Pro Metal Industries Ltd.

Financial Statements

October 31, 2018

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of Pro Metal Industries Ltd:

The accompanying financial statements of Pro Metal Industries Ltd. are the responsibility of management and have been approved by the Board of Directors.

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors are responsible for overseeing management in the performance of its financial reporting responsibilities and for approving the financial statements. The Board of Directors fulfil these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors.

Chalupiak & Associates CPA Professional Corporation, an independent firm of Chartered Professional Accountants, is appointed by the Board of Directors to audit the financial statements and report directly to the Members; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board of Directors and management to discuss their audit findings.

Pro Metal Industries Ltd.

Date: July 30, 2019

Chalupiak & Associates CPA Professional Corporation
Chartered Professional Accountants
3261 Saskatchewan Drive
Regina, Saskatchewan S4T 6S4
Phone: 306-359-3711 Fax: 306-569-3030

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pro Metal Industries Ltd.

We have audited the accompanying financial statements of Pro Metal Industries Ltd., which comprise the statement of financial position as at October 31, 2018, and the statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion
Due to deficiencies in the accounting system we were unable to confirm the accuracy and completeness of the inventory, accounts receivable and accounts payable balances. Any adjustments that might have been necessary would have a consequential significant effect on the Statement of Financial Position of the company as at October 31, 2018, Statement of Comprehensive Loss for the year ended October 31, 2018 and the related disclosures in the financial statements.

Qualified Opinion
In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, these financial statements present fairly, in all material respects, the financial position of the company as at October 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

The company has incurred significant losses in the last two years and the accumulated deficit has increased to $5,003,902. The company is dependent upon the parent company, PFN Group of Companies Inc. for cash injections in order to continue to operate.

Regina, Saskatchewan
July 30, 2019

Chalupiak & Associates

Chalupiak & Associates

Pro Metal Industries Ltd.
Statement of Financial Position
October 31, 2018

		2018		2017
Assets				
Current assets				
Accounts receivable - note 4	$	586,382	$	875,903
Inventory - note 5		576,998		507,796
Income taxes recoverable - note 6		577,816		388,467
Prepaid expenses - note 7		41,962		81,442
		1,783,158		1,853,608
Fixed assets - note 9		3,254,778		2,899,304
Other assets				
Due from related party - note 8		-		75,000
	$	5,037,936	$	4,827,912
Liabilities				
Current liabilities				
Bank indebtedness - note 10	$	1,613,311	$	1,148,319
Accounts payable and accrued liabilities - note 11		1,160,537		678,551
Current portion of long-term debt - note 12		154,701		146,449
		2,928,549		1,973,319
Due to related party - note 8		576,383		-
Long-term debt - note 12		437,669		592,214
Future income taxes - note 13		149,287		139,128
		4,091,888		2,704,661
Shareholders' equity				
Share capital - note 14		1,666,680		1,666,680
Contributed surplus - note 15		4,283,270		4,283,270
Deficit		(5,003,902)		(3,826,699)
		946,048		2,123,251
	$	5,037,936	$	4,827,912

Approved on behalf of the Board:

_______________ Director _______________ Director

Pro Metal Industries Ltd.
Statement of Loss and Comprehensive Loss
For the year ended October 31, 2018

		2018	%		2017	%
Sales						
Sales	$	2,460,815	100.0	$	2,672,068	100.0
Cost of sales						
Direct wages		1,047,324	42.6		1,393,492	52.2
Freight		20,327	0.8		23,626	0.9
Materials		1,338,498	54.4		743,582	27.8
Shop supplies		186,634	7.6		294,597	11.0
		2,592,783	105.4		2,455,297	91.9
Gross profit		(131,968)	(5.4)		216,771	8.1
Expenses						
Expenses, Schedule 1		(2,389,947)	97.1		(2,007,724)	75.1
Loss before undernoted items and income taxes		(2,521,915)	(102.5)		(1,790,953)	(67.0)
Other income (expense)						
Other income, Schedule 2		1,423,570	57.8		250,043	9.4
Other expenses, Schedule 3		(258,049)	(10.5)		(94,090)	(3.5)
		1,165,521	47.4		155,953	5.8
Loss before income taxes		(1,356,394)	(55.1)		(1,635,000)	(61.2)
Income tax (recovery)						
Current - notes 6 and 21		189,349	7.7		277,548	10.4
Future - note 13		(10,158)	(0.4)		(64,998)	(2.4)
		179,191	7.3		212,550	8.0
Net and comprehensive loss	$	(1,177,203)	(47.8)	$	(1,422,450)	(53.2)

