

**The Western Investment Company  
of Canada Limited**

Financial Statements  
**December 31, 2021 and 2020**  
(Restated)



## Independent auditor's report

To the Shareholders of The Western Investment Company of Canada Limited

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### 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 (the Company) as at December 31, 2021 and 2020 and January 1, 2020, and its financial performance and its cash flows for the years ended December 31, 2021 and 2020 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### What we have audited

The Company's financial statements comprise:

- the statements of financial position as at December 31, 2021 and 2020 and January 1, 2020;
- the statements of income (loss) and comprehensive income (loss) for the years ended December 31, 2021 and 2020;
- the statements of changes in equity for the years ended December 31, 2021 and 2020;
- the statements of cash flows for the years ended December 31, 2021 and 2020; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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### 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.

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### Amended financial statements

We draw attention to note 2 to the financial statements, which describes that the financial statements that we originally reported on April 25, 2022 have been restated and describes the matters that gave rise to the amendment of the financial statements. Our opinion is not modified in respect of this matter.

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



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## **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.

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.

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## **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.

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## **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 Alisa Sorochan.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants

Calgary, Alberta  
May 19, 2023

# The Western Investment Company of Canada Limited

## Statements of Financial Position

(Restated)

As at December 31, 2021 and 2020

|   | 2021<br>Restated<br>(note 4)<br>\$ | 2020<br>Restated<br>(note 4)<br>\$ | January 1,<br>2020<br>Restated<br>(note 4)<br>\$ |
|---|------------------------------------|------------------------------------|--|
| <b>Assets</b>   |                                    |                                    |  |
| <b>Current assets</b>   |                                    |                                    |  |
| Cash  | 23,318                             | 365,897                            | 149,868  |
| Accounts receivables  | -                                  | -                                  | 220  |
| Other receivables   | -                                  | -                                  | 600,000  |
| Due from related parties (note 15)                                      | 22,223                             | 45,937                             | 23,172   |
| Prepays   | 5,799                              | 6,107                              | 2,477  |
|   | 51,340                             | 417,9341                           | 775,737  |
| <b>Due from related parties</b> (note 15)                               | 765,432                            | 788,200                            | 313,208  |
| <b>Investment in associates</b> (note 6)                                | 17,673,647                         | 17,502,486                         | 19,837,889                                       |
| <b>Total assets</b>   | 18,490,419                         | 18,708,627                         | 20,926,834                                       |
| <b>Liabilities</b>  |                                    |                                    |  |
| <b>Current liabilities</b>  |                                    |                                    |  |
| Operating loan (note 7)   | 1,014,292                          | 776,791                            | 1,188,679  |
| Accounts payable and accrued liabilities                                | 144,742                            | 145,993                            | 163,180  |
|   | 1,159,034                          | 922,784                            | 1,351,859  |
| <b>Loan from related party</b> (note 8)                                 | 1,200,000                          | 1,200,000                          | -  |
| <b>Convertible debentures</b> (note 9)                                  | 3,419,991                          | 3,195,446                          | 3,003,866  |
| <b>Total liabilities</b>  | 5,779,025                          | 5,318,230                          | 4,355,725  |
| <b>Shareholders' Equity</b>   |                                    |                                    |  |
| <b>Share capital</b> (note 10)  | 15,714,798                         | 15,777,991                         | 15,840,148                                       |
| <b>Treasury shares</b> (note 10)  | -                                  | (1,823)                            | -  |
| <b>Contributed surplus</b> (note 10)                                    | 1,418,468                          | 1,328,857                          | 1,233,177  |
| <b>Equity component of convertible debentures</b> (note 9)              | 793,815                            | 793,815                            | 793,815  |
| <b>Accumulated other comprehensive income</b>                           | 22,978                             | 22,978                             | 22,978   |
| <b>Deficit</b>  | (5,238,665)                        | (4,531,421)                        | (1,319,009)                                      |
| <b>Total equity attributable to common shareholders</b>                 | 12,711,394                         | 13,390,397                         | 16,571,109                                       |
| <b>Total liabilities and equity attributable to common shareholders</b> | 18,490,419                         | 18,708,627                         | 20,926,834                                       |

Nature of operations and continuance of operations (note 2)  
Subsequent events (note 16)

**Approved by the Board of Directors**

“Scott Tannas”

Director

“Jennie Moushos”

Director

# The Western Investment Company of Canada Limited

## Statements of Income (Loss) and Comprehensive Income (Loss)

(Restated)

