

**The Western Investment Company
of Canada Limited**

Financial Statements
December 31, 2019 and 2018



Independent auditor's report

To the Shareholders of The Western Investment Company of Canada Limited

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Western Investment Company of Canada Limited and its subsidiary (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's financial statements comprise:

- the statements of financial position as at December 31, 2019 and 2018;
- the statements of income and comprehensive income for the years then ended;
- the statements of changes in equity for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit 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 financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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

PricewaterhouseCoopers LLP
111-5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



In connection with our audit 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 audit, or otherwise appears to be materially misstated.

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. 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 IFRS, 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Ashley Yanke.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
May 11, 2020

The Western Investment Company of Canada Limited

Statements of Financial Position

As at December 31, 2019 and 2018

	2019 \$	2018 \$
Assets		
Current assets		
Cash	149,868	8,183
Accounts receivable	220	24,107
Other receivables	600,000	-
Due from related parties (note 13)	23,172	125,176
Prepays	2,477	1,662
	775,737	159,128
Due from related parties (note 13)	313,208	-
Investment in associates (note 5)	21,487,906	17,681,631
Total assets	22,576,851	17,840,759
Liabilities		
Current liabilities		
Operating loan (note 6)	1,188,679	1,519,896
Accounts payable and accrued liabilities	163,180	155,670
	1,351,859	1,675,566
Convertible debentures (note 7)	3,003,866	-
Total liabilities	4,355,725	1,675,566
Shareholders' Equity		
Share capital (note 8)	15,840,148	15,903,859
Contributed surplus (note 8)	1,233,177	1,111,161
Equity component of convertible debentures (note 7)	793,815	-
Accumulated other comprehensive income	22,978	71,808
Retained earnings (deficit)	331,008	(921,635)
Total equity attributable to common shareholders	18,221,126	16,165,193
Total liabilities and equity attributable to common shareholders	22,576,851	17,840,759
Subsequent events (note 14)		

Approved by the Board of Directors

"Scott Tannas" Director

"Jennie Moushos" Director

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

The Western Investment Company of Canada Limited

Statements of Income and Comprehensive Income

For the years ended December 31, 2019 and 2018

	2019 \$	2018 \$
Income		
Income from equity investments (note 5)	766,652	1,888,816
Gain on acquisition (note 5)	1,206,453	-
Dividends from equity investments (note 13)	-	45,705
Interest income	2,896	2,455
Management fees (note 13)	383,333	237,500
	<u>2,359,334</u>	<u>2,174,476</u>
Expenses		
Legal	48,630	122,235
Accounting	111,902	115,093
Regulatory	42,517	44,932
Consulting	4,215	53,708
Other	52,699	89,375
Management and directors' compensation (note 13)	399,882	476,899
Interest on debentures (note 7)	341,436	-
Interest on operating loan (note 6)	30,763	66,591
Share-based compensation expense (note 8)	74,647	74,112
	<u>1,106,691</u>	<u>1,042,945</u>
Net income for the year	1,252,643	1,131,531
Other comprehensive income – net of tax		
Item that may be reclassified to profit or loss		
Cumulative translation adjustment	(48,830)	71,808
Net income and comprehensive income for the year	<u>1,203,813</u>	<u>1,203,339</u>
Net income per share		
Basic and diluted	0.041	0.037
Weighted average number of shares outstanding		
Basic and diluted	30,607,008	30,640,288

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

The Western Investment Company of Canada Limited

Statements of Changes in Equity

For the years ended December 31, 2019 and 2018

	Number of shares	Share capital \$	Contributed surplus \$	Equity component of convertible debentures \$	Accumulated other comprehensive income \$	(Deficit) earnings \$	Total \$
Balance – December 31, 2017	30,317,756	15,737,376	1,036,546	-	-	(2,053,166)	14,720,756
Issuance of common shares	400,000	176,000	-	-	-	-	176,000
Deferred share issuance costs	-	(2,250)	-	-	-	-	(2,250)
Share repurchases	(14,000)	(7,267)	503	-	-	-	(6,764)
Issuance of share-based compensation	-	-	74,112	-	-	-	74,112
Cumulative translation adjustment	-	-	-	-	71,808	-	71,808
Net income for the year	-	-	-	-	-	1,131,531	1,131,531
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	-	-	-	-	(48,830)	-	(48,830)
Debenture conversion feature (note 7)	-	-	-	793,815	-	-	793,815
Issuance of warrants (note 7)	-	-	29,566	-	-	-	29,566
Issuance of share-based compensation	-	-	74,647	-	-	-	74,647
Net income for the year	-	-	-	-	-	1,252,643	1,252,643
Balance – December 31, 2019	30,580,756	15,840,148	1,233,177	793,815	22,978	331,008	18,221,126

