# PFN Group of Companies Inc.
# Consolidated Financial Statements
*December 31, 2017*

## MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The management of PFN Group of Companies Inc. is responsible for preparing the consolidated financial statements, the notes to the consolidated financial statements and other financial information contained in this annual report.

Management prepares the consolidated financial statements in accordance with Canadian generally accepted accounting principles. The consolidated financial statements are considered by management to present fairly the management's financial position and results of operations.

The company, in fulfilling its responsibilities, has developed and maintains a system of internal accounting controls designed to provide reasonable assurance that management assets are safeguarded from loss or unauthorized use, and that the records are reliable for preparing the consolidated financial statements.

The consolidated financial statements have been reported on by Chalupiak & Associates, the shareholders' auditors. Their report outlines the scope of their examination and their opinion on the consolidated financial statements.

Board of Directors
September 27, 2018

# Chalupiak & *Associates*
## Chartered Professional Accountants
3261 Saskatchewan Drive, Regina, SK S4T 6S4
Phone (306) 359-3711 Fax (306) 569-3030


## INDEPENDENT AUDITORS' REPORT

To the Shareholders of PFN Group of Companies Inc.

We have audited the accompanying consolidated financial statements of PFN Group of Companies Inc., which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statements of income and comprehensive income, 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 Consolidated Financial Statements*
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

*Opinion*
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PFN Group of Companies Inc. as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Regina, Saskatchewan
September 27, 2018

Chalupiak & Associates
Chalupiak & Associates

# PFN Group of Companies Inc.
## Consolidated Statement of Financial Position
*December 31, 2017*

| | | 2017 | | 2016 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current assets** | | | | |
| Cash | $ | 55,278 | $ | 921,952 |
| Accounts receivable - note 4 | | 929,652 | | 927,217 |
| Inventory - note 5 | | 507,796 | | 352,062 |
| Prepaid expenses - note 6 | | 89,778 | | 57,216 |
| Income taxes receivable - note 7 | | 388,467 | | 110,919 |
| Due from Pasqua First Nation - note 8 | | - | | 33,715 |
| | | 1,970,971 | | 2,403,081 |
| **Fixed assets** - note 9 | | 2,908,193 | | 2,268,089 |
| **Other assets** | | | | |
| Goodwill - note 10 | | 476,872 | | 476,872 |
| | $ | 5,356,036 | $ | 5,148,042 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Bank indebtedness - note 11 | $ | 1,148,629 | $ | 541,575 |
| Accounts payable and accrued liabilities - note 12 | | 765,371 | | 549,126 |
| Due to Pasqua First Nation - note 8 | | 363,493 | | - |
| Current portion of long-term debt - note 13 | | 146,449 | | - |
| | | 2,423,942 | | 1,090,701 |
| **Long-term debt** - note 13 | | 592,214 | | - |
| **Future income taxes** - note 14 | | 139,128 | | 74,130 |
| | | 3,155,284 | | 1,164,831 |
| **Shareholders' equity** | | | | |
| Contributed surplus | | 3,898,453 | | 4,258,464 |
| Deficit | | (1,697,701) | | (275,253) |
| | | 2,200,752 | | 3,983,211 |
| | $ | 5,356,036 | $ | 5,148,042 |

Approved on behalf of the Board:

_______________ Director

_______________ Director

| | | 2017 | | 2016 |
|---|---|---|---|---|
| **Net income (loss) as reported on attached schedules** | | | | |
| PFN Group of Companies Inc., Schedule 1 | $ | - | $ | - |
| Pro Metal Industries Ltd., Schedule 2 | | (1,422,448) | | (275,253) |
| **Net and comprehensive loss** | $ | (1,422,448) | $ | (275,253) |

| | 2017 | 2016 |
|---|---|---|
| **Contributed surplus** | | |
| Contributed surplus, beginning of year | $ 4,258,464 | $ - |
| Contributions | 50,000 | 4,759,547 |
| Withdrawals | (410,011) | (501,083) |
| Contributed surplus, end of year | $ 3,898,453 | $ 4,258,464 |
| **Deficit** | | |
| Deficit, beginning of year | $ (275,253) | $ - |
| Net and comprehensive loss | (1,422,448) | (275,253) |
| Deficit, end of year | $ (1,697,701) | $ (275,253) |