For the years ended December 31, 2021 and 2020

|   | 2021<br>Restated<br>(note 4)<br>\$ | 2020<br>Restated<br>(note 4)<br>\$ |
|---|------------------------------------|------------------------------------|
| <b>Income</b>   |                                    |                                    |
| Income (loss) from equity investments (note 6)                        | 312,161                            | (2,335,403)                        |
| Finance income (note 15)  | 66,045                             | 84,550                             |
| Management fees (note 15)   | 270,000                            | 360,020                            |
|   | <u>648,206</u>                     | <u>(1,890,833)</u>                 |
| <b>Expenses</b>   |                                    |                                    |
| Legal   | 17,569                             | 37,830                             |
| Accounting  | 96,642                             | 119,278                            |
| Regulatory  | 43,011                             | 41,984                             |
| Consulting  | 123,393                            | 62,060                             |
| Other   | 20,777                             | 30,140                             |
| Management compensation (note 15)                                     | 383,157                            | 411,399                            |
| Interest on debentures (note 9)                                       | 524,545                            | 491,580                            |
| Interest on operating loan (note 7)                                   | 32,836                             | 19,570                             |
| Interest on related party loan (note 8)                               | 49,080                             | 44,990                             |
| Share-based compensation expense (note 10)                            | 64,440                             | 62,748                             |
|   | <u>1,355,450</u>                   | <u>1,321,579</u>                   |
| <b>Net income (loss) for the year</b>                                 | <u>(707,244)</u>                   | <u>(3,212,412)</u>                 |
| <b>Other comprehensive income (loss) – net of tax</b>                 |                                    |                                    |
| Item that may be reclassified to profit or loss                       |                                    |                                    |
| Cumulative translation adjustment (note 6)                            | -                                  | -                                  |
| <b>Net income (loss) and comprehensive income (loss) for the year</b> | <u>(707,244)</u>                   | <u>(3,212,412)</u>                 |
| <b>Net income (loss) per share (note 14)</b>                          |                                    |                                    |
| Basic and diluted   | (0.023)                            | (0.105)                            |
| <b>Weighted average number of shares outstanding (note 14)</b>        |                                    |                                    |
| Basic   | 30,398,326                         | 30,523,160                         |
| Diluted   | 30,494,583                         | 30,523,160                         |

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

# The Western Investment Company of Canada Limited

## Statements of Changes in Equity

(Restated)

For the years ended December 31, 2021 and 2020

|  | Number of<br>shares | Share<br>capital<br>\$ | Treasury<br>shares<br>\$ | Contributed<br>surplus<br>\$ | Equity<br>component<br>of<br>convertible<br>debentures<br>\$ | Accumulated<br>other<br>comprehensive<br>income<br>\$ | (Deficit)<br>\$ | Total<br>\$ |
|--|---------------------|------------------------|--------------------------|------------------------------|--|---|-----------------|-------------|
| <b>Balance – December 31,<br/>2020</b> (restated note 4) | 30,460,756          | 15,777,991             | (1,823)                  | 1,328,857                    | 793,815  | 22,978  | (4,531,421)     | 13,390,397  |
| Share repurchases  | (122,000)           | (63,193)               | 1,823                    | 25,171                       | -  | -   | -               | (36,199)    |
| Cumulative translation<br>adjustment                     | -                   | -                      | -                        | -                            | -  | -   | -               | -           |
| Issuance of share-based<br>compensation                  | -                   | -                      | -                        | 64,440                       | -  | -   | -               | 64,440      |
| Net income for the year                                  | -                   | -                      | -                        | -                            | -  | -   | (707,244)       | (707,244)   |
| <b>Balance – December 31,<br/>2021</b>                   | 30,338,756          | 15,714,798             | -                        | 1,418,468                    | 793,815  | 22,978  | (5,238,665)     | 12,711,394  |
| <b>Balance – December 31,<br/>2019</b> (restated note 4) | 30,580,756          | 15,840,148             | -                        | 1,233,177                    | 793,815  | 22,978  | (1,319,009)     | 16,571,109  |
| Share repurchases  | (120,000)           | (62,157)               | (1,823)                  | 32,932                       | -  | -   | -               | (31,048)    |
| Cumulative translation<br>adjustment                     | -                   | -                      | -                        | -                            | -  | -   | -               | -           |
| Issuance of share-based<br>compensation                  | -                   | -                      | -                        | 62,748                       | -  | -   | -               | 62,748      |
| Net loss for the year<br>(restated note 4)               | -                   | -                      | -                        | -                            | -  | -   | (3,212,412)     | (3,212,412) |
| <b>Balance – December 31,<br/>2020</b> (restated note 4) | 30,460,756          | 15,777,991             | (1,823)                  | 1,328,857                    | 793,815  | 22,978  | (4,531,421)     | 13,390,397  |

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

# The Western Investment Company of Canada Limited

## Statements of Cash Flows

(Restated)