The Western Investment Company of Canada Limited

Statements of Cash Flows

For the years ended December 31, 2019 and 2018

	2019 \$	2018 \$
Cash provided by (used in)		
Operating activities		
Net income for the year	1,252,643	1,131,531
Adjustments for non-cash items		
Gain on acquisition	(1,206,453)	-
Income from equity investments (note 5)	(766,652)	(1,888,816)
Interest on debentures	341,436	-
Share-based compensation (note 8)	74,647	74,112
Net change in working capital	(467,413)	(25,962)
Cash used in operating activities	(771,792)	(709,135)
Investing activities		
Advances to associates (note 13)	(313,208)	-
Distributions from associates (note 13)	408,000	151,136
Purchase of investments in associates (note 5)	(2,290,000)	(3,075,000)
Cash used in investing activities	(2,195,208)	(2,923,864)
Financing activities		
(Repayments) advances on operating loan (note 6)	(331,217)	1,519,896
Proceeds from issuance of convertible debentures (note 7)	4,000,000	-
Debenture issue costs (note 7)	(371,176)	-
Interest paid on debentures (note 7)	(143,014)	-
Share issuance costs	-	(2,250)
Repurchase of shares (note 8)	(45,908)	(6,764)
Cash provided by financing activities	3,108,685	1,510,882
Increase (decrease) in cash during the year	141,685	(2,122,117)
Cash – Beginning of year	8,183	2,130,300
Cash – End of year	149,868	8,183
Supplemental information		
Income taxes paid	-	-
Interest paid	173,777	66,591

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

The Western Investment Company of Canada Limited

Notes to Financial Statements

December 31, 2019 and 2018

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.

The financial statements of the Corporation for the year ended December 31, 2019 were approved and authorized for issuance by the Corporation’s board of directors on May 11, 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 5 for additional information on the acquisition).

GlassMasters is an automotive glass service company providing repair and replacement of automotive glass (“Service Division”) and an automotive glass warehouse that imports to sell wholesale a full line of quality aftermarket glass parts and materials (“Wholesale Division”). GlassMasters’ principal markets are in Alberta and Saskatchewan.

The Service Division sells to retail and account based customers. Account based customers are comprised of dealerships, auto-body shops, fleet companies and car rental companies. Services are provided at ten retail locations as well as by mobile repair and installation units. The majority of the Wholesale Division’s sales are to

The Western Investment Company of Canada Limited

Notes to Financial Statements

December 31, 2019 and 2018

the Service Division from its two locations in Calgary and Edmonton. The remaining balance of the Wholesale Division's sales is to other retailers in Alberta and Saskatchewan.

Golden Healthcare – Equity Investment

On September 1, 2017, the Corporation obtained a 30% equity investment in three Saskatchewan senior care homes (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. The homes that operate under the Golden Health Care banner include a number of senior care homes that Western does not have ownership in.

Golden Health Care is the largest full-service retirement operator in Saskatchewan. Homes in Western's portfolio have been operating at or near 100% occupancy rates with significant waiting lists.

Ocean Sales Group Ltd. – Equity Investment

On January 1, 2018, the Corporation obtained a 75% interest in the 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, it has four strategically located warehouses in Alberta, Washington, Ontario and Quebec.

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 50 years of operations in Western Canada. Headquartered in Calgary, Alberta, it serves customers through a large grocery retail and food service network 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 an Alberta registered and regulated insurance company with plans to offer speciality and surplus lines of commercial and property insurance within the western Canadian insurance marketplace. Fortress is now registered in all four western Canadian provinces with regulatory licences in British Columbia, Alberta, Saskatchewan and Manitoba.

