfolio of senior care homes, including but not limited to the homes that the Corporation has investments in. All the homes operate under the Golden Health Care banner that includes a number of senior care homes that Western does not have ownership in. The Golden Health Care group of homes is the largest full-service retirement operator in Saskatchewan.

Ocean Sales Group Ltd. – Equity Investment

On January 1, 2018, the Corporation obtained a 75% interest in Ocean Sales Group Ltd. (“Ocean”), a speciality retailer that imports and sells a line of speciality retail products through unique marketing channels across North America. Ocean has three main divisions: consumer shows where it markets high-quality innovative household products through live demonstrations at leading consumer shows and fairs throughout Canada and the US; Costco, where it demonstrates a select set of products within its Canadian stores; and wholesale. Headquartered in Calgary, Alberta, they have four strategically located warehouses in Alberta, Washington, Ontario and Québec.

Foothills Creamery Ltd. – Equity Investment

On February 28, 2018, Western acquired a 50.4% interest in Foothills Creamery Ltd. (“Foothills”). Foothills is a producer and distributor of high-quality butter and ice cream products with over 50 years of operations in western Canada. Headquartered in Calgary, Alberta, it serves customers through large grocery retail and food service networks spanning across western Canada, supported by two distribution facilities in Edmonton, Alberta and Kelowna, British Columbia.

Fortress Insurance Company – Equity Investment

On May 6, 2019, Western acquired a 50.0% interest in Fortress Insurance Company (“Fortress”). Fortress is a registered and regulated insurance company offering speciality and surplus lines of commercial and property insurance within the western Canadian insurance marketplace. Fortress has regulatory licenses in British Columbia, Alberta, Saskatchewan and Manitoba.

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Notes to Condensed Interim Financial Statements

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3 Basis of preparation

Statement of compliance

These interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and International Accounting Standard (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board.

The accounting policies applied in these interim financial statements are the same as those applied in the Corporation’s financial statements for the year ended December 31, 2019, except as described in the notes to the interim financial statements. The interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2019.

The interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation’s management. The Corporation’s independent auditor has not performed a review of these interim financial statements in accordance with the standards established by CPA Canada for a review of interim financial statements by the entity’s auditor.

Basis of measurement and impact of the Pandemic

The interim financial statements have been prepared on a going concern basis, using the historical cost convention.

On March 11, 2020, the World Health Organization expanded its classification of COVID-19 to a worldwide pandemic, and federal, provincial and municipal governments in North America began legislating measures to combat the spread of the virus. The operations of the Corporation and its associates have been, and are expected to continue to be, negatively impacted, possibly materially, by the global COVID-19 pandemic (the “Pandemic”) leading to significant future business uncertainties. These uncertainties include, but are not limited to, interruptions in operations caused by reductions in sales, customers’ illiquidity impacting timing and ability to pay for goods and services rendered, the availability and health of the Company’s workforce and possible disruptions in the supply chain.

The ability of each of the Corporation’s associates to continue operations in the ordinary course of business is dependent on, among other things, the duration of the Pandemic, each associate’s operational performance during the Pandemic, terms of covenants and repayment obligations with their lenders and the successful navigation of each associate through the challenges that have surfaced relating to the Pandemic. Management believes that the regular payment of liabilities will be met out of cash, operating cash flows and available credit facilities.

As at September 30, 2020, certain of the Corporation’s associates were not in compliance with financial covenants contained within their loans and borrowings. The impact of the Pandemic has created significant future business uncertainties making it difficult to estimate if and when the associates will be back in compliance with their financial covenants. These associates have negotiated revised terms with their lenders to provide additional capital to operate through these uncertainties. Management of Western believes that the

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Corporation itself has sufficient room on its operating facilities to meet all obligations over the next 12 months. Each associate is carefully managing its capital to meet obligations.

4 Investment in associates

The investment in associates balance consists of:

	September 30, 2020 \$	December 31, 2019 \$
Western's interest in Fortress Insurance Company	2,121,124	2,160,744
Western's interest in Foothills Creamery Ltd.	4,530,662	4,383,907
Western's interest in Ocean Sales Group Ltd.	-	3,475,419
Western's interests in Golden Health Care group of companies	4,962,041	4,848,227
Western's interest in GlassMasters ARG Autoglass Two Inc.	7,071,736	6,619,609
	<u>18,685,563</u>	<u>21,487,906</u>

a) Nature of investments in associates

GlassMasters ARG Autoglass Two Inc.