	2018	2017
Contributed surplus		
Contributed surplus, beginning of year	$ 4,283,270	$ 3,457,965
Contribution from PFN Group of Companies Inc. - note 15	-	825,305
Contributed surplus, end of year	$ 4,283,270	$ 4,283,270
Deficit		
Deficit, beginning of year	$ (3,826,699)	$ (2,404,249)
Net and comprehensive loss	(1,177,203)	(1,422,450)
Deficit, end of year	$ (5,003,902)	$ (3,826,699)

Pro Metal Industries Ltd.
Statement of Cash Flows
For the year ended October 31, 2018

	2018	2017
Cash flows from (used in) operating activities		
Net loss	$ (1,177,203)	$ (1,422,450)
Items not involving cash		
Amortization	597,392	630,966
Future income taxes	10,158	64,998
Changes in non-cash operating items		
Accounts receivable	289,521	(44,483)
Inventory	(69,202)	(155,734)
Income taxes recoverable	(189,349)	(277,548)
Prepaid expenses	39,480	(24,226)
Accounts payable and accrued liabilities	481,988	209,668
	(17,215)	(1,018,809)
Cash flows from (used in) investing activity		
Purchase of fixed assets	(952,867)	(1,272,975)
Cash flows from (used in) financing activities		
Due to (from) related parties	651,383	518,000
Repayment of long-term debt	(146,293)	(61,337)
Proceeds of long-term debt	-	800,000
Contributed surplus - note 15	-	825,305
	505,090	2,081,968
Increase in bank indebtedness	(464,992)	(209,816)
Bank indebtedness, beginning of year	(1,148,319)	(938,503)
Bank indebtedness, end of year	$ (1,613,311)	$ (1,148,319)

1. General

Pro Metal Industries Ltd. ("the company") is incorporated provincially under the Business Corporations Act of Saskatchewan. The company's principle business activity is metal design and fabrication. The company operates out of one location at 261 Sherwood Road, Regina, SK. The company is 100% owned by PFN Group of Companies Inc.

2. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on behalf of the shareholders on July 30, 2019.

3. Significant accounting policies

These financial statements are prepared in accordance with International Financial Reporting Standards. The significant policies are detailed as follows:

(a) Basis of presentation

These financial statements reflect only the assets, liabilities, revenue and expenses of the company and therefore do not include any other assets, liabilities, revenues or expenses of the Shareholders or the liability of the Shareholders for income taxes on earnings of the company.

Basis of measurement:

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are stated at fair value.

Functional and presentation currency:

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

Significant accounting judgments, estimates and assumptions:

The preparation of the company's financial statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainties about these assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below.

- Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary;
- Depreciation is based on the estimated useful lives of fixed assets;
- Impairment of fixed assets is based on the estimated recoverable amount of the assets; and,
- The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty.
- Deferred tax assets are based on unused tax losses to the extent that taxable profit will be available against which the losses can be utilized.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3. Significant accounting policies, continued

Standards issued but not yet effective

The company has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at October 31, 2016 but are not yet effective. Unless otherwise stated, the company does not plan to early adopt any of these new or amended standards and interpretations.

IFRS 9 (2014) Financial instruments

The final version of IFRS 9 was issued in July 2014 as a complete standard including the requirements for classification and measurements of financial instruments, the new expected loss impairment model and the new hedge accounting model. IFRS 9 (2014) will replace IAS 39 *Financial Instruments: recognition and measurements.* IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018. The company is currently assessing the impact of the standard in its financial statements.

IFRS 15 Revenue from contracts and customers

IFRS 15, issued in May 2014, will specify how and when entities recognize, measure and disclose revenue. The standards will supersede all current standards dealing with revenue recognition, including IAS 11 *Construction contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer loyalty programs*, IFRIC 15 *Agreements for the construction of real estate*, IFRIC 18 *Transfer of assets from customers* and SIC 31 *Revenue - barter transactions involving barter services*.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The company is currently assessing the impact of this standard on its financial statements.