The Western Investment Company of Canada Limited

Notes to Financial Statements

December 31, 2019 and 2018

3 Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

Basis of measurement

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency, and were prepared on a going concern basis, under the historical cost convention, except as noted in note 4 to the financial statements.

The preparation of timely financial statements necessitates the use of judgements, estimates and assumptions that will affect assets, liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting periods.

4 Summary of significant accounting policies

Cash

Cash consists of demand deposits with accredited financial institutions in Canada.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are obligations to pay for goods and services that have been purchased in the normal course of business and are classified as current liabilities if the payment is due within one year or less. If not, they are presented as non-current liabilities. Accounts payable and accrued liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Revenue recognition

The Corporation's revenue includes management fees earned from its associates. Revenue is recognized when the Corporation has satisfied its performance obligations, which occurs evenly over the term of the contract. The Corporation's revenue transactions do not include any financing components. The Corporation does not have any long-term contracts with unfilled performance obligations and does not disclose information about remaining performance obligations with an original expected duration of 12 months or less.

Stock-based compensation

The Corporation has a stock option plan in accordance with the policies of the TSX Venture Exchange, which allows the board of directors to grant options to directors, officers, employees and consultants of the Corporation to purchase common shares of the Corporation at a stipulated price. The option grants will not exceed 10% of the issued and outstanding common shares of the Corporation. In addition, the number of common shares reserved for issuance to any one person will not exceed 5% of the issued and outstanding

The Western Investment Company of Canada Limited

Notes to Financial Statements

December 31, 2019 and 2018

common shares and the number of common shares reserved for issuance to any consultant or employee will not exceed 2% of the issued and outstanding common shares.

The Corporation measures these amounts at fair value at the grant date using the Black-Scholes option pricing model and compensation expense is recognized over the vesting period.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Use of the equity method for the Corporation's investment in associates

Western holds an equal or majority equity interest in GlassMasters, Ocean, Foothills and Fortress. However, pursuant to unanimous shareholders' agreements governing these associates, Western does not have the right to appoint a majority of board members. The unanimous shareholders' agreements mandate certain other terms and conditions, including that certain significant decisions require the approval of a majority of board members in order to be approved (i.e. approval of annual business plan and budget), and this would include the appointment or removal of senior management and board members. As a result, Western's investment in these associates does meet the definition of 'significant influence' and has been accounted for as an investment in associate using the equity method of accounting.

Investment entities

Western has assessed if the Corporation would qualify as an investment entity as defined in IFRS 10, "Consolidated Financial Statements", which requires that a company invest funds solely for returns from capital appreciation, investment income, or both, and evaluates the performance of its investments on a fair value basis. Western noted that the Corporation would not qualify as an investment entity as there is no clear exit strategy for its investments as part of its business plan for the investments and does not primarily evaluate its investments based on their fair values. As a result, Western has accounted for its investment in associates using the equity method.

Share-based compensation

Option pricing models require the input of highly sensitive assumptions including the expected price volatility, expected dividends and expected life. Changes in the subjective input assumptions can materially affect the fair value estimate.

Compound financial instruments

Western has issued convertible debentures that require judgement to determine whether the security should be classified as an equity instrument, a financial liability or a compound financial instrument with both equity and

The Western Investment Company of Canada Limited

Notes to Financial Statements

December 31, 2019 and 2018

liability components. Key factors impacting the classification of these instruments include the existence of maturity dates, mandatory interest and principal payments, conversion and redemption rights, subordination to other equity instruments and the ability to settle the instrument in cash or equity.

Principles of consolidation

Associates

An associate is an entity over which the Corporation exercises significant influence, without having control or joint control. The Corporation's investment in associates is accounted for using the equity method. Under this method, investments are initially recognized at cost and, thereafter, the carrying amount is increased or decreased by the Corporation's post-acquisition share of the associate's profit or loss and decreased by distributions received.

