The Western Investment Company of Canada Limited

Condensed Interim Financial Statements
(Unaudited)
June 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 for the interim reporting period ended June 30, 2020 have been prepared in accordance with IAS 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 CPA Canada for a review of condensed interim financial statements by an entity's auditor.

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The Western Investment Company of Canada Limited

Condensed Interim Statement of Financial Position

(Unaudited)

	As at June 30, 2020 $	As at December 31, 2019 $
Assets		
Current assets		
Cash	6,473	149,868
Accounts receivable	4,657	220
Other receivables	-	600,000
Due from related parties (note 11)	48,994	23,172
Prepaids	7,496	2,477
	67,620	775,737
Due from related parties (note 11)	914,872	313,208
Investment in associates (note 4)	18,149,879	21,487,906
Total assets	19,132,371	22,576,851
Liabilities		
Current liabilities		
Operating loan (note 5)	368,544	1,188,679
Accounts payable and accrued liabilities	126,822	163,180
	495,366	1,351,859
Loan from related party (note 6)	1,200,000	-
Convertible debentures (note 7)	3,095,856	3,003,866
Total liabilities	4,791,222	4,355,725
Shareholders' Equity		
Share capital (note 8)	15,809,070	15,840,148
Contributed surplus (note 8)	1,310,628	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	(3,690,900)	331,008
Total equity attributable to common shareholders	14,341,149	18,221,126
Total liabilities and equity attributable to common shareholders	19,132,371	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 June 30, 2020 $	For the three months ended June 30, 2019 $	For the six months ended June 30, 2020 $	For the six months ended June 30, 2019 $
Income				
Income (Loss) from equity investments (note 4)	716,827	375,269	(3,433,584)	476,092
Gain on acquisition (note 4)	-	230,358	-	230,358
Finance income	17,363	2,888	45,279	2,895
Management fees (note 11)	112,500	112,500	225,000	175,000
	846,690	721,015	(3,163,305)	884,345
Expenses				
Legal	19,280	41,175	24,272	42,549
Accounting	42,058	24,256	68,308	60,887
Regulatory	21,524	24,315	33,271	31,977
Consulting (recovery)	14,262	(24,904)	14,263	4,214
Other	5,811	9,126	16,813	24,857
Management compensation	167,437	151,714	244,265	254,703
Interest on debentures (note 7)	122,820	105,442	241,990	105,442
Interest on overdraft (note 5)	2,570	7,039	7,223	30,555
Interest on related party loan (note 6)	12,270	-	20,450	-
Share-based compensation expense (note 8)	62,748	-	62,748	-
Credit losses (note 11)	20,000	-	125,000	-
	490,780	338,163	858,603	555,184
Net income (loss) for the period	355,910	382,852	(4,021,908)	329,161
Other comprehensive income (loss) – net of tax				
Item that may be reclassified to profit or loss				
Cumulative translation adjustment (note 4)	-	(23,784)	95,558	(101,287)
Net income (loss) and comprehensive income (loss) for the period	355,910	359,068	(3,926,350)	227,874
Net income (loss) per share				
Basic and diluted	0.012	0.013	(0.132)	0.011
Weighted average number of shares outstanding				
Basic and diluted	30,524,053	30,580,756	30,552,404	30,633,695

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 of Changes in Equity

(Unaudited)

	Number of shares	Share capital $	Contributed surplus $	Equity component of convertible debentures $	Accumulated other comprehensive income $	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	(60,000)	(31,078)	14,703	-	-	-	(16,375)
Cumulative translation adjustment	-	-	-	-	95,558	-	95,558
Issuance of share-based compensation	-	-	62,748	-	-	-	62,748
Net loss and comprehensive loss for the period	-	-	-	-	-	(4,021,908)	(4,021,908)
Balance – June 30, 2020	30,520,756	15,809,070	1,310,628	793,815	118,536	(3,690,900)	14,341,149

	Number of shares	Share capital $	Contributed surplus $	Equity component of convertible debentures $	Accumulated other comprehensive income $	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	-	-	-	-	(101,287)	-	(101,287)
Debenture conversion feature (note 6)	-	-	-	793,814	-	-	793,814
Issuance of warrants	-	-	29,566	-	-	-	29,566
Net income and comprehensive income for the period	-	-	-	-	-	329,161	329,161
Balance – June 30, 2019	30,580,756	15,840,148	1,158,530	793,814	(29,479)	(592,474)	17,170,539