(b) International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board adopted International Financial Reporting Standards (IFRS) to replace Canadian Generally Accepted Accounting Principles (GAAP) for fiscal years beginning on or after January 1, 2011. The company adopted International Financial Reporting Standards (IFRS) effective November 1, 2015 and these financial statements are prepared in accordance with IFRS. The transition to IFRS requires the company to review its accounting policies to determine whether any significant changes to accounting policies are required, and as a result of this review it was determined that no significant changes in accounting policies are required. It was also determined that there were no differences in reporting the October 31, 2015 balance sheet, income statement, and cash flows under GAAP as previously reported compared to IFRS reporting, and therefore no restatement of the previously year's financial statements was required as result of the transition to IFRS.

3. Significant accounting policies, continued

(c) Financial instruments

Financial assets and financial liabilities are initially measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. Transactions to purchase or sell these items are recorded on the trade date. During the year, there has been no reclassification of financial instruments.

Financial assets at fair value through profit or loss

The company has classified cash and cash equivalents and marketable securities as a financial asset at fair value through profit or loss. Any gain/loss arising as a result of the difference between the carrying amount and fair value is recognized in total comprehensive income.

Financial instruments at fair value through profit or loss are subsequently measured at their fair value.

Loans and receivables

The company has classified accounts receivable and due from related parties as loans and receivables.

Loans and receivables are subsequently measured at their amortized cost. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, plus or minus any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value are recognized in total comprehensive income upon de-recognition or impairment.

Financial liabilities measured at amortized cost

The company has classified accounts payable and accruals, and due to related parties as financial liabilities measured at amortized cost.

Financial liabilities measured at amortized cost are measured at their amortized cost subsequent to initial recognition. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value are recognized in total comprehensive income upon de-recognition or impairment.

3. Significant accounting policies, continued

(d) Financial asset impairment

The company assesses impairment of all its financial assets, except those classified as fair value through profit and loss. Management considers whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Any impairment, which is not considered temporary, is included in current year earnings.

(e) Fair value measurements

The company classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the company to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

(f) Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with maturities of three months or less from their date of acquisition, which are readily convertible into a known amount of cash, and are subject to an insignificant risk to changes in their fair value.

(g) Income taxes

The company has elected to account for income taxes using the future income taxes method. In providing for corporate income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as future income taxes. The tax rates anticipated to be in effect when these temporary differences reverse are used to calculate future income taxes.

3. Significant accounting policies, continued

(h) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset or its development when those costs are necessarily incurred for the asset to function in the manner intended by management. When parts of an item of fixed assets have different useful lives, they are accounted for as separate items of fixed assets.

All assets having limited useful lives are depreciated using the straight-line or declining balance method over their estimated useful lives. Assets are depreciated from the date of acquisition. Internally constructed assets are depreciated from the time an asset is capable of operating in the manner intended by management.

In the year of acquisition, depreciation is taken at one-half of the applicable rates.

The residual value, useful life and depreciation method applied to each class of assets are reassessed at each reporting date.

Storage container	10%	Declining balance
Equipment	20%	Declining balance
Vehicles	30%	Declining balance
Computer equipment	30%	Declining balance
Furniture and fixtures	15%	Declining balance
Leasehold improvements	5 years	Straight-line
Computer software	5 years	Straight-line

Amortization of leasehold improvements is recorded over the remaining term of the lease plus the first renewal option.

(i) Goodwill

Goodwill, arising on the acquisition of a business, represents the excess of the cost of acquisition over the company's interest in the net fair value of the identifiable assets and liabilities of the business recognized at the date of acquisition. Goodwill is initially recognized at cost and is subsequently measured at cost less any impairment losses. Goodwill is tested for impairment annually or more frequently, if the events and circumstances indicate that there may be impairment.

3. Significant accounting policies, continued

(j) **Impairment of non-financial assets**

At the end of each reporting period, the company reviews the carrying amounts of its fixed assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(k) **Comprehensive income**

Comprehensive income includes all changes in equity of the company, except those resulting from investments by shareholders and distributions to shareholders. Comprehensive income is the total of net earnings and other comprehensive income. Other comprehensive income comprises revenues, expenses, gains and losses that, in accordance with International Financing Reporting Standards, require recognition, but are excluded from net earnings. All gains and losses, including those arising from measurement of all financial instruments have been recognized in total comprehensive income for the period.