The Corporation's share of its associate's post-acquisition profits or losses is recognized in the statement of income and comprehensive income, and its share of the post-acquisition movements in other comprehensive loss is recognized in other comprehensive income (loss). The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

The Corporation determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Corporation calculates the amount of the impairment as the difference between the recoverable amount and its carrying value and recognizes the amount as an impairment to investment in associates on the statement of income and comprehensive income. In assessing the recoverable amounts for the investments in associates, the Corporation applies International Accounting Standard 36 to the carrying amount of the investment and IFRS 9 to any other interests in the associates that do not form part of the net investment.

Current income tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the statement of financial position and their corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax basis. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The Western Investment Company of Canada Limited

Notes to Financial Statements

December 31, 2019 and 2018

Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred income tax is provided on temporary differences arising on investment in associates, except for deferred income taxes where the timing of the reversal of the temporary difference is controlled by the Corporation and it is probable that the temporary difference will not reverse in the foreseeable future.

Financial instruments

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized on extinguishment. A modification of a financial liability with an existing lender is evaluated to determine whether the amendment results in substantially different terms in which case it is accounted for as an extinguishment.

All financial instruments are initially measured at fair value, adjusted for transactions costs (where applicable), on the statement of financial position. The Corporation measures financial instruments in subsequent periods depending on how the instrument has been classified. Financial instruments classified as measured at amortized costs are measured initially at fair value, and subsequently at amortized cost using the effective interest rate method. This includes the Corporation's cash and cash equivalents, amounts due from related parties, the operating loan, accounts payable and accrued liabilities and the convertible debentures. The Corporation does not have any financial assets categorized as fair value through profit or loss, or fair value through other comprehensive income.

Financial assets and liabilities are not offset unless they are with a counterparty for which the Corporation has a legally enforceable right to settle the financial instruments on a net basis and the Corporation intends to settle on a net basis.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is determined based on cash flow projections consistent with the most recent budget and business plan approved by management. The discount rate applied reflects current assessments by the market of the time value of money and the risks specific to the asset. The calculation takes into account net cash flows to be received on disposal of the asset at the end of its useful life. Fair value less costs to sell is the estimated amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, less costs to sell. These values are determined based on market data (comparison with similar listed companies, value attributed in recent transactions and stock market prices), or in the absence of reliable data, based on discounted future cash flows.

The Western Investment Company of Canada Limited

Notes to Financial Statements

December 31, 2019 and 2018

An impairment loss is recognized when the carrying amount of any asset exceeds its estimated recoverable amount. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets and the loss is recognized in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Related party transactions

Transactions with related parties are entered into at the exchange amounts, which are the amounts established and agreed to by the parties.

Changes to significant accounting policies

IFRS 16, Leases

Adoption

The Corporation adopted IFRS 16, Leases (“IFRS 16”), effective January 1, 2019, which requires entities to recognize right-of-use (“ROU”) assets and lease obligations on the statement of financial position. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. On January 1, 2019, the Corporation adopted IFRS 16 using the modified retrospective approach.

Transition

With the modified retrospective approach, the cumulative effect of adopting IFRS 16 is recognized as an adjustment to the opening balance of retained earnings as at January 1, 2019, with no restatement of comparative information. The Corporation’s associates have recognized ROU assets and lease liabilities of buildings, office space, vehicle and equipment leases. The nature of expenses related to those leases will change because companies will recognize a depreciation charge for ROU assets and interest expense on lease liabilities.

On adoption, management elected to use the following practical expedients permitted under the standard:

- account for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases;
- account for lease payments as an expense and not recognize a ROU asset if the underlying asset is of a low dollar value;
- apply a single discount rate to a portfolio of leases with similar characteristics;
- the use of hindsight to determine which renewal and termination options to include or exclude; and
- exclude initial direct costs from the measurement of the ROU asset on transition.

The Western Investment Company of Canada Limited

Notes to Financial Statements

December 31, 2019 and 2018

The Corporation itself does not have any leases affected by IFRS 16 on its statement of financial position and as such the adoption has no impact on our assets, liabilities or retained earnings. The adoption of this new standard by the Corporation's associates will affect the Corporation's equity share of its retained earnings subsequent to the adoption on January 1, 2019. Additionally, the summarized financial information for associates as presented in these notes for the year ended December 31, 2019 now includes the recognized ROU assets and lease liabilities related to the associates' leases.