# PFN Group of Companies Inc.
## Consolidated Statement of Cash Flows
*For the year ended December 31, 2017*

| | 2017 | 2016 |
|---|---|---|
| **Cash flows from (used in) operating activities** | | |
| Net loss | $ (1,422,448) | $ (275,253) |
| Items not involving cash | | |
| Amortization | 632,871 | 258,595 |
| Future income taxes | 64,998 | 47,108 |
| Bad debts | - | 77,659 |
| Changes in non-cash operating items | | |
| Accounts receivable | (2,435) | (83,788) |
| Inventory | (155,734) | (10,360) |
| Prepaid expenses | (32,562) | 721 |
| Income taxes receivable | (277,548) | (76,471) |
| Accounts payable and accrued liabilities | 216,246 | 279,423 |
| | (976,612) | 217,634 |
| **Cash flows from (used in) investing activities** | | |
| Purchase of fixed assets | (1,272,976) | (1,719,992) |
| Acquisition of Pro Metals Industries Ltd. | - | (2,114,634) |
| Cash received upon acquisition of Pro Metals Industries Ltd. | - | (173,201) |
| | (1,272,976) | (4,007,827) |
| **Cash flows from (used in) financing activities** | | |
| Due to (from) related parties | 397,208 | (86,475) |
| Repayment of long-term debt | (61,337) | - |
| Proceeds of long-term debt | 800,000 | - |
| Contributions net of withdrawals | (360,011) | 4,258,464 |
| | 775,860 | 4,171,989 |
| **(Decrease) increase in cash (bank indebtedness)** | (1,473,728) | 381,796 |
| **Cash (bank indebtedness), beginning of year** | 380,377 | (1,419) |
| **(Bank indebtedness) cash, end of year** | $ (1,093,351) | $ 380,377 |

## 1. General

PFN Group of Companies Inc.("the Company") is wholly owned by Pasqua First Nation and was incorporated on July 9, 2012 to carry out business development activities for the Pasqua First Nation. The financial statements of the company as at and for the year ended comprise of the Company and its subsidiary Pro Metal Industries Ltd.

## 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 partners and authorized for issue on September 27, 2018.

## 3. Significant accounting policies

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

### (a) Basis of consolidation

The financial statements consolidate the financial statements of the Company and Pro Metal Industries Ltd. (the "subsidiary".) The subsidiary was acquired on February 8, 2016 and is involved in custom metal fabrication. The Company owns 100% of the common voting shares of Pro Metal Industries Ltd.

Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the investee and it has the ability to affect those returns through its power over the investee. In assessing control, only rights which give the Company the current ability to direct the relevant activities and that the Company has the practical ability to exercise, is considered.

The results of the subsidiary acquired during prior years is included in these consolidated financial statements as of the effective date of acquisition.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. Where necessary, adjustments are made to the financial statements of the subsidiary to ensure consistency with the exception of amortization.

Any balances, unrealized gains and losses or income and expenses arising from intra-Company transactions, are eliminated upon consolidation.

**3. Significant accounting policies, continued**

(b) **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. Sources of revenue and expenses are recorded on the accrual basis of accounting. The accrual basis of accounting recognizes revenue as it becomes available and measurable; expenses are recognized as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

**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.

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

### (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) Inventory

The Company's inventory of raw materials is recorded at the lower of cost and net realizable value. Work in process and finished goods are valued at the lower of cost (including an appropriate portion of overhead based on normal operating capacity) and net realizable value. Cost is determined by the first-in, first-out method. Cost of items of inventories 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.

### (h) Marketable securities

The investments in marketable securities are carried at the lower of cost and net realizable value.

## 3. Significant accounting policies, continued

### (i) 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

The methods of depreciation and depreciation rates applicable for each class of asset are as follows:

| | | |
|---|---|---|
| Buildings | 10 % | Declining balance |
| Equipment | 20 % | Declining balance |
| Vehicles | 30 % | Declining balance |
| Office equipment | 15 % | Declining balance |
| Leasehold improvements | 5 years | Straight-line |
| Computer equipment | 30 % | Declining balance |
| Computer software | 5 years | Straight-line |

Assets under construction are not amortized until the asset is available to be put into service.

**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.

## 3. Significant accounting policies, continued

### (k) 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.

### (l) Comprehensive income

Comprehensive income includes all changes in equity of the company, except those resulting from investments by partners and distributions to partners. 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. The company does not have any items giving rise to other comprehensive income, nor is there any accumulated balance of other comprehensive income. All gains and losses, including those arising from measurement of all financial instruments have been recognized in total comprehensive income for the period.

## 4. Accounts receivable

| | 2017 | 2016 |
|---|---|---|
| Pro Metal Industries Ltd. | | |
| Trade receivables - Pro Metal Industries Ltd | $ 670,497 | $ 857,251 |
| GST receivable - Pro Metal Industries Ltd | 9,092 | 2,996 |
| Grants receivable - Province of Saskatchewan | 250,000 | - |
| Allowance for doubtful accounts | (53,686) | (28,827) |
| Subtotal - Pro Metal Industries Ltd. | 875,903 | 831,420 |
| Trade receivables | 53,159 | 143,536 |
| Advances receivable | 590 | 590 |
| | - | (48,329) |
| | $ 929,652 | $ 927,217 |