(l) **Measurement uncertainty**

The preparation of financial statements in conformity with International Financing Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

3. Significant accounting policies, continued

(m) Inventory

The company's inventory of raw materials is recorded at the lower of cost and replacement cost. Work-in-process and finished goods are valued at the lower of cost (including overhead) and net realizable value. Cost is determined by the first-in, first-out method. Cost of inventories of items that are segregated for specific projects is assigned by using specific identification of their individual costs. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling costs.

(n) Revenue recognition

The company does not recognize revenue before the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the company, the stage of completion of the transaction at the end of the reporting period can be measured reliably, the costs incurred for the transaction and the costs to complete the transaction can be measured reliably and collection of the related receivable is reasonably assured.

Revenue from the sale of fabricated products is recognized when the significant risks and rewards of ownership of the products has been transferred to the buyer.

Interest earned on cash and receivables is recognized in the period earned.

Government grant revenue is recognized on a systematic basis over the periods in which the company recognizes expenses as related costs. Government grants are recognized when there is reasonable assurance that the company will comply with the terms and conditions associated with the grants and that the grants will be received for which the funded expenses were incurred.

4. Accounts receivable

	2018	2017
Trade receivables	$ 633,008	$ 670,497
Government of Saskatchewan	-	250,000
GST receivable	7,060	9,092
	640,068	929,589
Less: Allowance for doubtful accounts	53,686	53,686
	$ 586,382	$ 875,903

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

5. Inventory

	2018	2017
Materials	$ 482,733	$ 406,304
Work in progress	94,265	101,492
	$ 576,998	$ 507,796

The cost of materials used in finished goods are recognized as an expense and are included in cost of sales in the amount of $1,338,498 (2017 - $743,582).

6. Income taxes recoverable

In the current year the company reported a tax loss of $1,456,534 (2017 - $1,309,105). This loss can be carried forward and applied to future earnings to reduce the income taxes payable. The recoverable amount of incomes taxes in the current year is approximately $189,349 (2017 - $277,548) and this amount has been added to the receivable carried forward from previous years.

	2018	2017
Income taxes recoverable from future earnings - 2015 fiscal	$ (27,273)	$ (27,273)
Income taxes recoverable from future earnings - 2016 fiscal	138,192	138,192
Income taxes recoverable from future earnings - 2017 fiscal	277,548	277,548
Income taxes recoverable from future earnings - 2018 fiscal	189,349	-
	$ 577,816	$ 388,467

7. Prepaid expenses

	2018	2017
Rent Deposit	$ 32,713	$ 32,713
Insurance	9,249	16,901
Compensation	-	2,126
Contracts	-	29,702
	$ 41,962	$ 81,442

8. Due to (from) related party

	2018	2017
Due to/from Pasqua First Nation	$ 576,383	$ (75,000)

9. Fixed assets

	Cost	Accumulated amortization	2018 Net	2017 Net
Buildings	$ 9,961	$ 7,194	$ 2,767	$ 3,074
Equipment	3,637,048	2,478,162	1,158,886	1,348,374
Vehicles	247,808	223,908	23,900	34,143
Computer equipment	109,504	88,097	21,407	30,581
Furniture and fixtures	108,492	57,223	51,269	60,317
Leasehold improvements	973,586	627,199	346,387	403,126
Computer software	1,309,616	493,865	815,751	1,019,689
Assets under construction	834,411	-	834,411	-
	$ 7,230,426	$ 3,975,648	$ 3,254,778	$ 2,899,304

	2018	2017	2016	2015
	$ -	$ -	$ -	$ -

10. Bank indebtedness

The company has a $1,000,000 revolving line of credit with Peace Hills Trust. Advances on the credit line are payable on demand and bear interest at prime plus 2%. The company also has an overdraft limit of $500,000 payable on demand and bearing interest at 24%.

The credit line is secured by a general security agreement.