Leases are recognized as a ROU asset and a corresponding lease liability at the date of which the leased asset is available for use by the Corporation. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be paid by the lessee under residual value guarantees, the exercise price of purchase options if the lessee is reasonably certain to exercise that option and payments of penalties for terminating the lease, less any lease incentives receivable. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Corporation will exercise a purchase, extension or termination option that is within the control of the Corporation. These payments are discounted using the Corporation's incremental borrowing rate when the rate implicit in the lease is not readily available.

ROU assets are measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date, any direct costs and restoration costs.

5 Investment in associates

The investment in associates balance consists of:

	2019 \$	2018 \$
Western's interest in Fortress Insurance Company	2,160,744	-
Western's interest in Foothills Creamery Ltd.	4,383,907	3,815,411
Western's interest in Ocean Sales Group Ltd.	3,475,419	3,824,888
Western's interest in Golden Healthcare group of companies	4,848,227	5,144,418
Western's interest in GlassMasters ARG Autoglass Two Inc.	6,619,609	4,896,914
	<u>21,487,906</u>	<u>17,681,631</u>

a) Nature of investments in associates

Glass Masters 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. In accordance with the share purchase agreement,

The Western Investment Company of Canada Limited

Notes to Financial Statements

December 31, 2019 and 2018

amounts owing to the vendor of \$412,820 were written off. Western recognized its share of this gain, \$253,058, as part of its bargain purchase gain on the share acquisition for a total gain on acquisition of \$876,749.

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.

As part of the Corporation's qualifying transaction, under the terms of its initial asset purchase agreement, GlassMasters agreed to pay contingent consideration to the vendor under certain circumstances. The estimated fair value of this contingent consideration payable recognized by GlassMasters (100%) as at December 31, 2019 was \$188,988 (December 31, 2018 – \$606,934), which was estimated using probability-weighted discounted future cash flows. As at December 31, 2019, all remaining shares owned by the vendor were purchased by Western and its partner. Under the December 31, 2019 share purchase agreement, the vendor released all rights to any remaining contingent consideration payable under the original asset purchase agreement bringing the total contingent consideration payable as at December 31, 2019 to \$nil.

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 of December 31, 2019, GlassMasters was in breach of certain of its covenants and has therefore classified its outstanding credit facility balances as current.

Golden Healthcare 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 Healthcare 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 will be 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 and accordingly, the Corporation is using the equity method to account for this investment.

The Western Investment Company of Canada Limited

Notes to Financial Statements

December 31, 2019 and 2018

Certain financial covenants have been placed on Ocean, which could impact the ability to provide distributions to its equity investors, including the Corporation. As of December 31, 2019, Ocean was in breach of certain of its covenants and has therefore classified its outstanding credit facility balances as current.

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.

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 December 31, 2019 (100%) was \$542,189 (December 31, 2018 – \$2,818,413) 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. 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 and accordingly, the Corporation is using the equity method to account for this investment.

b) Summarized financial information for associates

The below summarized financial information of each 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.

The Western Investment Company of Canada Limited

Notes to Financial Statements

December 31, 2019 and 2018

Summarized financial information as at December 31, 2019 and for the year then ended

	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	22,357,626	8,518,681	18,817,933	42,033,195	597,497
Net income and comprehensive income	491,302	370,372	(465,959)	1,127,972	282,080

(1) Fortress summarized revenue and income financial information presented for the period since the acquisition date of May 6, 2019 to December 31, 2019.

Summarized financial information as at December 31, 2018 and for the year then ended

	GlassMasters \$	Golden \$	Ocean⁽²⁾ \$	Foothills^(1,3) \$
Current assets	5,218,365	1,617,797	7,752,614	9,189,174
Non-current assets	14,928,687	19,104,421	5,267,852	24,855,416
Current liabilities	4,452,336	1,376,744	7,883,202	22,888,071
Non-current liabilities	5,910,627	10,571,703	4,080	3,510,803
Net assets	9,784,089	8,773,771	5,133,184	7,645,716
Revenue	20,709,267	8,501,008	21,196,260	33,894,011
Net income and comprehensive income	1,201,194	559,731	633,185	1,419,735

(1) Foothills summarized revenue and income financial information presented for the period since the acquisition date of February 28, 2018 to December 31, 2018.

