# The Western Investment Company of Canada Limited

Condensed Interim Financial Statements
(Unaudited)
**June 30, 2021**

## 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 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, 2021 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 interim financial statements by an entity's auditor.

# The Western Investment Company of Canada Limited

Condensed Interim Statement of Financial Position

(Unaudited)

| | As at June 30, 2021 $ | As at December 31, 2020 $ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | 10,901 | 365,897 |
| Accounts receivable | 3,583 | - |
| Due from related parties (note 10) | 67,605 | 45,937 |
| Prepaids | 10,815 | 6,105 |
| | 92,904 | 417,939 |
| **Due from related parties** (note 10) | 837,620 | 788,200 |
| **Investment in associates** (note 4) | 19,339,928 | 18,719,022 |
| **Total assets** | 20,270,452 | 19,925,161 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Operating loan (note 5) | 795,767 | 776,791 |
| Accounts payable and accrued liabilities | 116,912 | 145,993 |
| | 912,679 | 922,784 |
| **Loan from related party** (note 6) | 1,200,000 | 1,200,000 |
| **Convertible debentures** (note 7) | 3,303,264 | 3,195,446 |
| **Total liabilities** | 5,415,943 | 5,318,230 |
| **Shareholders' Equity** | | |
| **Share capital** (note 8) | 15,747,948 | 15,777,991 |
| **Treasury shares** (note 8) | - | (1,823) |
| **Contributed surplus** (note 8) | 1,409,402 | 1,328,857 |
| **Equity component of convertible debentures** (note 7) | 793,815 | 793,815 |
| **Accumulated other comprehensive (loss) income** | (16,030) | 11,505 |
| **Deficit** | (3,080,626) | (3,303,414) |
| **Total equity attributable to common shareholders** | 14,854,509 | 14,606,931 |
| **Total liabilities and equity attributable to common shareholders** | 20,270,452 | 19,925,161 |

## Approved by the Board of Directors

"Scott Tannas" Director                "Jennie Moushos" Director

# The Western Investment Company of Canada Limited

Condensed Interim Statement of Operations

(Unaudited)

| | For the three months ended June 30, 2021 $ | For the three months ended June 30, 2020 revised (note 3) $ | For the six months ended June 30, 2021 $ | For the six months ended June 30, 2020 revised (note 3) $ |
|---|---|---|---|---|
| **Income** | | | | |
| Income (loss) from equity investments (note 4) | 1,034,395 | 716,827 | 789,441 | (3,433,584) |
| Finance income (note 10) | 15,311 | 17,363 | 29,733 | 45,279 |
| Management fees (note 10) | 62,500 | 92,500 | 125,000 | 100,000 |
| | 1,112,206 | 826,690 | 944,174 | (3,288,305) |
| **Expenses** | | | | |
| Legal | 11,139 | 19,280 | 12,583 | 24,272 |
| Accounting | 20,375 | 42,058 | 46,375 | 68,308 |
| Regulatory | 23,456 | 21,524 | 35,775 | 33,271 |
| Consulting | 31,786 | 14,262 | 61,071 | 14,263 |
| Other | 5,765 | 5,811 | 11,596 | 16,813 |
| Management compensation (note 10) | 105,444 | 167,437 | 194,790 | 244,265 |
| Interest on debentures (note 7) | 131,048 | 122,820 | 257,818 | 241,990 |
| Interest on operating loan (note 5) | 6,984 | 2,570 | 12,398 | 7,223 |
| Interest on related party loan (note 6) | 12,270 | 12,270 | 24,540 | 20,450 |
| Share-based compensation expense (note 8) | 64,440 | 62,748 | 64,440 | 62,748 |
| | 412,707 | 470,780 | 721,386 | 733,603 |
| **Net income (loss) for the period** | 699,499 | 355,910 | 222,788 | (4,021,908) |
| **Other comprehensive income (loss)** – net of tax | | | | |
| Item that may be reclassified to profit or loss | | | | |
| Cumulative translation adjustment (note 4) | (11,269) | - | (27,535) | 95,558 |
| **Net income (loss) and comprehensive income (loss) for the period** | 688,230 | 355,910 | 195,253 | (3,926,350) |
| **Net income (loss) per share** | | | | |
| Basic and diluted | 0.023 | 0.012 | 0.007 | (0.132) |
| **Weighted average number of shares outstanding** | | | | |
| Basic and diluted | 30,402,756 | 30,524,053 | 30,419,646 | 30,552,404 |

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

Prior year information has been restated to conform to current year presentation.