	2018	2017
	$ 1,613,311	$ 1,148,319

11. Accounts payable and accrued liabilities

	2018	2017
Trade payables	$ 1,112,819	$ 615,492
Wages and vacation pay	38,008	34,418
PST	874	2,235
Pension payable	3,081	15,585
Other payroll deductions payable	5,755	10,821
	$ 1,160,537	$ 678,551

12. Long-term debt

	2018	2017
Peace Hills Trust term loan - capital asset loan - bearing interest at 5.50%, monthly blended payments of $15,285, maturing May 1, 2022, secured by general security agreement.	$ 592,370	$ 738,663
Less current portion	154,701	146,449
Due beyond one year	$ 437,669	$ 592,214

Estimated principal repayments are as follows:

2019	$ 154,701
2020	163,427
2021	172,646
2022	101,596
	$ 592,370

Interest paid to Peace Hills Trust in the current year was $37,127

13. Future income taxes

The company follows the tax allocation method of accounting for income taxes whereby the income tax provision is based on the income reported in the accounts. Under this method, the company makes full provision for income taxes deferred as a result of claiming revenues and expenses for income tax purposes on a different basis than that for accounting purposes.

	2018	2017
2015 fiscal year	$ 27,097	$ 27,097
2016 fiscal year	47,108	47,108
2017 fiscal year	64,923	64,923
2018 fiscal year	10,159	-
Balance, end of year	$ 149,287	$ 139,128

14. Share capital

	2018	2017
Authorized		
Unlimited number of Class A common voting shares		
Unlimited number of Class B non-voting shares		
Issued		
PFN Group of Companies Inc. - 1,410 Class A common	$ 1,666,680	$ 1,666,680

15. Contributed surplus

The PFN Group of Companies Inc. made equity contributions of $2,864,965 when they purchased the company in 2016.

	2018	2017
PFN Group of Companies Inc.	$ 3,690,270	$ 3,690,270
Pasqua First Nation	593,000	593,000
	$ 4,283,270	$ 4,283,270

16. Goodwill impairment

Goodwill was reported on the 2015 Statement of Financial Position in the amount of $1,772,540. The Goodwill was a result of the amalgamation of Pro Metal Industries Ltd. with its wholly owned subsidiaries, 313266 Saskatchewan Ltd. and Kinneberg Holdings Ltd. The amount of $673,259 was recorded in 2007 and the amount of $219,856 in each of the following 5 years. International Financial Reporting Standards (IFRS) require that Goodwill be tested for impairment each year. PFN Group of Companies Inc. purchased 100% of the shares in 2016 and no value was assigned to the Goodwill. Consequently it was determined that according to IFRS the Goodwill had a $nil value.

17. Economic dependence

The company has incurred significant losses in the last two years and the accumulated deficit has increased to $5,003,902. The company is dependent upon the parent company, PFN Group of Companies Inc.for cash injections in order to continue to operate.

18. Subsequent events

In November 2019 the company acquired a majority interest in NP Aerospace, a manufacturer of composite materials used in the military. Management believes this will open up more opportunities for the company to increase sales.

19. Capital management

The company's objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders.

The company sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in light of changes to economic conditions, growth, and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, request contributions from shareholders, or sell assets to reduce debt. There have been no changes in the monitoring of capital or strategy from the prior year.

20. Income tax losses

For income tax purposes, the company has non-capital losses which can be applied to reduce future years' taxable income. These losses expire as follows:

2025	$ 7,376
2026	853,224
2027	2,134,984
2028	1,434,534
	$ 4,430,118

21. Tax recovery reconciliation

The tax recovery recorded on the statement of loss and comprehensive loss has been calculated as follows:

Loss before taxes as per financial statement	$	1,356,393
Less: amortization recorded		(597,392)
Add: capital cost allowance		697,533
Loss for tax purposes	$	1,456,534

		2018		2017
Tax recoverable (approximate tax rate - 13%)	$	189,349	$	388,467

22. Lease commitment

The company entered into a lease for office and warehouse space (approximately 30,640 square feet) effective March 1, 2019 that runs to March 31, 2024 with an option to renew for another 5 year term. The lease rate per month is $39,146. The tenant is responsible for all operating costs.

23. Contingent liabilities

The company together with others, has guaranteed the bank loans and notes payable of related entities to the extent of $4,200,000. It is not possible at this time to determine the liability, if any, that may result from these guarantees.