For the years ended December 31, 2021 and 2020

|  | 2021<br>\$ | 2020<br>Restated<br>(note 4)<br>\$ |
|--|------------|------------------------------------|
| <b>Cash provided by (used in)</b>                  |            |                                    |
| <b>Operating activities</b>                        |            |                                    |
| Net income (loss) for the year                     | (707,244)  | (3,212,412)                        |
| Adjustments for non-cash items                     |            |                                    |
| (Income) loss from equity investments (note 6)     | (312,161)  | 2,335,401                          |
| Interest on debentures                             | 524,545    | 491,580                            |
| Share-based compensation (note 10)                 | 64,440     | 62,748                             |
| Net change in non-cash working capital             | 22,772     | 556,640                            |
| Cash (used in) provided by operating activities    | (407,648)  | 233,957                            |
| <b>Investing activities</b>                        |            |                                    |
| Due from (to) related parties (note 15)            | 22,768     | (474,992)                          |
| Dividends from associates (note 15)                | 141,000    | -                                  |
| Cash provided by (used in) investing activities    | 163,768    | (474,992)                          |
| <b>Financing activities</b>                        |            |                                    |
| Advances (repayments) on operating loan (note 7)   | 237,500    | (411,888)                          |
| Proceeds from related party loan (note 8)          | -          | 1,200,000                          |
| Interest paid on debentures (note 9)               | (300,000)  | (300,000)                          |
| Repurchase of shares (note 10)                     | (36,199)   | (31,048)                           |
| Cash (used in) provided by financing activities    | (98,699)   | 457,064                            |
| <b>(Decrease) increase in cash during the year</b> | (342,579)  | 216,029                            |
| <b>Cash – Beginning of year</b>                    | 365,897    | 149,868                            |
| <b>Cash – End of year</b>                          | 23,318     | 365,897                            |
| <b>Supplemental information</b>                    |            |                                    |
| Income taxes paid                                  | -          | -                                  |
| Interest paid                                      | 381,916    | 364,560                            |

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



# The Western Investment Company of Canada Limited

## Notes to Restated Financial Statements

December 30, 2021 and 2020

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### 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 restated financial statements of the Corporation for the year ended December 31, 2021 were approved and authorized for reissuance by the Corporation’s board of directors on May 19, 2023.

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 as at December 31, 2021 (see note 6 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.

# The Western Investment Company of Canada Limited

## Notes to Restated Financial Statements

December 30, 2021 and 2020

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### **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 four 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; wholesale; and on-line. 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 restated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board on the basis of accounting principles applicable to a going concern. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Corporation has negative working capital as the result

# **The Western Investment Company of Canada Limited**

## **Notes to Restated Financial Statements**

**December 30, 2021 and 2020**

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of its operating loan, which is due on demand however there are no indications that repayment will be required in the next fiscal year and beyond. The Corporation had negative cash flow in 2021. Management maintains a regularly updated multi-year cash flow forecast and believes it will have sufficient cash flow from associates, and adequate room on the operating loan to fund operations and satisfy its obligations in the normal course of operations for the foreseeable future.

### ***Basis of measurement***

These restated 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 December 31, 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 future business uncertainties making it difficult to estimate when the associates will be back in compliance. 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.

# The Western Investment Company of Canada Limited

## Notes to Restated Financial Statements

December 30, 2021 and 2020

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### 4 Prior period restatement

During the audit of the 2022 year-end at Ocean Sales, the Company determined that deferred income tax asset associated with goodwill was overstated. The overstatement was the result of recognition of certain taxable temporary differences associated with the Company's goodwill that originated at acquisition. The total misstatement at Ocean Sales was a \$1,180,396 overstatement in deferred tax asset. As a result of this restatement Western's equity loss for 2020 decreased by \$742,111, opening retained earnings decreased by \$885,297, and investment in associate as at December 31, 2020 decreased by \$131,714. This adjustment brought our investment in Ocean Sales to \$nil in the year end December 31, 2020, which affected 2021 equity income which was reduced by \$727,210.

In 2022 the Canadian Dairy Commission performed an audit of 2020 milk rebates paid out to Foothills. The audit identified errors in 2020 rebates received, requiring \$405,028 to be repaid. Foothills has accrued the amount payable and restated the results of 2020 for a net after tax reduction in net income of \$295,196. The result of this restatement is an increase in Western's equity loss for 2020, and investment in associates of \$148,779.

As a result of a review of accounting practices at Foothills, it was determined accounts payable invoices relating to inventory received as of December 31, 2020 were incorrectly excluded from accounts payable and accrued liabilities resulting in a cut-off error. A similar cut-off error was present at December 31, 2019. These errors, net of tax, affected net income at Foothills in 2019 and 2020 and therefore effect Western's equity income earned from Foothills in the years ended 2019 and 2020. As a result of this adjustment Western's equity loss for 2020 increased by \$159,729, opening retained earnings decreased by \$563,901, and investment in associate as at December 31, 2020 decreased by \$723,630.