## 5. Inventory

| | 2017 | 2016 |
|---|---|---|
| Materials- Pro Metal Industries Ltd. | $ 406,304 | $ 230,575 |
| Work in Progress - Pro Metal Industries Ltd. | 101,492 | 121,487 |
| | $ 507,796 | $ 352,062 |

## 6. Prepaid expenses

| | 2017 | 2016 |
|---|---|---|
| Rent - Pro Metal Industries Ltd. | $ 32,713 | $ 32,713 |
| Insurance - Pro Metal Industries Ltd. | 16,901 | 15,976 |
| Property taxes - Pro Metal Industries Ltd. | - | 2,495 |
| Compensation - Pro Metal Industries Ltd. | 31,827 | 6,032 |
| Insurance - other | 8,337 | - |
| | $ 89,778 | $ 57,216 |

## 7. Income taxes receivable

In the current year the subsidiary of the company reported a tax loss of $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 $277,548 and this amount has been added to the receivable carried forward from previous years.

| | 2017 | 2016 |
|---|---|---|
| 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 | - |
| | $ 388,467 | $ 110,919 |

## 8. Due to (from) related parties

Amounts due to related parties are unsecured, non-interest bearing and have no fixed repayment schedules. Since the related parties have indicated that it is not their intention to request payment of these amounts during the next fiscal year, these amounts have been classified as non-current assets.

| | 2017 | 2016 |
|---|---|---|
| Due to (from) Pasqua First Nation | $ (363,493) | $ 33,715 |

## 9. Fixed assets

| | | | 2017 | 2016 |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Net | Net |
| Buildings | $ 9,961 | $ 6,887 | $ 3,074 | $ 3,416 |
| Equipment | 3,521,993 | 2,173,619 | 1,348,374 | 673,791 |
| Vehicles | 260,507 | 217,475 | 43,032 | 59,569 |
| Office equipment | 108,492 | 48,175 | 60,317 | 26,234 |
| Leasehold improvements | 970,186 | 567,060 | 403,126 | 338,059 |
| Computer equipment | 109,504 | 78,923 | 30,581 | 28,808 |
| Computer software | 1,309,616 | 289,927 | 1,019,689 | 695,878 |
| Assets under construction | - | - | - | 442,334 |
| | $ 6,290,259 | $ 3,382,066 | $ 2,908,193 | $ 2,268,089 |

The net book value of the assets include Pro Metal Industries Ltd. of $2,899,305 (2016 - $2,257,296).

## 10. Goodwill

Business acquisitions are accounted for using the acquisition method. On February 6, 2016 the Company acquired 100% of the outstanding shares of Pro-Metal Industries Ltd. Goodwill arising on this acquisition totalled $476,872.

| | | | 2017 | 2016 |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Net | Net |
| Goodwill | $ 476,872 | $ - | $ 476,872 | $ 476,872 |

## 11. Bank indebtedness

The subsidiary of the Company has an authorized overdraft limit of $350,000 bearing an interest rate of 24% and a $1,000,000 revolving line of credit, of which advances on the credit line are payable on demand and bear interest at prime plus 2%. The credit line is secured by a general security agreement.

| | 2017 | 2016 |
|---|---|---|
| Bank indebtedness | $ 1,148,629 | $ 541,575 |

## 12. Accounts payable and accrued liabilities

| | 2017 | 2016 |
|---|---|---|
| Trade accounts and accrued payables | $ 657,568 | $ 447,032 |
| Accrued wages and deductions payable | 54,891 | 21,464 |
| GST payable/ (receivable) | 44,641 | 54,097 |
| Vacation payable | 6,036 | 11,431 |
| PST payable | 2,235 | 15,102 |
| | $ 765,371 | $ 549,126 |

The accounts payable total includes $678,551 (2016 - $468,883) from Pro Metal Industries Ltd.

## 13. Long-term debt

During the year the subsidiary of the company obtained the following financing:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| 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. | $ | 738,663 | $ | - |
| Less current portion | | 146,449 | | - |
| Due beyond one year | $ | 592,214 | $ | - |

Estimated principal repayments are as follows:

| | | |
|---|---|---|
| 2018 | $ | 146,449 |
| 2019 | | 154,710 |
| 2020 | | 163,436 |
| 2021 | | 172,655 |
| 2022 | | 101,413 |
| | $ | 738,663 |

## 14. Future income taxes

The subsidiary of 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 subsidiary corporation 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.

| | | 2017 | | 2016 |
|---|---|---|---|---|
| 2015 fiscal year | $ | 27,022 | $ | 27,022 |
| 2016 fiscal year | | 47,108 | | 47,108 |
| 2017 fiscal year | | 64,998 | | - |
| | $ | 139,128 | $ | 74,130 |

## 15. 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.

## 16. Lease commitments

The subsidiary of the Company has entered into a lease for office and warehouse space (approximately 30,640 square feet) effective May 15, 2013 that runs to October 31, 2018 with an option to renew for another 5 year term. The lease rate per month is $16,357 for the first year, $23,367 for the second and third years, and $32,713 for the fourth and fifth years. The tenant is responsible for all operating costs.