(2) Bank debt has been reclassified to current for the December 31, 2018 comparative period to align with classifications based on breaches of certain covenants.

Western noted no impact on the equity pick-up or investment in associate account balances as a result of these changes.

(3) Certain balances of the summarized financial information for Foothills as of December 31, 2018 have been updated to reflect revisions and reclassifications to the separate Foothills financial statements. Western noted no impact on the equity pick-up or investment in associate account balances as a result of these changes.

Summarized financial information as at acquisition date

	Fortress May 6, 2019 \$
Current assets	12,035,090
Non-current assets	-
Current liabilities	8,194,374
Non-current liabilities	-
Net assets	3,840,716

The Western Investment Company of Canada Limited

Notes to Financial Statements

December 31, 2019 and 2018

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 financial statements and the summarized financial information.

Reconciliation of the carrying value for the year ending December 31, 2019

	GlassMasters \$	Golden \$	Ocean \$	Foothills \$	Fortress \$	Total \$
Western ownership interest	50.1 – 61.3%	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	600,000 ⁽³⁾	-	-	-	1,690,000 ⁽¹⁾	2,290,000
Bargain purchase gain	876,749 ⁽³⁾	-	-	-	329,704 ⁽¹⁾	1,206,453
Share of dividends paid out	-	(408,000)	-	-	-	(408,000)
Share of comprehensive income (loss)	245,946	111,809	(300,639)	568,496	141,040 ⁽²⁾	766,652
Share of other comprehensive loss	-	-	(48,830)	-	-	(48,830)
Investment in associates as of December 31, 2019	6,619,609	4,848,227	3,475,419	4,383,907	2,160,744	21,487,906

(1) Western's share of Fortress' net assets presented as at the acquisition date of May 6, 2019.

(2) Western's share of Fortress' comprehensive income presented for the period since the acquisition date of May 6, 2019 to December 31, 2019.

(3) Western's share of GlassMasters' net assets acquired as at the acquisition date of December 31, 2019.

Reconciliation of the carrying value for the year ended December 31, 2018

	GlassMasters \$	Golden \$	Ocean \$	Foothills \$	Total \$
Western ownership interest	50.1%	25.0 – 30.0%	75.0%	50.4%	
Share of net assets as of December 31, 2017	4,295,596	4,975,548	-	-	9,271,144
Additions	-	-	3,349,999 ⁽¹⁾	3,251,000 ⁽²⁾	6,600,999
Share of dividends paid out	-	-	-	(151,136)	(151,136)
Share of comprehensive income	601,318	168,870	403,081	715,547 ⁽³⁾	1,888,816
Share of other comprehensive income	-	-	71,808	-	71,808
Investment in associates as of December 31, 2018	4,896,914	5,144,418	3,824,888	3,815,411	17,681,631

(1) Western's share of Ocean's net assets presented as at the acquisition date of January 1, 2018.

(2) Western's share of Foothills' net assets presented as at the acquisition date of February 28, 2018.

(3) Western's share of Foothills' comprehensive income presented for the period since acquisition date of February 28, 2018 to December 31, 2018.

The Western Investment Company of Canada Limited

Notes to Financial Statements

December 31, 2019 and 2018

6 Operating loan

The Corporation has a demand revolving operating loan facility agreement with a Canadian financial institution (the “facility”) to a 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. The facility 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:

- a) general security agreement over all present and after acquired property;
- b) share pledge agreement in respect to the Corporation’s interest in some of its associates;
- c) assignment of material contracts; and
- d) continuing guarantee from any material wholly owned subsidiaries of the Corporation.

The operating loan is subject to review by the bank on August 31 annually, or at any time at the discretion of the Lender. As at December 31, 2019, \$1,188,679 was drawn on the facility (December 31, 2018 – \$1,519,896).

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 on 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 Western Investment Company of Canada Limited

Notes to Financial Statements

December 31, 2019 and 2018

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%.