During the audit of the 2021 year-end at GlassMasters, the Company determined that deferred income tax liabilities associated with intangible assets and goodwill were understated. The understatement was the result of non-recognition of certain taxable temporary differences associated with the Company's goodwill and trade name. As a result of this restatement Western's equity loss for 2020 increased by \$11,593, opening retained earnings decreased by \$200,819, and investment in associate as at December 31, 2020 decreased by \$212,412.

# The Western Investment Company of Canada Limited

## Notes to Restated Financial Statements

December 30, 2021 and 2020

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The affect of these restatements on the financial statements are summarized below.

|                                 | 2021 original | 2021 restated | Change      |
|---------------------------------|---------------|---------------|-------------|
|                                 | \$            | \$            | \$          |
| Equity income                   | 1,039,372     | 312,161       | (727,211)   |
| Net loss and comprehensive loss | 23,629        | (707,244)     | (730,873)   |
| Investment in associates        | 18,685,014    | 17,673,647    | (1,011,367) |
| Opening deficit                 | (4,239,456)   | (4,531,421)   | (291,965)   |
| Deficit, ending                 | (4,219,489)   | (5,238,665)   | (1,019,176) |
| Income (loss) per share         | 0.001         | (0.023)       | (0.024)     |

  

|                                     | 2020 original | 2020 restated | Change      |
|-------------------------------------|---------------|---------------|-------------|
|                                     | \$            | \$            | \$          |
| Equity loss                         | (2,757,411)   | (2,335,403)   | 422,008     |
| Net loss and comprehensive loss     | (3,645,895)   | (3,212,412)   | 433,483     |
| Investment in associates            | 18,719,022    | 17,502,486    | (1,216,536) |
| Opening retained earnings (deficit) | 331,008       | (1,319,009)   | (1,650,017) |
| Deficit, ending                     | (3,303,414)   | (4,531,421)   | (1,228,007) |
| Loss per share                      | (0.119)       | (0.105)       | 0.014       |

## 5 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.

# **The Western Investment Company of Canada Limited**

## **Notes to Restated Financial Statements**

**December 30, 2021 and 2020**

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### ***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 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.

# The Western Investment Company of Canada Limited

## Notes to Restated Financial Statements

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### *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 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.

### *Impairment of investment in associates*

The Corporation reviews the carrying amounts of its investments in associates whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the amount by which the carrying value of assets exceeds their estimated recoverable value is charged to the statements of (loss) income and comprehensive (loss) income.

### ***Investments in associates***

#### *Associates*

An associate is an entity over which the Corporation exercises significant influence, without having control or joint control. The Corporation's investments in associates are 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 statements of (loss) income and comprehensive (loss) income, and its share of the post-acquisition movements in other comprehensive income (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 statements of (loss) income and comprehensive (loss) 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.

# **The Western Investment Company of Canada Limited**

## **Notes to Restated Financial Statements**

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### ***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 statements 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.

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 statements 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, accounts receivable, amounts due from related parties, the operating loan, accounts payable and accrued liabilities, convertible debentures and loan from related party. The Corporation does not have any financial assets categorized as fair value through profit or loss, or fair value through other comprehensive income.



# The Western Investment Company of Canada Limited

## Notes to Restated Financial Statements

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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.

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.

# The Western Investment Company of Canada Limited

## Notes to Restated Financial Statements

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### 6 Investment in associates

The investment in associates balance consists of:

|   | 2021<br>Restated<br>(note 4)<br>\$ | 2020<br>Restated<br>(note 4)<br>\$ |
|---|------------------------------------|------------------------------------|
| Western's interest in Fortress Insurance Company            | 1,956,214                          | 2,040,389                          |
| Western's interest in Foothills Creamery Ltd.               | 3,356,718                          | 3,671,049                          |
| Western's interest in Ocean Sales Group Ltd.                | -                                  | -                                  |
| Western's interest in Golden Health Care group of companies | 4,922,833                          | 4,966,764                          |
| Western's interest in GlassMasters ARG Autoglass Two Inc.   | 7,437,882                          | 6,824,284                          |
|   | <hr/>                              | <hr/>                              |
|   | 17,673,647                         | 17,502,486                         |

#### 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 14).

##### **Golden Health Care group of companies**

The Corporation acquired a minority interest in Golden in 2017. 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.

# **The Western Investment Company of Canada Limited**

## **Notes to Restated Financial Statements**

**December 30, 2021 and 2020**

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### **Ocean Sales Group Ltd.**

The Corporation acquired a 75% interest in Ocean in 2018. 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 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 year ended December 31, 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 December 31, 2021 and 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.**

The Corporation acquired a 50.4% interest in Foothills Creamery Ltd. in 2018. 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 December 31, 2021 was \$nil (December 31, 2020 – \$314,749) based on an estimate using probability-weighted discounted future cash flows. As at December 31, 2021 and 2020, Foothills was in breach of certain of its financial covenants. The bank has waived its right to call the loan.