# The Western Investment Company of Canada Limited

Condensed Interim Statement of Changes in Equity

(Unaudited)

| | Number of shares | Share capital $ | Treasury shares $ | Contributed surplus $ | Equity component of convertible debentures $ | Accumulated other comprehensive income $ | (Deficit) earnings $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| **Balance – December 31, 2020** | 30,460,756 | 15,777,991 | (1,823) | 1,328,857 | 793,815 | 11,505 | (3,303,414) | 14,606,931 |
| Share repurchases | (58,000) | (30,043) | 1,823 | 16,105 | - | - | - | (12,115) |
| Cumulative translation adjustment | - | - | - | - | - | (27,535) | - | (27,535) |
| Issuance of share-based compensation | - | - | - | 64,440 | - | - | - | 64,440 |
| Net income for the period | - | - | - | - | - | - | 222,788 | 222,788 |
| **Balance – June 30, 2021** | 30,402,756 | 15,747,948 | - | 1,409,402 | 793,815 | (16,030) | (3,080,626) | 14,854,509 |
| | | | | | | | | |
| **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 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 |

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

# The Western Investment Company of Canada Limited
Condensed Interim Statement of Cash Flows
(Unaudited)

| | For the six months ended June 30, 2021 $ | For the six months ended June 30, 2020 $ |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net income (loss) for the period | 222,788 | (4,021,908) |
| Adjustments for non-cash items | | |
| (Income) loss from equity investments (note 4) | (789,441) | 3,433,584 |
| Interest on debentures | 257,818 | 241,990 |
| Share-based compensation (note 8) | 64,440 | 62,748 |
| Net change in non-cash working capital | (59,042) | 528,364 |
| Cash (used in) provided by operating activities | (303,437) | 244,778 |
| **Investing activities** | | |
| Due from related parties (note 10) | (49,420) | (601,664) |
| Dividends from associates (note 10) | 141,000 | - |
| Cash provided by (used in) investing activities | 91,580 | (601,664) |
| **Financing activities** | | |
| Advances (repayments) on operating loan (note 5) | 18,976 | (820,134) |
| Proceeds from related party loan (note 6) | - | 1,200,000 |
| Interest paid on debentures (note 7) | (150,000) | (150,000) |
| Repurchase of shares (note 8) | (12,115) | (16,375) |
| Cash (used in) provided by financing activities | (143,139) | 213,491 |
| **Decrease in cash during the period** | (354,996) | (143,395) |
| **Cash – Beginning of period** | 365,897 | 149,868 |
| **Cash – End of period** | 10,901 | 6,473 |
| **Supplemental information** | | |
| Income taxes paid | - | - |
| Interest paid | 186,938 | 177,673 |

The accompanying notes are an integral part of these 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, 2021 were approved and authorized for issuance by the Corporation's board of directors on August 27, 2021.

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.

Following are the companies Western has invested in to date (see note 4 for additional information):

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

### Golden Health Care – Equity Investment

On September 1, 2017, the Corporation obtained a 30% interest 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. The Golden Health Care group of homes is the largest full-service retirement operator in Saskatchewan.

### Ocean Sales Group Ltd. – Equity Investment

On January 1, 2018, the Corporation obtained a 75% interest in Ocean Sales Group Ltd. (“Ocean”), a speciality retailer that imports and sells a line of speciality retail products through unique marketing channels across North America. Ocean has three main divisions: consumer shows where it markets high-quality innovative household products through live demonstrations at leading consumer shows and fairs throughout Canada and the US; Costco where it demonstrates a select set of products within its Canadian stores; and wholesale. Headquartered in Calgary, Alberta, they have four strategically located warehouses in Alberta, Washington, Ontario and 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 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 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 licences 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, 2020, 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, 2020.

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.

The classification of credit losses reported in the prior year, in the amount of $125,000 for the six months ended, has been reclassified to present management fee revenue on a net basis to conform to the current year's presentation. Management fees previously reported for the first six months were $225,000, and are now on a net basis are $100,000. This reclassification had no effect on cash flow or net income.

***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.

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.