The Corporation acquired a 50.1% interest in GlassMasters in 2016 and, on December 31, 2019, acquired an additional 11.2% interest bringing Western's total equity interest in GlassMasters to 61.3%. The purchase price for the additional shares in 2019 was \$600,000. The fair value of the shares as at December 31, 2019 was determined to be \$1,223,691, which exceeded the purchase price by \$623,691. This bargain purchase gain was recognized by Western in net income in 2019 along with another \$253,058 in gains related to the acquisition.

Western continues to have two of six directors appointed to the GlassMasters' board of directors. Through the extent of its share ownership and its seats on the board of directors, the Corporation has the ability to exercise significant influence but not control over GlassMasters and, accordingly, the Corporation is using the equity method to account for this investment.

Under the terms of GlassMasters' credit facilities, shares in GlassMasters (100%) have been pledged as collateral from the owners of the shares, including the Corporation, and certain financial covenants have been placed on GlassMasters, which could impact the ability to provide distributions to its equity investors, including the Corporation. As at September 30, 2020, GlassMasters was in breach of certain of its covenants and has therefore classified its outstanding credit facility balances as current.

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September 30, 2020

Golden Health Care group of companies

On September 1, 2017, the Corporation completed the acquisition of its investment in Golden for a total equity investment of \$4.94 million. Western appoints two of nine members of the board of directors of Golden Health Care Management Inc., the company that oversees the operating companies. Through its share ownership and its appointments to the board of directors, the Corporation can exercise significant influence over the investments in Golden and, accordingly, the Corporation is using the equity method to account for the Golden investment.

On acquisition, the Corporation recognized a fair value adjustment on Western's share of the land and building held of \$2.52 million. The fair value adjustment related to the building is being amortized over its useful life against the Corporation's equity income earned from Golden.

Ocean Sales Group Ltd.

On January 1, 2018, the Corporation obtained a 75% interest in Ocean for a total equity investment of \$3.45 million. Western appoints two of five members of the board of directors, and as such has the ability to exercise significant influence over Ocean but not control. Accordingly, the Corporation is using the equity method to account for this investment.

Based on the continuing effects of the Pandemic and the resulting decline in revenue experienced, impairment indicators for Ocean's intangible assets and goodwill existed in the first quarter of 2020. As a result, Ocean tested its intangible assets and goodwill for impairment as at March 31, 2020. The value-in-use impairment test was based on Ocean's internal forecasts and represents management's best estimates at a specific point in time, and as a result it is subject to measurement uncertainty. This impairment test resulted in a \$4,775,521 impairment loss being recorded by Ocean as at March 31, 2020. The impairment loss was primarily a result of the loss of a significant revenue stream as a result of the Pandemic, and significant uncertainty on when this revenue stream may return to a degree sufficient to contribute to positive cash flows. Western's share of this impairment loss is included in the equity loss recorded from Ocean during the nine-month period ended September 30, 2020. Additionally, in line with the above assessment, Western has assessed credit risk as high at this associate and is recognizing expected credit losses on all management fees due from Ocean.

Ocean records a cumulative translation adjustment as part of the consolidation of its foreign subsidiary that has a functional currency of US dollars. Western's share of this adjustment is recognized in other comprehensive income.

Foothills Creamery Ltd.

On February 28, 2018, the Corporation completed the acquisition of a 50.4% interest in Foothills Creamery Ltd. for a total equity investment of \$3.25 million. Western appoints two of seven members of the board of directors, and as such has the ability to exercise significant influence over Foothills but not control and, accordingly, the Corporation is using the equity method to account for this investment.

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Under the terms of its asset purchase agreement, Foothills has agreed to pay contingent consideration to the vendor under certain circumstances. The consideration consists of payments by Foothills for performance conditions, involving normalized earnings before interest, tax and depreciation, generated over the four years from the acquisition date (up to a maximum of \$3.5 million). The estimated fair value of this contingent consideration payable recognized by Foothills as at September 30, 2020 (100%) was \$311,239 (December 31, 2019 – \$542,189) based on an estimate using probability-weighted discounted future cash flows.