### **Fortress Insurance Company**

The Corporation completed the acquisition of a 50% interest in Fortress Insurance 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.

# The Western Investment Company of Canada Limited

## Notes to Restated Financial Statements

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### 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 December 31, 2021 and for the year then ended*

|   | <b>GlassMasters<br/>\$</b> | <b>Golden<br/>\$</b> | <b>Ocean<br/>Restated<br/>(note 4)<br/>\$</b> | <b>Foothills<br/>Restated<br/>(note 4)<br/>\$</b> | <b>Fortress<br/>\$</b> |
|---|----------------------------|----------------------|---|---|------------------------|
| Current assets                                    | 5,661,978                  | 3,136,349            | 5,631,411                                     | 8,814,769   | 12,908,489             |
| Non-current assets                                | 19,980,080                 | 18,903,665           | 1,918,226                                     | 24,020,959  | -                      |
| Current liabilities                               | 7,245,082                  | 1,249,352            | 6,675,427                                     | 22,985,020  | 9,194,752              |
| Non-current liabilities                           | 6,227,228                  | 12,752,620           | 1,044,806                                     | 3,115,684   | -                      |
| Net assets  | 12,169,748                 | 8,038,042            | (170,596)                                     | 6,735,024   | 3,713,737              |
| Revenue   | 24,721,859                 | 8,885,647            | 13,219,389                                    | 42,630,613  | 1,092,140              |
| Net income (loss) and comprehensive income (loss) | 1,000,975                  | 321,782              | 974,496                                       | (623,672)   | (168,350)              |

*Summarized financial information as at December 31, 2020 and for the year then ended*

|   | <b>GlassMasters<br/>Restated<br/>(note 4)<br/>\$</b> | <b>Golden<br/>\$</b> | <b>Ocean<br/>Restated<br/>(note 4)<br/>\$</b> | <b>Foothills<br/>Restated<br/>(note 4)<br/>\$</b> | <b>Fortress<br/>\$</b> |
|---|--|----------------------|---|---|------------------------|
| Current assets                                    | 5,012,463  | 5,245,902            | 4,759,387                                     | 10,472,616  | 12,010,222             |
| Non-current assets                                | 20,667,105   | 19,421,707           | 2,389,180                                     | 24,194,899  | -                      |
| Current liabilities                               | 7,791,360  | 1,085,947            | 6,947,188                                     | 24,318,313  | 8,128,135              |
| Non-current liabilities                           | 6,719,435  | 15,353,167           | 1,346,471                                     | 2,990,506   | -                      |
| Net assets  | 11,168,773   | 8,228,495            | (1,145,092)                                   | 7,358,696   | 3,882,087              |
| Revenue   | 20,898,662   | 8,586,600            | 8,805,310                                     | 45,036,229  | 810,937                |
| Net income (loss) and comprehensive income (loss) | 661,490  | 402,119              | (4,458,273)                                   | (296,022)   | (240,709)              |

# The Western Investment Company of Canada Limited

## Notes to Restated Financial Statements

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### 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 ended December 31, 2021*

|  | <b>GlassMasters<br/>\$</b> | <b>Golden<br/>\$</b> | <b>Ocean<br/>Restated<br/>(note 4)<br/>\$</b> | <b>Foothills<br/>\$</b> | <b>Fortress<br/>\$</b> | <b>Total<br/>\$</b> |
|--|----------------------------|----------------------|---|-------------------------|------------------------|---------------------|
| Western ownership interest                             | 61.3%                      | 25.0 – 30.0%         | 75.0%   | 50.4%                   | 50.0%                  |                     |
| Share of net assets as of<br>December 31, 2020         | 6,824,284                  | 4,966,764            | -   | 3,671,049               | 2,040,389              | 17,502,486          |
| Share of dividends paid out                            | -                          | (141,000)            | -   | -                       | -                      | (141,000)           |
| Share of comprehensive<br>income (loss)                | 613,598                    | 97,069               | -   | (314,331)               | (84,175)               | 312,161             |
| Investment in associates<br>as of December 31,<br>2021 | 7,437,882                  | 4,922,833            | -   | 3,356,718               | 1,956,214              | 17,673,647          |