24. Financial instruments

The company as part of its operations carries a number of financial instruments. It is management's opinion that the company is not exposed to significant interest, currency, or credit risks arising from these financial instruments except as otherwise disclosed.

(a) Risk management policy

The company observes an informal risk management policy by maintaining the majority of the company's capital in liquid assets.

There have been no changes in risk exposures from the prior year.

24. Financial instruments, continued

(b) Fair value of financial instruments

The carrying amount of cash and cash equivalents, accounts receivable, and accounts payable and accruals approximate their fair value due to their short-term nature.

The fair value of amounts due from/to related parties is not determinable as timing of future cash flows cannot be estimated.

Financial assets at fair value through profit or loss:

Cash and cash equivalents are recorded at fair value, which is approximated by the initial carrying value, due to their short-term nature. Marketable securities are recorded at fair value, which is approximated by quoted prices available in an active market. Cash and cash equivalents and marketable securities are measured at level 1 in the fair value hierarchy.

Loans and receivables:

Accounts receivable and due from related parties are recorded at their amortized cost.

Financial liabilities measured at amortized cost:

Accounts payable and accruals and due from related parties are recorded at their amortized cost.

(c) Credit risk

Credit risk is the risk of financial loss because a counter party to a financial instrument fails to discharge its contractual obligations.

The carrying amount of the company's accounts receivable best represents the maximum exposure to credit risk. Trade receivables from two customers account for 25% of the trade receivables. Management has analysed the credit worthiness of these companies and their established relationship with these companies and believes there is minimum risk associated with the collection of these amounts.

The company manages its credit risk by performing regular credit assessments of its customers, providing allowances for potentially uncollectible accounts receivable and considering credit ratings of counter parties. The company does not require collateral or other security relating to accounts receivable.

(d) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. In seeking to minimize the risks from interest rate fluctuations, the company manages exposure through diversification of both investments and maturity dates of investments.

The company is exposed to interest rate risk with respect to bank indebtedness and long-term due to related party.

24. Financial instruments, continued

(e) Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivery of cash or another financial asset. The company enters into transactions to purchase goods and services on credit for which repayment is required at various maturity dates. Liquidity risk is measured by reviewing the company's future net cash flows for the possibility of negative net cash flow.

The company manages the liquidity risk resulting from its accounts payable by maintaining liquid assets.

25. Related party disclosure

As of October 31, 2018 the president of the company is receiving remuneration by way of payments to 101247444 Saskatchewan Ltd. which is fully controlled by this individual. In the current year $402,088 (2017 - $351,910) was paid to 101247444 Saskatchewan Ltd.

Schedule 1

Pro Metal Industries Ltd.

Schedule of Expenses

For the year ended October 31, 2018

	2018	2017
Variable		
Freight out	$ 12,546	$ 11,810
Salary		
Salaries - management	125,801	112,743
Salaries - office	239,840	91,652
Salaries - sales	150,141	166,198
Semi-fixed		
Advertising and promotion	6,544	20,669
Business taxes, licenses and memberships	31,066	12,313
Contracts	234,240	-
Office	33,660	21,663
Professional fees	118,298	172,436
Supplies	142,229	101,398
Telephone	10,965	14,550
Vehicle and travel	38,888	24,473
Fixed		
Amortization	597,392	630,966
Insurance	33,328	26,754
Property taxes	28,140	39,529
Rent - equipment	16,068	22,369
Rent - real estate	392,560	405,360
Repairs and maintenance	84,101	57,343
Utilities	94,140	75,498
	$ 2,389,947	$ 2,007,724

Schedule 2

Pro Metal Industries Ltd.

Schedule of Other Income

For the year ended October 31, 2018

	2018	2017
Commissions	$ 201	$ 41
Gain on foreign exchange	-	2
Grant revenue - Province of Saskatchewan	1,423,369	250,000
	$ 1,423,570	$ 250,043

Schedule 3

Pro Metal Industries Ltd.

Schedule of Other Expenses

For the year ended October 31, 2018

	2018	2017
Bad debts	$ 36,537	$ -
Credit card charges	751	-
Interest and bank charges	175,211	27,137
Interest on long term debt	37,127	66,953
Training	8,423	-
	$ 258,049	$ 94,090