Fortress Insurance Company

On May 6, 2019, the Corporation completed the acquisition of a 50% interest in Fortress Insurance Company for a total investment of \$1.69 million. The purchase price was below the net fair value of the assets at Fortress at the time of acquisition, and as such Western has recognized a gain on acquisition of \$329,704 in 2019. The Corporation has two of six directors appointed to the board of directors giving it the ability to exercise significant influence but not control over Fortress. Accordingly, the Corporation is using the equity method to account for this investment.

b) Summarized financial information for investees

The below summarized financial information of the associate (disclosed at 100%) is presented in accordance with IFRS, prior to any intercompany eliminations, adjusted to reflect any adjustments required when applying the equity method of accounting for the investments.

Summarized financial information as at September 30, 2020 and for the nine months then ended

	GlassMasters	Golden	Ocean	Foothills	Fortress
	\$	\$	\$	\$	\$
Current assets	5,859,163	5,275,482	4,952,647	10,248,950	10,836,990
Non-current assets	20,865,444	19,536,260	2,233,852	23,728,502	-
Current liabilities	8,576,018	1,081,072	6,864,416	21,640,258	6,793,433
Non-current liabilities	6,501,517	15,563,298	1,152,334	3,272,444	-
Net assets	11,647,072	8,167,372	(830,251)	9,064,750	4,043,557
Revenue	15,878,318	6,399,657	7,267,174	35,001,059	428,122
Net income (loss) and comprehensive income (loss)	737,563	383,228	(5,365,017)	291,181	(79,240)

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September 30, 2020

Summarized financial information as at December 31, 2019 and for the nine months ended September 30, 2019

	GlassMasters	Golden	Ocean	Foothills	Fortress⁽¹⁾
	\$	\$	\$	\$	\$
Current assets	5,460,138	5,913,683	6,556,360	9,686,247	11,175,697
Non-current assets	21,901,405	18,725,316	7,510,341	24,433,822	-
Current liabilities	9,306,407	1,286,633	7,835,694	23,256,424	7,052,901
Non-current liabilities	7,146,697	15,568,222	1,737,430	2,089,940	-
Net assets	10,908,439	7,784,144	4,493,577	8,773,705	4,122,796
Revenue	17,475,814	6,428,950	16,370,283	32,723,618	451,614
Net income (loss) and comprehensive income (loss)	379,756	390,012	257,848	1,031,153	(52,816)

(1) As at the Fortress acquisition date of May 6, 2019. Net income includes results from the acquisition date of May 6, 2019 to September 30, 2019.

c) Reconciliation of investments in associates' carrying value

The following table presents a reconciliation of the carrying amount of the investment in the Corporation's interim financial statements and the summarized financial information.

Reconciliation of the carrying value for the nine months ended September 30, 2020

	GlassMasters	Golden	Ocean	Foothills	Fortress	Total
	\$	\$	\$	\$	\$	\$
Western ownership interest	61.3%	25.0% – 30.0%	75.0%	50.4%	50.0%	
Share of net assets as of December 31, 2019	6,619,609	4,848,227	3,475,419	4,383,907	2,160,744	21,487,906
Share of comprehensive income (loss)	452,127	113,814	(3,570,977)	146,755	(39,620)	(2,897,901)
Share of other comprehensive income	-	-	95,558	-	-	95,558
Investment in associates as of September 30, 2020	7,071,736	4,962,041	-	4,530,662	2,121,124	18,685,563

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Reconciliation of the carrying value for the nine months ended September 30, 2019

	GlassMasters \$	Golden \$	Ocean \$	Foothills \$	Fortress \$	Total \$
Western ownership interest	50.1%	25.0%–30.0%	75.0%	50.4%	50.0%	
Share of net assets as of December 31, 2018	4,896,914	5,144,418	3,824,888	3,815,411	-	17,681,631
Additions	-	-	-	-	1,920,358 ⁽¹⁾	1,920,358
Share of dividends paid out	-	(408,000)	-	-	-	(408,000)
Share of net income (loss)	190,105	117,947	193,385	519,701	(26,408) ⁽²⁾	994,730
Share of other comprehensive income (loss)	-	-	(87,752)	-	-	(87,752)
Investment in associates as of September 30, 2019	5,087,019	4,854,365	3,930,521	4,335,112	1,893,950	20,100,967

(1) Western's investment in Fortress on May 6, 2019.

(2) Western's share of Fortress's net income presented for the period since the acquisition date of May 6, 2019 to September 30, 2019.