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

The Western Investment Company of Canada Limited

Condensed Interim Statement of Cash Flows

(Unaudited)

	For the six months ended June 30, 2020 $	For the six months ended June 30, 2019 $
Cash provided by (used in)		
Operating activities		
Net (loss) income for the period	(4,021,908)	329,161
Adjustments for non-cash items		
Loss (income) from equity investments (note 4)	3,433,584	(476,092)
Gain on acquisition	-	(230,358)
Interest on debentures	241,990	105,442
Share-based compensation (note 8)	62,748	-
Net change in non-cash working capital	528,364	(162,195)
Cash provided by (used in) operating activities	244,778	(434,042)
Investing activities		
Purchase of investment in associates (note 4)	-	(1,690,000)
Advances to/(from) associates (note 11)	(601,664)	1,620,000
Cash used in investing activities	(601,664)	(70,000)
Financing activities		
Repayments on operating loan (note 5)	(820,134)	(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)	(150,000)	-
Repurchase of shares	(16,375)	(45,908)
Cash provided by financing activities	213,491	2,063,021
(Decrease) increase in cash	(143,395)	1,558,979
Cash – Beginning of period	149,868	8,183
Cash – End of period	6,473	1,567,162
Supplemental information		
Interest paid	177,673	30,555

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

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 June 30, 2020 were approved and authorized for issuance by the Corporation’s Board of Directors on August 20, 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 (“Service Division”) and an automotive glass warehouse that imports to sell wholesale a full line of quality aftermarket glass parts and materials at low prices (“Wholesale Division”). GlassMasters’ principal markets are 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 (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 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, they have 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 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.

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 the 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 our 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. However, some of our associates have experienced a significant decline in revenue during the period to date as a result of the Pandemic and are relying on Government assistance and financing to ensure ongoing liquidity. If, for any reason, these associates are unable to discharge their obligations from available liquidity sources in the ordinary course of business, it could impact the Corporation's ability to realize assets at their recognized values at the amount stated in the interim financial statements.

As at June 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 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.

Functional and presentation currency

These interim financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

4 Investment in associates

The investment in associates balance consists of:

	June 30, 2020 $	December 31, 2019 $
Western's interest in Fortress Insurance Company	2,048,543	2,160,744
Western's interest in Foothills Creamery Ltd.	4,399,157	4,383,907
Western's interest in Ocean Sales Group Ltd.	-	3,475,419
Western's interests in Golden Healthcare group of companies	4,908,616	4,848,227
Western's interest in GlassMasters ARG Autoglass Two Inc.	6,793,563	6,619,609
	18,149,879	21,487,906

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 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 of June 30, 2020, 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 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 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 six-month period ended June 30, 2020.

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 June 30, 2020, Ocean was in breach of certain of their 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 June 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 June 30, 2020 and for the six months then ended

	GlassMasters $	Golden $	Ocean $	Foothills $	Fortress $
Current assets	5,405,463	5,487,261	4,734,318	11,548,079	10,469,916
Non-current assets	21,145,423	19,676,620	2,343,111	23,867,677	-
Current liabilities	8,682,267	1,447,791	6,321,639	23,217,103	6,571,521
Non-current liabilities	6,676,411	15,728,386	1,249,755	3,394,827	-
Net assets	11,192,208	7,987,704	(493,965)	8,803,826	3,898,395
Revenue	9,421,635	4,248,738	5,287,572	21,557,676	685,098
Net income (loss) and comprehensive income (loss)	283,775	203,560	(4,987,542)	30,257	(224,401)

Summarized financial information as at December 31, 2019 and for the six months ended June 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	10,819,780	4,308,707	9,581,271	21,091,419	99,799
Net income (loss) and comprehensive income (loss)	123,557	287,872	(312,769)	520,237	383,991

(1) As at the Fortress acquisition date of May 6, 2019. Net income includes results from the acquisition date May 6, 2019 to June 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 six months ended June 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)	173,954	60,389	(3,570,977)	15,250	(112,201)	(3,433,585)
Share of other comprehensive income	-	-	95,558	-	-	95,558
Investment in associates as of June 30, 2020	6,793,563	4,908,616	-	4,399,157	2,048,543	18,149,879

Reconciliation of the carrying value for the six months ended June 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 net income (loss)	61,852	87,139	(127,093)	262,199	191,995(2)	476,092
Share of other comprehensive income (loss)	-	-	(101,287)	-	-	(101,287)
Investment in associates as of June 30, 2019	4,958,766	5,231,557	3,596,508	4,077,610	2,112,353	19,976,794

(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 June 30, 2019.