## 17. Related party transactions/disclosures

Transactions with related parties are in the normal course of business and are for fair consideration that is mutually agreed upon by the related parties.

**Key management compensation of the Subsidiary Company**

As of October 31, 2017 the president of the corporation is receiving remuneration by way of payments to 101247444 Saskatchewan Ltd. which is fully controlled by this individual. In the current year $351,910 (2016 - $323,488) was paid to 101247444 Saskatchewan Ltd.

## 18. 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.

## 18. 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.

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.

**18. 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 Partnership'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.

Schedule 1

# PFN Group of Companies Inc.

## Consolidated schedule of PFN Group of Companies Inc.

*For the year ended December 31, 2017*

| | 2017 | 2016 |
|---|---|---|
| **Sales** | | |
| Site Energy | $ 230,785 | $ 624,864 |
| Enbridge | - | 95,000 |
| Safway Services | - | 36,763 |
| Park Derochie | 2,129 | 8,122 |
| Clean Harbors Canada Inc. | 28,735 | 1,500 |
| Tire installation and sales | 58,870 | - |
| Grants | - | 41,972 |
| Other revenue | 13,748 | 32,691 |
| | 334,267 | 840,912 |
| **Cost of sales** | | |
| Materials | 45,093 | - |
| **Gross profit** | 289,174 | 840,912 |
| **Expenses** | | |
| Advertising and promotion | 6,000 | - |
| Amortization | 1,905 | 1,905 |
| Bad debts (recovered) | (44,847) | 48,330 |
| Bank charges | 809 | 854 |
| Consultants and contractors | 28,422 | 44,337 |
| Cultural events | 4,000 | - |
| Insurance | 5,478 | 9,116 |
| Interest on related party loan | - | 16,738 |
| Professional fees | 52,085 | 26,117 |
| Registration, tuitions, memberships | 290 | 80 |
| Supplies | 4,141 | 5,280 |
| Telephone | - | 1,130 |
| Training | 1,258 | 140 |
| Travel | 12,830 | 23,477 |
| Wages and benefits | - | 21,529 |
| | 72,371 | 199,033 |
| **Income before other expenses** | 216,803 | 641,879 |
| **Other expenses** | | |
| Management fees | 216,803 | 641,879 |
| **Net and comprehensive income** | $ - | $ - |

Schedule 2

# PFN Group of Companies Inc.

## Consolidated schedule of Pro Metal Industries Ltd.

*For the year ended December 31, 2017*

| | 2017 | 2016 |
|---|---|---|
| **Sales** | | |
| Metal fabrication | $ 2,672,109 | $ 2,758,172 |
| Grants | 250,000 | 164,817 |
| | 2,922,109 | 2,922,989 |
| **Cost of sales** | | |
| Freight | 23,626 | 19,166 |
| Materials | 744,174 | 749,143 |
| Salaries and benefits | 1,672,433 | 1,086,010 |
| Shop supplies | 217,554 | 184,924 |
| Sub-contracts | 76,451 | 12,657 |
| | 2,734,238 | 2,051,900 |
| **Gross profit** | 187,871 | 871,089 |
| **Expenses** | | |
| Advertising and promotion | 20,668 | 19,466 |
| Amortization | 630,966 | 256,690 |
| Bad debts (recovered) | - | 29,330 |
| Bank charges | 27,133 | 16,490 |
| Courier and delivery | 11,810 | 9,708 |
| Equipment rental | 22,369 | 4,373 |
| Insurance | 26,754 | 25,941 |
| Interest on long-term debt | 66,954 | 13,416 |
| Meals and entertainment | 7,898 | 3,638 |
| Office | 21,663 | 13,473 |
| Professional fees | 172,436 | 195,387 |
| Property taxes | 39,529 | 13,458 |
| Registration, tuitions, memberships | 12,313 | 3,027 |
| Rent | 405,360 | 194,376 |
| Repairs and maintenance | 57,343 | 45,261 |
| Small tools | 101,398 | 59,881 |
| Telephone | 14,550 | 7,996 |
| Training | - | 193,612 |
| Utilities | 75,498 | 56,062 |
| Vehicle expenses | 16,575 | 18,636 |
| Wages and benefits | 91,652 | 57,205 |
| | 1,822,869 | 1,237,426 |
| **Loss before income taxes** | (1,634,998) | (366,337) |
| **Income tax (recovery)** | | |
| Current | 277,548 | 138,192 |
| Future | (64,998) | (47,108) |
| | 212,550 | 91,084 |
| **Net and comprehensive loss** | $ (1,422,448) | $ (275,253) |