5 Operating loan

The Corporation has a demand revolving operating loan facility agreement with a Canadian financial institution ("facility one") to the maximum amount of \$2,000,000. The facility bears interest at the bank's prime rate plus 2% per annum and carries a standby fee of 0.2% per annum on the unused portion. Facility one was obtained firstly to be used toward the purchase price of Foothills Creamery Ltd. in 2018, and secondly towards general corporate operating purposes. Security for the facility includes:

- general security agreement over all present and after acquired property;
- share pledge agreement in respect to the Corporation's interest in its subsidiaries;
- assignment of material contracts; and
- continuing guarantee from any material wholly owned subsidiaries of the Corporation.

Facility one is subject to review by the bank on August 31 annually, or at any time at the discretion of the Lender, and was approved on September 17, 2020. As at September 30, 2020, \$619,906 was drawn on facility one (December 31, 2019 – \$1,188,679).

On September 17, 2020, the Corporation entered into an amending agreement adding a second facility ("facility two") in the form of a demand non-revolving reducing facility up to a maximum of \$400,000. Facility two was obtained to manage liquidity uncertainty that has arisen as a result of the pandemic, is available on or before December 31, 2021 and bears interest at the bank's prime rate plus 2.5% per annum. Interest only is payable monthly until January 1, 2022, after which the loan is repayable in blended payments of principal and interest on the last day of each fiscal quarter over an amortization period of 12 months. As at September 30, 2020, \$nil was drawn on facility two.

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6 Loan from related party

In the first quarter of 2020, the Corporation received a \$1.2 million shareholder loan from Golden. The loan bears interest at 4.09% annually, payable with interest only monthly and matures on January 31, 2021 with automatic annual renewal if all amounts of interest owing are not in default. There are no financial covenants effecting the loan.

7 Convertible debentures

On May 9, 2019, the Corporation issued \$4 million of unsecured convertible debentures with a principal value of \$1,000 each (the "Debentures"). Each Debenture is convertible into common shares of Western at a conversion price of \$0.55 per share at the holder's discretion. The Debentures mature on March 31, 2024 and bear interest at the rate of 7.5% per annum, payable semi-annually at the end of March and September.

If after March 31, 2021, the closing price of Western's shares on the TSX Venture Exchange is \$0.65 or greater for 20 consecutive trading days, Western may, at its option, force the conversion of the Debentures into common shares. Western may also elect, at its option, to redeem all or part of the Debentures at any time after March 31, 2021 at the redemption price set forth below plus accrued and unpaid interest, if redeemed during the calendar year upon 45 days written notice by Western:

	%
2021	107.5
2022	105.0
2023	102.5
2024	100.0

The Corporation incurred underwriting fees and issuance costs of \$400,742, including 425,454 broker warrants valued at \$29,566. The warrants are exercisable into one common share per warrant at an exercise price of \$0.55 and expire 24 months from the closing date. The closing costs are allocated against the carrying value of the liability and equity components of the Debentures.

The Debentures are a compound financial instrument containing both a liability and equity component. The liability component represents the present value of interest and principal payments over the life of the financial instrument discounted at 13.9%, which was the approximate rate available to the Corporation for similar debt without the conversion feature at the date the convertible debentures were issued. The residual value of \$793,815 (net of issuance cost) was allocated to the equity component. The liability component will be accreted to the principal value using the effective rate of 16.5%.

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8 Share capital

Authorized

Unlimited number of common shares, without par value

Unlimited number of preferred shares, without par value

Issued

During the nine months ended September 30, 2020, nil common shares were issued (September 30, 2019 – nil). There are nil preferred shares issued to date. The following is a summary of the share capital issued at period-end.

	Number of shares	Amount \$
Balance – December 31, 2018	30,703,756	15,903,859
Share repurchase	(123,000)	(63,711)
Balance – December 31, 2019	30,580,756	15,840,148
Share repurchase	(90,000)	(46,618)
Balance – September 30, 2020	<u>30,490,756</u>	<u>15,793,530</u>

Stock option plan

The Corporation has adopted an incentive stock option plan, which provides that the Board of Directors of the Corporation may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants to the Corporation, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance under the stock option plan shall not exceed 10% of the issued and outstanding common shares exercisable for a period of up to ten years.

360,000 stock options have been issued during the nine months ended September 30, 2020 (September 30, 2019 – 294,000). For the nine months ended September 30, 2020 and September 30, 2019, shares issuable under the Corporation's stock option plan have been excluded from diluted earnings per share as the effect is anti-dilutive.