5 Operating loan

The Corporation has a demand revolving operating loan facility agreement with a Canadian financial institution ("the facility") 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. 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 its subsidiaries;

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 June 30, 2020, $368,544 was drawn on the facility (December 31, 2019 – $1,188,679).

6 Loan from related party

During the six months ended June 30, 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%.

8 Share capital

Authorized

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

Issued

During the six months ended June 30, 2020, nil common shares were issued (June 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	(60,000)	(31,078)
Balance – June 30, 2020	30,520,756	15,809,070

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 10 years.

360,000 stock options have been issued during the six months ended June 30, 2020 (June 30, 2019 – nil). For the six months ended June 30, 2020 and June 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.

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 at June 30, 2020:

Expiry date	Exercise price $	Number of options	Remaining contractual life (years)	Fair value of options $
February 24, 2026	0.50	790,000	5.66	0.5981
April 6, 2026	0.56	140,000	5.77	0.4554
April 21, 2027	0.65	30,000	6.81	0.3914
June 19, 2027	0.65	150,000	6.97	0.3279
July 4, 2028	0.50	320,000	8.02	0.2316
August 23, 2029	0.40	294,000	9.13	0.2539
June 1, 2030	0.27	360,000	9.93	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 30,520,756 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 June 30, 2020, 60,000 common shares were repurchased at a total price of $16,375 (June 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 $31,078 for the six months ended June 30, 2020 (June 30, 2019 – $63,711). The difference between the issued price and the repurchase price of the shares repurchased is recorded to contributed surplus.

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 at June 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.

The carrying amount of cash, accounts receivable, other receivables, due from related parties, operating loan and accounts payable and accrued liabilities approximate 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 convertible debentures was calculated based on the present value of future principle 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.

	June 30, 2020 $	December 31, 2019 $
Cash	6,473	149,868
Accounts receivables	4,657	220
Other receivables	-	600,000
Due from related parties	963,866	336,380
	974,996	1,086,468

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meets 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).

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 June 30, 2020 for its financial liabilities:

As at June 31, 2020

	Carrying amount $	Contractual cash flow $	Less than 1 year $	2021 $	2022 $	2023 $	2024 $
Accounts payable and accrued liabilities	126,822	126,822	126,822	-	-	-	-
Operating loan (note 5)	368,544	372,259	372,259	-	-	-	-
Shareholder loan (note 6)	1,200,000	220,860	24,540	49,080	49,080	49,080	49,080
Convertible debentures (note 7)	3,095,856	5,200,000	150,000	300,000	300,000	300,000	4,150,000
	4,791,222	5,919,941	673,621	349,080	349,080	349,080	4,199,080

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
	4,355,725	6,749,010	1,699,010	300,000	300,000	300,000	4,150,000

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 June 30, 2020, a 1% movement in the prime rate would change the interest expense by approximately $3,685 (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.

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 six months ended June 30, 2020, management fees of $225,000 were earned (June 30, 2018 – $175,000). As at June 30, 2020, $963,866 was due from associates (December 31, 2019 – $336,380) which is composed of cash advances, unpaid management fees, expense reimbursements and interest. $914,872 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 June 30, 2020 (December 31, 2019 – $313,208). $125,000 of amounts due from associates was 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 June 30, 2020, $614,105 is due to Western from GlassMasters (June 30, 2019 – $118,179).

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

During the six months ended June 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. We are entitled to a 5% markup when the inventory is sold to Ocean and the expectation of receiving these amounts is factored into our fair value model which initially resulted in measurement of the loan at the cost of the inventory we 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 six months ended June 30, 2020, $176,288 of the original amount purchased has been sold to Ocean. At June 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.

The Corporation evaluates the financial condition of its related parties and in line with the Goodwill impairment recognized by Ocean, the credit risk associated with the amounts due from Ocean has been assessed as high. The Corporation has recognized credit losses of $125,000 during the period associated with amounts due from Ocean.

Key management of Western includes the Corporation's executives and directors. During the six months ended June 30, 2020, $244,265 was paid or payable to members of management (June 30, 2019 – $254,703). Share-based compensation was awarded to directors and management of the Corporation, as disclosed in note 8.