***Impact of the Pandemic***

On March 11, 2020, the World Health Organization expanded its classification of COVID-19 to a worldwide pandemic (the "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 impacted, and as the Pandemic continues to evolve, with fluctuating levels of restrictions, there continues to be potential negative effects on the economy leading to significant future business uncertainties. These uncertainties include, but are not limited to, interruptions in operations caused by reductions in sales, customers' illiquidity impacting timing and ability to pay for goods and services rendered, the availability and health of the Company's workforce and possible disruptions in the supply chain.

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

As at June 30, 2021, 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. Some 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.

## 4 Investment in associates

The investment in associates balance consists of:

| | June 30, 2021 $ | December 31, 2020 $ |
|---|---|---|
| Western's interest in Fortress Insurance Company | 1,976,625 | 2,040,389 |
| Western's interest in Foothills Creamery Ltd. | 4,541,432 | 4,543,458 |
| Western's interest in Ocean Sales Group Ltd. | 556,183 | 131,715 |
| Western's interest in Golden Health Care group of companies | 4,917,275 | 4,966,764 |
| Western's interest in GlassMasters ARG Autoglass Two Inc. | 7,348,413 | 7,036,696 |
| | 19,339,928 | 18,719,022 |

### 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%. Western has 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.

Certain restrictions have been placed on GlassMasters' by its lenders which may restrict its' ability to provide distributions to its equity investors, including the Corporation. As a result, the Corporation has classified its outstanding loan balances due from GlassMasters as non-current (note 10).

**Golden Health Care group of companies**

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

**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.

Based on the continuing effects of the Pandemic and the resulting decline in revenue experienced, impairment indicators for Ocean's intangible assets and goodwill existed in the first quarter of 2020. As a result, Ocean tested its intangible assets and goodwill for impairment as at March 31, 2020. The value-in-use impairment test was based on Ocean's internal forecasts and represents management's best estimates at a specific point in time, and as a result it is subject to measurement uncertainty. This impairment test resulted in a $4,775,521 impairment loss (100%) being recorded by Ocean in the first quarter of 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 in the period ended June 30, 2020. Additionally, in line with the above assessment, Western is no longer recognizing management fees earned from Ocean.

Ocean records a cumulative translation adjustment as part of the consolidation of its foreign subsidiary that has a functional currency of US dollars. Western's share of this adjustment is recognized in other comprehensive income. As at June 30, 2021 and December 31, 2020, Ocean was in breach of certain of its financial covenants and has therefore classified its outstanding credit facility balances as current.

**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 (100%) recognized by Foothills as at June 30, 2021 was $314,749

(December 31, 2020 – $314,749) based on an estimate using probability-weighted discounted future cash flows. As at June 30, 2021 and December 31, 2020, Foothills was in breach of certain of its financial covenants. The bank has waived its right to call the loan.

**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 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 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.

*Summarized financial information as at June 30, 2021 and for the six months then ended*

| | GlassMasters $ | Golden $ | Ocean $ | Foothills $ | Fortress $ |
|---|---|---|---|---|---|
| Current assets | 5,535,417 | 3,251,840 | 5,213,867 | 11,285,742 | 13,016,257 |
| Non-current assets | 20,354,347 | 19,192,665 | 3,433,558 | 23,853,690 | - |
| Current liabilities | 7,941,557 | 1,305,014 | 6,885,865 | 23,160,055 | 9,261,698 |
| Non-current liabilities | 5,850,854 | 13,120,118 | 1,160,297 | 2,893,259 | - |
| Net assets | 12,097,353 | 8,019,373 | 601,262 | 9,086,118 | 3,754,559 |
| Revenue | 11,660,656 | 4,399,564 | 5,950,162 | 22,418,410 | 595,380 |
| Net income (loss) and comprehensive income (loss) | 508,512 | 303,112 | 555,144 | (4,021) | (127,528) |

*Summarized financial information as at December 31, 2020 and for the six months ended June 30, 2020*

| | GlassMasters $ | Golden $ | Ocean $ | Foothills $ | Fortress $ |
|---|---|---|---|---|---|
| Current assets | 5,012,463 | 5,245,902 | 4,759,387 | 9,835,371 | 12,010,222 |
| Non-current assets | 20,667,105 | 19,421,707 | 3,569,576 | 24,194,899 | - |
| Current liabilities | 7,791,360 | 1,085,947 | 6,947,188 | 21,949,625 | 8,128,135 |
| Non-current liabilities | 6,299,367 | 15,353,167 | 1,346,471 | 2,990,506 | - |
| Net assets | 11,588,841 | 8,228,495 | 35,304 | 9,090,139 | 3,882,087 |
| 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) |