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All options are settled in Western common shares. The compensation costs for options granted is calculated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.47% – 2.16%
Vesting period	nil
Expected life of stock option	10 years
Volatility	50% – 70%
Dividends	-

The following stock options were outstanding as at September 30, 2020:

Expiry date	Exercise price \$	Number of options	Remaining contractual life (years)	Fair value of options \$
February 24, 2026	0.50	790,000	5.41	0.5981
April 6, 2026	0.56	140,000	5.52	0.4554
April 21, 2027	0.65	30,000	6.56	0.3914
June 19, 2027	0.65	150,000	6.72	0.3279
July 4, 2028	0.50	320,000	7.76	0.2316
August 23, 2029	0.40	294,000	8.87	0.2539
June 1, 2030	0.27	360,000	9.67	0.1743

Share repurchases

The Corporation has regulatory approval for a normal course issuer bid (the “Bid”) whereby Western may purchase up to a total of 1,500,000 common shares in the capital of the Corporation (common shares) representing approximately 4.9% of the 30,490,756 common shares currently issued and outstanding. The Bid is for a one-year term and is reviewed for renewal annually. All acquisitions of common shares by the Corporation pursuant to the Bid will be made through the facilities of the exchange at the market price of the common shares at the time of the acquisition. On December 11, 2019, the board of directors approved the renewal of the Bid for another year. Each renewal is subject to regulatory approval before it can proceed.

For the period ended September 30, 2020, 90,000 common shares were repurchased at a total price of \$22,450 (September 30, 2019 – 123,000 common shares were repurchased at a total price of \$45,908). All shares repurchased are cancelled by the Corporation at the end of the month in which they are repurchased with a reduction to share capital at their average issued price, which totalled \$46,618 for the nine months ended September 30, 2020 (September 30, 2019 – \$63,711). The difference between the issued price and the repurchase price of the shares repurchased is recorded to contributed surplus.

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9 Capital management

The Corporation's capital consists of share capital and debt. The Corporation's objective for managing capital is to maintain sufficient capital to cover Western's expenses and to identify, evaluate and execute acquisitions of private businesses that meet Western's investment criteria.

The Corporation sets the amount of capital in relation to risk and manages the capital structure and makes adjustments to it in light of changes to economic conditions and the risk characteristics of the underlying assets.

The Corporation's objectives when managing capital are:

- to maintain a flexible capital structure, which optimizes the cost of capital and acceptable risk; and
- to maintain investor, creditor and market confidence in order to sustain the future development of the business.

The Corporation is not subject to any externally or internally imposed capital requirements as at September 30, 2020.

10 Financial instruments

The Corporation, as part of its operations, carries financial instruments consisting of cash, accounts receivable, due from related parties, operating loan, accounts payable and accrued liabilities, loans and convertible debentures. It is management's opinion that the Corporation is not exposed to significant credit, interest or currency risks arising from these financial instruments, except as otherwise disclosed.

Fair value

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Corporation classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities.
- Level 2 – Fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (derived from prices).
- Level 3 – Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

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The carrying amounts of cash, accounts receivable, other receivables, due from related parties, operating loan and accounts payable and accrued liabilities approximate their fair value due to the short-term maturities of these items. The fair value of the long-term amounts due from related parties approximates their fair value as any effect that discounting might have on the balance is not expected to have a material effect on the value. The fair value of the convertible debentures was calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the issuance date.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Corporation's exposure to credit risk is primarily related to cash held with financial institutions and the carrying value of its amounts due from related parties. The impact of the Pandemic has potentially increased this risk from exposure to associate liquidity risks. The Corporation continuously evaluates the financial condition of its related parties in order to mitigate such risk. In the event that losses do occur, all impairments are recognized in profit or loss. During the current period, the Corporation recognized credit losses on amounts due from an associate resulting from the Pandemic.

The Corporation's maximum exposure to credit risk, as related to certain financial instruments as identified in the table below, approximates the carrying value of the assets of the Corporation's interim statement of financial position.

	September 30, 2020 \$	December 31, 2019 \$
Cash	5,335	149,868
Accounts receivables	-	220
Other receivables	-	600,000
Due from related parties	1,023,308	336,380
	<u>1,028,643</u>	<u>1,086,468</u>

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. Policies and practices used include the preparation of budgets and forecasts that are regularly monitored and updated as considered necessary. Cash requirements are monitored on a monthly basis and short-term liquidity risks have been mitigated through the use of an operating loan facility (note 5).