8 Share capital

Authorized

Unlimited number of common shares, without par value
Unlimited number of preferred shares, without par value

Issued

During the year ended December 31, 2019, no common shares were issued (December 31, 2018 – 400,000 issued at a market price of \$0.44 per share pursuant to the Corporation's acquisition of Foothills). There are no preferred shares issued and outstanding as at December 31, 2019 or December 31, 2018. The following is a summary of the share capital issued at year-end.

	Number of shares	Amount \$
Balance – December 31, 2017	30,317,756	15,737,376
Issuance of common shares	400,000	176,000
Deferred shares issuance costs	-	(2,250)
Share repurchase	(14,000)	(7,267)
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

Stock option plan

The Corporation has an incentive stock option plan. In 2019, the Corporation granted 294,000 incentive stock options to directors and management at an exercise price of \$0.40 per share (2018 – 320,000 stock options exercisable at \$0.50 per share). The fair value of the options granted in 2019 was \$74,647 (2018 – \$74,112) and is included in share-based compensation expense. The stock options are exercisable for a period of 10 years from the date of grant. For the years ended December 31, 2019 and December 31, 2018, shares issuable under the Corporation's stock option plan have been excluded from diluted earnings per share as the effect is anti-dilutive.

The Western Investment Company of Canada Limited

Notes to Financial Statements

December 31, 2019 and 2018

On February 6, 2018, 90 days after the resignation of a director, 200,000 options were forfeited and on February 24, 2018, 900,000 agent options expired.

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 December 31, 2019:

Expiry date	Exercise price \$	Number of options	Remaining contractual life (years)	Fair value of options \$
February 24, 2026	0.50	960,000	6.16	0.5981
April 6, 2026	0.56	140,000	6.27	0.4554
April 21, 2027	0.65	30,000	7.31	0.3914
June 19, 2027	0.65	180,000	7.47	0.3279
July 4, 2028	0.50	320,000	8.52	0.2316
August 23, 2029	0.40	294,000	9.62	0.2539

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 30,580,756 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 year ended December 31, 2019, 123,000 common shares were repurchased at a total price of \$45,908 (December 31, 2018, 14,000 common shares were repurchased at a total price of \$6,764). 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 \$63,711 for the year ended December 31, 2019 (December 31, 2018 – \$7,267). The difference between the issued price and the repurchase price of the shares repurchased is recorded to contributed surplus.

The Western Investment Company of Canada Limited

Notes to Financial Statements

December 31, 2019 and 2018

9 Income taxes

a) Income tax expense

	2019 \$	2018 \$
Income before income taxes	1,252,643	1,131,531
Income tax rate	26.5%	27%
Expected income tax expense	331,950	305,513
Non-deductible portion of loss	7,897	887
Equity income	(203,163)	(509,980)
Bargain purchase gain	(319,710)	-
Interest payments on debentures	52,582	-
Financing fees deferred for tax	(116,172)	(98,320)
Non-deductible stock compensation	19,782	20,010
Tax benefits of current losses not recognized	226,834	281,890
Income tax	-	-

b) Deferred income taxes

As at December 31, 2019, the Corporation's unrecognized deferred tax asset is as follows:

	2019 \$	2018 \$
Share issuance costs	215,047	250,397
Unrealized capital loss	(63,895)	71,745
Convertible debentures	(249,034)	-
Non-capital losses	970,389	804,552
Unrecognized deferred tax asset	872,507	1,126,694

The aggregate outside basis differences, being the differences between the carrying amount of the investments in associates and the tax basis, as at December 31, 2019 amounted to (\$255,579) (2018 – \$265,724). No deferred tax asset has been recognized as at December 31, 2019 as the Corporation's ability to recognize is not probable in the foreseeable future.

10 Supplementary cash flow information

During the year ended December 31, 2018, the Corporation issued 400,000 common shares with a value of 176,000 relating to non-cash consideration for the acquisition of Foothills.

The Western Investment Company of Canada Limited

Notes to Financial Statements

December 31, 2019 and 2018

11 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 December 31, 2019 and 2018.

12 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 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.

The carrying amount of cash, accounts receivable, due from related parties, operating loan and accounts payable and accrued liabilities approximates its fair value due to the short-term maturities of these items. The fair value of the long-term amounts due from related parties approximates its 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 Western Investment Company of Canada Limited

Notes to Financial Statements

December 31, 2019 and 2018

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 the 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. Due to the nature of cash being held at a major Canadian bank and the receivable amounts being due from creditworthy related parties, the Corporation believes it has no significant credit risk. 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.