## 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 six months ended June 30, 2021*

| | 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, 2020 | 7,036,696 | 4,966,764 | 131,715 | 4,543,458 | 2,040,389 | 18,719,022 |
| Share of dividends paid out | - | (141,000) | - | - | - | (141,000) |
| Share of comprehensive income (loss) | 311,717 | 91,511 | 452,003 | (2,026) | (63,764) | 789,441 |
| Share of other comprehensive loss | - | - | (27,535) | - | - | (27,535) |
| Investment in associates as of June 30, 2021 | 7,348,413 | 4,917,275 | 556,183 | 4,541,432 | 1,976,625 | 19,339,928 |

*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 |

## 5 Operating loan

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

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.

Facility one is subject to review by the bank on August 31 annually, or at any time at the discretion of the Lender, and was last reviewed on September 17, 2020. As at June 30, 2021, $795,767 was drawn on the facility (December 31, 2020 – $776,791).

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

## 6 Loan from related party

In the first quarter of 2020, the Corporation received a $1.2 million shareholder loan from Golden. The loan bears interest at 4.09% annually, payable with interest only monthly and matures annually on January 31 with automatic annual renewal if all amounts of interest owing are not in default. There have been no amounts in default since the inception of the loan. There are no financial covenants affecting 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 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 expired on April 9, 2021. 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, 2021, nil common shares were issued (June 30, 2020 – nil). There are no preferred shares issued to date. The following is a summary of the common shares issued at period-end.

| | Number of shares | Amount $ |
|---|---|---|
| **Balance – December 31, 2019** | 30,580,756 | 15,840,148 |
| Share repurchase | (120,000) | (62,157) |
| **Balance – December 31, 2020** | 30,460,756 | 15,777,991 |
| Share repurchase | (58,000) | (30,043) |
| **Balance – June 30, 2021** | 30,402,756 | 15,747,948 |

### *Stock option plan*

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

360,000 stock options have been issued during the six months ended June 30, 2021 (June 30, 2020 – 360,000). For the six months ended June 30, 2021 and 2020, 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 as at June 30, 2021:

| Grant date | Expiry date | Exercise price $ | Number of options | Remaining contractual life (years) | Fair value of options $ |
|---|---|---|---|---|---|
| February 24, 2016 | February 24, 2026 | 0.50 | 790,000 | 4.66 | 0.5981 |
| April 6, 2016 | April 6, 2026 | 0.56 | 140,000 | 4.77 | 0.4554 |
| April 21, 2017 | April 21, 2027 | 0.65 | 30,000 | 5.81 | 0.3914 |
| June 19, 2017 | June 19, 2027 | 0.65 | 150,000 | 5.97 | 0.3279 |
| July 4, 2018 | July 4, 2028 | 0.50 | 320,000 | 7.02 | 0.2316 |
| August 23, 2019 | August 23, 2029 | 0.40 | 294,000 | 8.13 | 0.2539 |
| June 1, 2020 | June 1, 2030 | 0.27 | 360,000 | 8.93 | 0.1743 |
| May 3, 2021 | May 3, 2031 | 0.27 | 360,000 | 9.85 | 0.1790 |

***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 representing approximately 4.9% of the 30,402,756 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 January 13, 2021, the board of directors approved the renewal of the Bid for another year. Each renewal is subject to regulatory approval before it can proceed. Approval was received for the 2021 Bid on January 19, 2021.

For the six months ended June 30, 2021, 49,000 common shares were repurchased at a total price of $12,115 (June 30, 2020 - 60,000 common shares were repurchased at a total price of $16,375). 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 $25,381 for the six months ended June 30, 2021 (June 30, 2020 – $31,079). The difference between the issued price and the repurchase price of the shares repurchased is recorded to contributed surplus.