*Reconciliation of the carrying value for the year ended December 31, 2020*

|  | <b>GlassMasters<br/>Restated<br/>(note 4)<br/>\$</b> | <b>Golden<br/>\$</b> | <b>Ocean<br/>Restated<br/>(note 4)<br/>\$</b> | <b>Foothills<br/>Restated<br/>(note 4)<br/>\$</b> | <b>Fortress<br/>\$</b> | <b>Total<br/>\$</b> |
|--|--|----------------------|---|---|------------------------|---------------------|
| Western ownership interest                             | 61.3%  | 25.0 – 30.0%         | 75.0%   | 50.4%   | 50.0%                  |                     |
| Share of net assets as of<br>December 31, 2019         | 6,418,790  | 4,848,227            | 2,590,122                                     | 3,820,006   | 2,160,744              | 19,837,889          |
| Share of comprehensive<br>income (loss)                | 405,494  | 118,537              | (2,590,122)                                   | (148,957)   | (120,355)              | (2,335,403)         |
| Investment in associates<br>as of December 31,<br>2020 | 6,824,284  | 4,966,764            | -   | 3,671,049   | 2,040,389              | 17,502,486          |

# The Western Investment Company of Canada Limited

## Notes to Restated Financial Statements

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### 7 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 May 31 annually, or at any time at the discretion of the Lender, and was last reviewed on May 31, 2021. As at December 31, 2021, \$1,014,292 was drawn on the facility (December 31, 2020 – \$776,791).

### 8 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.

### 9 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:

|      | %     |
|------|-------|
| 2022 | 105.0 |
| 2023 | 102.5 |
| 2024 | 100.0 |

# The Western Investment Company of Canada Limited

## Notes to Restated Financial Statements

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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%.

### 10 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, 2021, nil common shares were issued (December 31, 2020 – nil). There are no preferred shares issued to date. The following is a summary of the common shares issued at year-end.

|                                    | Number of<br>shares | Amount<br>\$ |
|------------------------------------|---------------------|--------------|
| <b>Balance – December 31, 2019</b> | 30,580,756          | 15,840,148   |
| Share repurchase                   | (120,000)           | (62,157)     |
| <b>Balance – December 31, 2020</b> | 30,460,756          | 15,777,991   |
| Share repurchase                   | (122,000)           | (63,193)     |
| <b>Balance – December 31, 2021</b> | 30,338,756          | 15,714,798   |

#### 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.

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360,000 stock options have been issued during the year ended December 31, 2021 (December 31, 2020 – 360,000). All options vest immediately and are expensed at the time of grant.

All options are settled in Western common shares. In 2021, the Corporation recorded \$64,440 of share-based compensation expense (2020 - \$62,748) calculated using the Black-Scholes option pricing model with the following assumptions:

|                               | 2021     | 2020     |
|-------------------------------|----------|----------|
| Risk-free interest rate       | 1.52%    | 0.53%    |
| Vesting period                | nil      | nil      |
| Expected life of stock option | 10 years | 10 years |
| Volatility                    | 57%      | 57%      |
| Dividends                     | -        | -        |

The following stock options were outstanding as at December 31, 2021:

| Grant date        | Expiry date       | Exercise price<br>\$ | Number of<br>options | Remaining<br>contractual<br>life<br>(years) | Fair value<br>of options<br>\$ |
|-------------------|-------------------|----------------------|----------------------|---|--------------------------------|
| February 24, 2016 | February 24, 2026 | 0.50                 | 790,000              | 4.15  | 0.5981                         |
| April 6, 2016     | April 6, 2026     | 0.56                 | 140,000              | 4.27  | 0.4554                         |
| April 21, 2017    | April 21, 2027    | 0.65                 | 30,000               | 5.31  | 0.3914                         |
| June 19, 2017     | June 19, 2027     | 0.65                 | 150,000              | 5.47  | 0.3279                         |
| July 4, 2018      | July 4, 2028      | 0.50                 | 320,000              | 6.51  | 0.2316                         |
| August 23, 2019   | August 23, 2029   | 0.40                 | 294,000              | 7.62  | 0.2539                         |
| June 1, 2020      | June 1, 2030      | 0.27                 | 360,000              | 8.42  | 0.1743                         |
| May 3, 2021       | May 3, 2031       | 0.27                 | 360,000              | 9.34  | 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 30,338,756 common shares currently issued and outstanding. The Bid is for a one-year term and is renewed 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, 2022, 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 2022 Bid on February 10, 2022.

For the year ended December 31, 2021, 113,000 common shares were repurchased at a total price of \$36,199 (December 31, 2020 – 129,000 common shares were repurchased at a total price of \$31,048). 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 \$58,531 for the year ended December 31,



# The Western Investment Company of Canada Limited

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2021 (December 31, 2020 – \$62,157). The difference between the issued price and the repurchase price of the shares repurchased is recorded to contributed surplus.

