Pro Metal Industries Ltd.

Financial Statements

October 31, 2019

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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.

Feb 11/2021

Date

Chalupiak & Associates CPA Professional Corporation
Chartered Professional Accountants
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pro Metal Industries Ltd.

Qualified Opinion

We have audited the financial statements of Pro Metal Industries Ltd., which comprise the statement of financial position as at October 31, 2019, and the statements of income and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Pro Metal Industries Ltd. as at October 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Qualified Opinion

Due to deficiencies in the accounting system, we were unable to confirm the accuracy and completeness of inventory, cost of sales and the classification of expenses related to manufacturing overhead and operating expenses. 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, 2019, the Statement of Comprehensive Loss as at October 31, 2019, the Statement of Cash Flows as at October 31, 2019 and the related disclosures in the financial statements.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material Uncertainty Related to Going Concern

We draw attention to note #2 in the financial statements, which indicates that the Company incurred a net loss of $3,895,558 during the year ended October 31, 2019 and as of that date, the Company’s current liabilities exceeded its current assets by $2,115,683. As stated in note #2, these events or conditions, along with other matters as set forth in note #2, indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

The Company wrote off the deposit for the gasification unit of $484,210. The deposit was placed to purchase a gasification unit from the United States. This is further explained in note #11.

The Company had to repay $209,845 of a grant from Western Economic Diversification Canada ("WED"). This is further explained in note #21.

The Company settled a law suit with a customer for the amount of $1,017,411 due to product deficiencies. This amount was recorded as an expense in the current year and is further explained in note #20.

The Company had previously recorded an asset of "Income Taxes Recoverable" of $577,816 which was the result of accumulated losses in the Company being carried forward for tax purposes that would be used to offset future tax expenses. Due to the significant comprehensive loss of $3,895,558 in the current year and the cumulative deficit of $8,899,460 a material uncertainty exists that casts significant doubt on the Company’s ability to generate sufficient future earnings to utilize this amount. Therefore, this amount was reduced to $193,695 which offsets the liability due to timing differences in recording amortization expenses. This is further explained in note #10 and note #17.

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 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.

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.

Auditors' 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 auditors' 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 auditors' 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 auditors' 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.

- 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.

Chalupiak & Associates

Regina, Saskatchewan
February 11, 2021

Chalupiak & Associates

Pro Metal Industries Ltd.
Statement of Financial Position
October 31, 2019

	2019	2018
Assets		
Current assets		
Accounts receivable - note 7	$ 450,005	$ 586,382
Inventory - note 8	396,029	576,998
Prepaid expenses - note 9	69,246	41,962
	915,280	1,205,342
Income taxes recoverable - note 10	193,695	577,816
Deposits - note 11	-	484,210
Property, plant and equipment - note 12	1,876,566	2,770,568
	$ 2,985,541	$ 5,037,936
Liabilities		
Current liabilities		
Bank indebtedness - note 13	$ 1,196,723	$ 1,613,311
Accounts payable and accrued liabilities - note 14	1,670,816	1,160,537
Current portion of long-term debt - note 16	163,424	154,701
	3,030,963	2,928,549
Due to related party - note 15	2,436,087	576,383
Long-term debt - note 16	274,306	437,669
Deferred taxes - note 17	193,695	149,287
	5,935,051	4,091,888
Shareholders' (deficit) equity		
Share capital - note 18	1,666,680	1,666,680
Contributed surplus - note 19	4,283,270	4,283,270
Deficit	(8,899,460)	(5,003,902)
	(2,949,510)	946,048
	$ 2,985,541	$ 5,037,936

Approved on behalf of the Board:

______________________ Director

Pro Metal Industries Ltd.