## 9 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, 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 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. The impact of the Pandemic has potentially increased this risk from exposure to associate liquidity risks. The Corporation helps manage this risk by working with each associate to manage their liquidity through financing and budgets, and 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 statements of financial position.

| | June 30, 2021 $ | December 31, 2020 $ |
|---|---|---|
| Cash | 10,901 | 365,897 |
| Due from related parties | 905,225 | 834,137 |
| | 916,126 | 1,200,034 |

**Liquidity risk**

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. Policies and practices used include the preparation of budgets and forecasts that are regularly monitored and updated as considered necessary. Cash requirements are monitored on a monthly basis and short-term liquidity risks have been mitigated through the use of an operating and a demand 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, 2021 and December 31, 2020 for its financial liabilities.

| | As at June 30, 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying amount $ | Contractual cash flow $ | Less than 1 year $ | 2022 $ | 2023 $ | 2024 $ | 2025 and beyond $ |
| Accounts payable and accrued liabilities | 116,912 | 116,912 | 116,912 | - | - | - | - |
| Operating loan (note 5) | 795,767 | 803,788 | 803,788 | - | - | - | - |
| Loan from related party (note 6) | 1,200,000 | 1,420,860 | 24,540 | 49,080 | 49,080 | 49,080 | 1,249,080(1) |
| Convertible debentures (note 7) | 3,303,264 | 4,900,000 | 150,000 | 300,000 | 300,000 | 4,150,000 | - |
| | 5,415,943 | 7,241,560 | 1,095,240 | 349,080 | 349,080 | 4,199,080 | 1,249,080 |

| | As at December 31, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying amount $ | Contractual cash flow $ | 2021 $ | 2022 $ | 2023 $ | 2024 $ | 2025 and beyond $ |
| Accounts payable and accrued liabilities | 145,993 | 145,993 | 145,993 | - | - | - | - |
| Operating loan (note 5) | 776,791 | 807,478 | 807,478 | - | - | - | - |
| Loan from related party (note 6) | 1,200,000 | 1,445,400 | 49,080 | 49,080 | 49,080 | 49,080 | 1,249,080(1) |
| Convertible debentures (note 7) | 3,195,446 | 5,050,000 | 300,000 | 300,000 | 300,000 | 4,150,000 | - |
| | 5,318,230 | 7,448,871 | 1,302,551 | 349,080 | 349,080 | 4,199,080 | 1,249,080 |

1) As disclosed in note 6, the loan from related party will automatically renew at each maturity date and the timing of the repayment of the principal portion is not readily determinable.

## 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, 2021, a 1% movement in the prime rate would change the interest expense by approximately $7,958 (December 31, 2021 – $7,768).

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. The Corporation is exposed to currency risk through its associates, some of who purchase inventories from foreign suppliers, and carry financial assets and liabilities denominated in foreign currencies. As such, their earnings may be affected by fluctuations of foreign exchange rates and the degree of volatility of those rates.

## 10 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, 2021, management fees of $125,000 were earned (June 30, 2020 – $100,000). As at June 30, 2021, $905,225 was due from associates (December 31, 2020 – $834,137), which is composed of cash advances, unpaid management fees, and interest. $837,620 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, 2021 (December 31, 2020 – $788,200). Short-term amounts due from related party includes management fees and dividends receivable.

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, 2021, $536,832 is due to Western from GlassMasters (December 31, 2020 – $487,412), which has been recorded as long term as collection within the next fiscal year is expected but not assured. Of the total receivable, $300,000 relates to cash advances, $142,319 to management fees and $94,513 to interest on the balance.

In the first quarter of 2020, the Corporation borrowed $1.2 million from Golden. See note 6 for further details. I In the six months ended June 30, 2021 Western received $141,000 in dividends from Golden.

During the year ended December 31, 2020, Western purchased inventory on behalf of Ocean. The inventory consists of consumer home type products. The inventory is owned by Western until needed by Ocean to satisfy inventory orders from their customers. The substance of the transaction is viewed as a non-recourse loan to Ocean with inventory as collateral. The loan is considered not to represent solely payments of principal and interest and accordingly is carried at fair value through profit and loss. Western is entitled to a 5% markup when the inventory is sold to Ocean and the expectation of receiving these amounts is factored into its fair value model, which initially resulted in measurement of the loan at the cost of the inventory the Corporation purchased. During the year ended December 31, 2020, $176,288 of the original amount purchased was sold to Ocean, prior to the onset of the Pandemic. Western does not expect payment of the remaining balance for the next 12 months to support the company through the pandemic and does not foresee any impairment issues related to the inventory held as collateral. As at June 30, 2021, Western had $300,767 included in the due from related parties representing the value of inventory on hand. There are no other terms in place between Ocean and the Corporation related to this inventory.

Key management of Western includes the Corporation's executives and directors. During the six months ended June 30, 2021, $194,444 in salary and benefits was paid or payable to members of management (June 30, 2020 – $244,265).