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The Corporation's accounts payable are due within 12 months and are subject to normal trade terms. The table below summarizes the future undiscounted contractual cash flow requirements as at September 30, 2020 for its financial liabilities.

As at September 30, 2020							
	Carrying amount \$	Contractual cash flow \$	Less than 1 year \$	2021 \$	2022 \$	2023 \$	2024 \$
Accounts payable and accrued liabilities	150,030	150,030	150,030	-	-	-	-
Operating loan (note 5)	619,906	629,177	629,177	-	-	-	-
Shareholder loan (note 6)	1,200,000	208,590	12,270	49,080	49,080	49,080	49,080
Convertible debentures (note 7)	3,068,675	5,050,000	-	300,000	300,000	300,000	4,150,000
	<u>5,038,611</u>	<u>6,037,797</u>	<u>791,477</u>	<u>349,080</u>	<u>349,080</u>	<u>349,080</u>	<u>4,199,080</u>

As at December 31, 2019							
	Carrying amount \$	Contractual cash flow \$	Less than 1 year \$	2021 \$	2022 \$	2023 \$	2024 \$
Accounts payable and accrued liabilities	163,180	163,180	163,180	-	-	-	-
Operating loan (note 5)	1,188,679	1,235,830	1,235,830	-	-	-	-
Convertible debentures (note 7)	3,003,866	5,350,000	300,000	300,000	300,000	300,000	4,150,000
	<u>4,355,725</u>	<u>6,749,010</u>	<u>1,699,010</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>4,150,000</u>

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation has access to an operating loan with a variable interest rate. Based on outstanding amounts under the credit facility as at September 30, 2020, a 1% movement in the prime rate would change the interest expense by approximately \$6,199 (December 31, 2019 – \$11,887).

The convertible debentures and loan from related party pay interest at a fixed interest rate.

b) Foreign currency risk

The Corporation does not have assets or liabilities denominated in a foreign currency.

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11 Related party transactions

In accordance with the terms of a management fee agreement, Western earns an annual management fee from certain of its associates, payable on a quarterly basis. In the nine months ended September 30, 2020, management fees of \$337,500 were earned (September 30, 2019 – \$262,500). As at September 30, 2020, \$1,023,308 was due from associates (December 31, 2019 – \$336,380), which is composed of cash advances, unpaid management fees, expense reimbursements and interest. \$975,177 of this amount is classified as a long-term receivable as certain bank covenants of some associates prevent amounts being paid to shareholders as at September 30, 2020 (December 31, 2019 – \$313,208). \$150,000 of amounts due from associates were recognized as credit losses during the period.

Effective January 1, 2020, amounts payable from GlassMasters to the Corporation are subject to 12% interest per annum compounded monthly. Interest shall accrue on all amounts owing to Western including management fees and cash advances. As at September 30, 2020, \$674,411 is due to Western from GlassMasters (December 31, 2019 – \$234,458).

During the nine months ended September 30, 2020, the Corporation borrowed \$1.2 million from Golden. See note 6 for further details.

During the nine months ended September 30, 2020, Western purchased inventory on behalf of Ocean. The inventory consists of consumer home type products. The inventory is owned by Western until needed by Ocean to satisfy inventory orders from their customers. The substance of the transaction is viewed as a non-recourse loan to Ocean with inventory as collateral. The loan is considered not to represent solely payments of principal and interest and accordingly is carried at fair value through profit and loss. Western is entitled to a 5% markup when the inventory is sold to Ocean and the expectation of receiving these amounts is factored into its fair value model, which initially resulted in measurement of the loan at the cost of the inventory the Corporation purchased. The balance is classified as long-term as it is uncertain if it will be sold to Ocean within the next 12 months. During the nine months ended September 30, 2020, \$176,288 of the original amount purchased has been sold to Ocean. As at September 30, 2020, Western had \$300,767 included in the due from related parties representing the value of inventory on hand. There are no other terms in place between Ocean and the Corporation related to this inventory.

Key management of Western includes the Corporation's executives and directors. During the nine months ended September 30, 2020, \$326,757 was paid or payable to members of management (September 30, 2019 – \$326,885). Share-based compensation was awarded to directors and management of the Corporation, as disclosed in note 8.