### 11 Income taxes

#### a) Income tax expense

|   | 2021<br>\$ | 2020<br>Restated<br>(note 4)<br>\$ |
|---|------------|------------------------------------|
| (Loss) income before income taxes             | (707,244)  | (3,212,412)                        |
| Income tax rate                               | 23.0%      | 24.0%                              |
| Expected income tax (recovery) expense        | (162,666)  | (770,979)                          |
| Non-deductible portion of loss                | 99         | 198                                |
| Equity income                                 | (71,797)   | 560,496                            |
| Interest payments on debentures               | 51,645     | 45,979                             |
| Financing fees deferred for tax               | (62,763)   | (105,212)                          |
| Non-deductible stock compensation             | 14,821     | 15,060                             |
| Tax benefits of current losses not recognized | 230,661    | 254,458                            |
| Income tax                                    | -          | -                                  |

#### b) Deferred income taxes

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

|                                 | 2021<br>Restated<br>(note 4)<br>\$ | 2020<br>Restated<br>(note 4)<br>\$ |
|---------------------------------|------------------------------------|------------------------------------|
| Share issuance costs            | 35,741                             | 101,233                            |
| Unrealized capital loss         | 158,365                            | 199,444                            |
| Convertible debentures          | (139,202)                          | (193,093)                          |
| Non-capital losses              | 1,360,716                          | 1,162,026                          |
| Unrecognized deferred tax asset | 1,415,620                          | 1,269,610                          |

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, 2021 amounted to \$831,015 (restated for prior period adjustment to equity income). No deferred tax asset has been recognized to date as the Corporation's ability to recognize is not probable in the foreseeable future.

# The Western Investment Company of Canada Limited

## Notes to Restated Financial Statements

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### 12 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, 2021 and 2020.

### 13 Financial instruments

The Corporation, as part of its operations, carries financial instruments consisting of cash, 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, current amounts 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

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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.

|                          | December 31,<br>2021<br>\$ | December 31,<br>2020<br>\$ |
|--------------------------|----------------------------|----------------------------|
| Cash                     | 23,318                     | 365,897                    |
| Due from related parties | 787,655                    | 834,137                    |
|                          | <u>810,973</u>             | <u>1,200,034</u>           |

### Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. Policies and practices used include the preparation of budgets and forecasts that are regularly monitored and updated as considered necessary. Cash requirements are monitored on a monthly basis and short-term liquidity risks have been mitigated through the use of an operating loan facility (note 7).

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, 2021 and December 31, 2020 for its financial liabilities.

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| As at December 31, 2021                  |                          |                                   |            |            |            |            |                          |
|--|--------------------------|-----------------------------------|------------|------------|------------|------------|--------------------------|
|  | Carrying<br>amount<br>\$ | Contractual<br>cash<br>flow<br>\$ | 2022<br>\$ | 2023<br>\$ | 2024<br>\$ | 2025<br>\$ | 2026 and<br>beyond<br>\$ |
| Accounts payable and accrued liabilities | 144,742                  | 144,742                           | 144,742    | -          | -          | -          | -                        |
| Operating loan (note 7)                  | 1,014,292                | 1,054,361                         | 1,054,361  | -          | -          | -          | -                        |
| Loan from related party (note 8)         | 1,200,000                | 1,445,400                         | 49,080     | 49,080     | 49,080     | 49,080     | 1,249,080 <sup>(1)</sup> |
| Convertible debentures (note 9)          | 3,419,991                | 4,750,000                         | 300,000    | 300,000    | 4,150,000  | -          | -                        |
|  | 5,779,025                | 7,394,503                         | 1,548,183  | 349,080    | 4,199,080  | 49,080     | 1,249,080                |

  

| As at December 31, 2020                  |                          |                                   |            |            |            |            |                          |
|--|--------------------------|-----------------------------------|------------|------------|------------|------------|--------------------------|
|  | Carrying<br>amount<br>\$ | Contractual<br>cash<br>flow<br>\$ | 2021<br>\$ | 2022<br>\$ | 2023<br>\$ | 2024<br>\$ | 2025 and<br>beyond<br>\$ |
| Accounts payable and accrued liabilities | 145,993                  | 145,993                           | 145,993    | -          | -          | -          | -                        |
| Operating loan (note 7)                  | 776,791                  | 807,478                           | 807,478    | -          | -          | -          | -                        |
| Loan from related party (note 8)         | 1,200,000                | 1,445,400                         | 49,080     | 49,080     | 49,080     | 49,080     | 1,249,080 <sup>(1)</sup> |
| Convertible debentures (note 9)          | 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 8, 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 December 31, 2021, a 1% movement in the prime rate would change the interest expense by approximately \$10,143 (December 31, 2020 – \$7,768).

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

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### 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.

## 14 Earnings (loss) per common share

Earnings (loss) per share is calculated as follows:

|  | 2021         | 2020<br>Restated |
|--|--------------|------------------|
| Net income (loss) for common equity holders      | \$ (707,244) | \$ (3,212,412)   |
| Basic weighted average number of Common Shares   | 30,398,326   | 30,523,160       |
| Effect of dilutive securities                    | 96,257       | -                |
| Diluted weighted average number of Common Shares | 30,494,583   | 30,523,160       |
| Basic earnings (loss) per Common Share           | \$ (0.023)   | \$ (0.105)       |
| Diluted earnings (loss) per Common Share         | \$ (0.023)   | \$ (0.105)       |

As at December 31, 2021, there was 2,869,454 share options outstanding (December 31, 2020 – 2,509,454). 2,149,454 of these options were anti-dilutive (December 31, 2020 – 2,509,454).