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 statement of financial position.

	2019 \$	2018 \$
Cash	149,868	8,183
Accounts receivable	220	24,107
Other receivables	600,000	-
Due from related parties	336,380	125,176
	1,086,468	157,466

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come 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 6).

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 December 31, 2019 for its financial liabilities.

The Western Investment Company of Canada Limited

Notes to Financial Statements

December 31, 2019 and 2018

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	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
	4,355,725	6,749,010	1,699,010	300,000	300,000	300,000	4,150,000
As at December 31, 2018							
	Carrying amount \$	Contractual cash flow \$	Less than 1 year \$	2021 \$	2022 \$	2023 \$	2024 \$
Accounts payable and accrued liabilities	155,670	155,670	155,670	-	-	-	-
Operating loan	1,519,896	1,580,103	1,580,103	-	-	-	-
	1,675,566	1,735,773	1,735,773	-	-	-	-

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 December 31, 2019, a 1% movement in the prime rate would change the interest expense by approximately \$11,887 (2018 – \$15,199).

The convertible debentures pay interest at a fixed interest rate.

b) Foreign currency risk

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

The Western Investment Company of Canada Limited

Notes to Financial Statements

December 31, 2019 and 2018

13 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 2019, \$383,333 of management fees was earned from associates (December 31, 2018 – \$237,500) and as at December 31, 2019, \$289,271 is due from associates for management fees (December 31, 2018 – \$124,793). As at December 31, 2019, \$313,208 of the amounts receivable from associates is recorded as a long-term receivable as certain bank covenants of some associates prevent amounts being paid to shareholders as at December 31, 2019 (2018 – \$nil).

Distributions in the form of dividends in the amount of \$408,000 were received from associates for the year ended December 31, 2019 (2018 – \$151,136). Dividends are recorded as a reduction in the carrying value of the equity investment.

Key management of Western includes the Corporation's executives and directors. During the year ended December 31, 2019, \$399,882 was paid or payable to members of management (2018 – \$407,899) and \$nil was paid to directors as part of the Corporation's time and expense policy (2018 – \$69,000). Share-based compensation was awarded to directors and management of the Corporation, as disclosed in note 8.

14 Subsequent events

Shareholder loans

On January 31, 2020, the Corporation received a \$1.2 million shareholder loan from Golden Healthcare. The loan bears interest at 4.09% annually payable monthly and matures on January 31, 2021 with an automatic annual renewal if all amounts of interest owing are not in default.

Effective January 1, 2020, amounts payable from GlassMasters to the Corporation will be subject to 12% interest per annum compounded monthly. Interest shall accrue on all amounts owing to Western including management fees and any cash advances that may be made to GlassMasters. From January 1, 2020 to the date of these financial statements Western has advanced an additional \$300,000 to GlassMasters.

In the first quarter of 2020, Western provided assistance to Ocean by purchasing inventory on its behalf. The intention was to sell the inventory back to Ocean once cash was available from the sale of this inventory. Due to COVID-19 (see below), Ocean's operations were impacted and as of the date of these financial statements, Western continues to own \$300,767 in inventory on behalf of Ocean.

COVID-19

Since December 31, 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing and closures of non-essential services, have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

The Western Investment Company of Canada Limited

Notes to Financial Statements

December 31, 2019 and 2018

Many of Western's associates have been severely impacted by the COVID-19 pandemic. Two of the five associates have experienced a significant decline in revenue starting in the middle of March 2020. These companies have had to dramatically reduce their workforce to adjust to reduced revenues. In response to the economic impact of the pandemic, they have had to adjust their operations for reduced demand, including applying for government assistance, revising payment terms on existing debt, seeking additional financing and overall reduce cash expenditures wherever possible. Another of our associates has a significant amount of its assets in marketable securities. As a result of the economic slowdown, the market value of these assets has been severely affected. At this time, it is not possible to reliably determine the impact these events will have on their financial position in 2020.

The Company has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended December 31, 2019 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remain unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Corporation for future periods.