## 15 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 year ended December 31, 2021, management fees of \$270,000 were earned (December 31, 2020 – \$360,020). As at December 31, 2021, \$787,655 was due from associates (December 31, 2020 – \$834,137), which is composed of cash advances, unpaid management fees, and interest. \$765,432 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 December 31, 2021 (December 31, 2020 – \$788,200). Short-term amounts due from related party includes primarily management fees.

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 December 31, 2021, \$549,227 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, \$122,632 to management fees and \$126,595 to interest on the balance.

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In the first quarter of 2020, the Corporation borrowed \$1.2 million from Golden. See note 8 for further details. In the year ended December 31, 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, 2021, \$84,562 was sold to Ocean (December 31, 2020 - \$176,288). Western has no certainty to expect payment of the remaining balance for the next 12 months and does not foresee any impairment issues related to the inventory held as collateral. As at December 31, 2021, Western had \$216,205 included in the due from related parties representing the value of inventory on hand (December 31, 2020 - \$300,767). 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 year ended December 31, 2021, \$383,157 in salary and benefits was paid or payable to members of management (December 31, 2020 - \$411,399).

### 16 Subsequent events

On February 1, 2022, Western sold 245,493 shares of GlassMasters for \$535,175, which equals 5% of our total investment in GlassMasters. This reduced our investment in GlassMasters from 61.3% to 58.2%. Western recognized a capital gain on this disposal in the amount of \$152,772.

On April 1, 2022, the shareholders of GlassMasters passed a special resolution to distribute \$8 million in capital to shareholders by way of reducing the stated capital on the Class "A" common shares. The distribution shall be treated as a return of paid-up capital for tax purposes and will be paid by the issuance of a 5-year term promissory note, bearing interest at a rate equal to the prime rate of the Bank of Montreal plus 10%. The return of capital and related promissory note related to Western's shareholdings was \$4,658,559.

On June 29, 2022 220,000 stock options were issued as compensation to directors of the Corporation.

On July 29, 2022 Western paid dividends of \$0.005 per share for a total amount of \$151,514.

On Oct 1, 2022, 421,579 common shares of GlassMasters were issued to management in accordance with the exercise of employee stock options. This option exercise has resulted in the dilution of Western's ownership interest in GlassMasters from 58.2% to 55.3%. Western will recognize a loss on dilution in relation to this transaction of approximately \$136,436.

On October 13, 2022, Western signed an amended and restated commitment letter with its lender. The Corporation's operating loan facility was amended to become a committed revolving facility. The amended

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facility has a three-year revolving period with a maturity date of October 6, 2025. The interest rate remains at the bank's prime rate plus 2% per annum and carries a standby fee of 0.5% per annum on the unused portion.

On October 19, 2022, Fortress closed a \$5.3 million equity offering and signed an agreement with U.S. based Indemnity National Insurance Company. This transaction resulted in the dilution of Western's ownership interest in Fortress from 50% to 28%, and the recognition of a gain on dilution. The final amount of the gain that will be recognized is not yet determined, but it is estimated to be approximately \$754,000.

On October 27, 2022, the Corporation advanced \$250,000 to Foothills Creamery in the form of a shareholder loan bearing interest at 13% per annum. Unpaid interest and management fees shall be added to the principal sum owing. The loan has a one-year maturity date, with the option to extend for two consecutive six-month periods. At the maturity date, Western has the option to convert the outstanding principal sum, together with all accrued and unpaid interest, into shares of Foothills at a conversion price of \$1.00 per share. If the conversion option is exercised, Western will receive share purchase warrants of Foothills in the amount of one-third of one share purchase warrant for every one share issued upon conversion of the loan. Each warrant shall entitle Western to purchase one share of Foothills.

On November 9, 2021, 100,000 common shares in the capital of Foothills were issued from treasury to a member of management at a price of \$1.0 per share. This transaction has diluted Western's investment in Foothills from 50.4% to 49.6%. The gain on dilution recognized on this transaction is not expected to be material.

On March 24, 2023 GlassMasters issued an amended promissory note to replace the note issued on April 1, 2022. The terms of the amended \$4,658,559 promissory note (which comprises part of our investment in GlassMasters) include a 5-year term, with automatic renewal for a period of 5 years upon each maturity date, unless the directors of GlassMasters otherwise determine. Interest is to be a rate set by the Board of Directors of GlassMasters from time to time. At the GlassMasters annual board meeting on March 24, 2023, the Directors set the interest rate at 10% for the fiscal year 2023.