Statement of Income and Comprehensive Income

For the year ended October 31, 2019

	2019	%	2018	%
Sales				
Sales	$ 2,369,893	*99.6*	$ 2,460,815	*63.4*
Grant revenue - Province of Saskatchewan	-		1,423,369	*36.6*
Commissions	-		201	
Other income	8,677	*0.4*	-	
	2,378,570	*100.0*	3,884,385	*100.0*
Cost of sales				
Direct wages	592,865	*24.9*	1,047,324	*27.0*
Freight	31,424	*1.3*	20,327	*0.5*
Materials	736,488	*31.0*	1,338,498	*34.5*
Shop supplies	150,878	*6.3*	101,699	*2.6*
Sub-contracts	393,797	*16.6*	84,935	*2.2*
	1,905,452	*80.1*	2,592,783	*66.7*
Gross profit	473,118	*19.9*	1,291,602	*33.3*
Expenses				
Advertising and promotion	25,339	*1.1*	6,544	*0.2*
Bad debts	16,257	*0.7*	36,537	*0.9*
Business taxes, licenses and memberships	44,276	*1.9*	31,066	*0.8*
Consultants and contractors	31,789	*1.3*	234,240	*6.0*
Depreciation	583,658	*24.5*	597,392	*15.4*
Equipment rental	14,628	*0.6*	16,068	*0.4*
Freight	17,983	*0.8*	12,546	*0.3*
Insurance	29,218	*1.2*	33,328	*0.9*
Interest and bank charges	189,253	*8.0*	175,962	*4.5*
Interest on long-term debt	28,252	*1.2*	37,127	*1.0*
Internet and data transmission systems	1,688	*0.1*	-	
Office supplies	10,658	*0.4*	33,660	*0.9*
Professional fees	39,755	*1.7*	118,298	*3.0*
Property taxes	28,343	*1.2*	28,140	*0.7*
Rent	392,560	*16.5*	392,560	*10.1*
Rent - operating costs	37,574	*1.6*	-	
Repairs and maintenance	20,198	*0.8*	84,101	*2.2*
Supplies	91,147	*3.8*	142,229	*3.7*
Telephone	9,110	*0.4*	10,965	*0.3*
Training	1,550	*0.1*	8,423	*0.2*
Travel	23,066	*1.0*	22,418	*0.6*
Utilities	64,085	*2.7*	94,140	*2.4*
Vehicle	271		16,470	*0.4*
Wages and benefits	516,547	*21.7*	515,782	*13.3*
Workers comp	11,476	*0.5*	-	
	2,228,681	*93.7*	2,647,996	*68.2*
Loss before undernoted items and income taxes	(1,755,563)	*(73.8)*	(1,356,394)	*(34.9)*

		2019	%		2018	%
Other expenses						
Impairment - deferred tax asset - note 10		384,121	*16.1*		-	
Writedown of deposit (net) - note 11		484,210	*20.4*		-	
Mack Defence settlement payment - note 20		1,017,411	*42.8*		-	
Repayment of WED grant - note 21		209,845	*8.8*		-	
		2,095,587	*88.1*		-	
Loss before income taxes		(3,851,150)	*(161.9)*		(1,356,394)	*(34.9)*
Income tax (recovery)						
Current - note 10		-			189,349	*(4.9)*
Deferred - note 17		(44,408)	*1.9*		(10,158)	*0.3*
		(44,408)	*1.9*		179,191	*(4.6)*
Net loss and comprehensive loss	$	(3,895,558)	*(163.8)*	$	(1,177,203)	*(30.3)*

Pro Metal Industries Ltd.

Statement of Changes in Equity

For the year ended October 31, 2019

	2019	2018
Contributed surplus		
Contributed surplus, beginning of year	$ 4,283,270	$ 4,283,270
Contribution from PFN Group of Companies LP - note 19	-	-
Contributed surplus, end of year	$ 4,283,270	$ 4,283,270
Deficit		
Deficit, beginning of year	$ (5,003,902)	$ (3,826,699)
Net loss and comprehensive loss	(3,895,558)	(1,177,203)
Deficit, end of year	$ (8,899,460)	$ (5,003,902)

Pro Metal Industries Ltd.
Statement of Cash Flows
For the year ended October 31, 2019

	2019	2018
Cash flows from (used in) operating activities		
Net loss and comprehensive loss	$ (3,895,558)	$ (1,177,203)
Items not involving cash		
Depreciation	583,658	597,392
Deferred taxes	44,408	10,158
Write-off of asset	350,201	-
Changes in non-cash operating items		
Accounts receivable	136,377	289,521
Inventory	180,969	(69,202)
Prepaid expenses	(27,284)	39,480
Accounts payable and accrued liabilities	510,279	481,988
	(2,116,950)	172,134
Cash flows from (used in) investing activities		
Income taxes recoverable	384,121	(189,349)
Deposits	484,210	(484,210)
Purchase of property, plant and equipment	(39,857)	(468,657)
	828,474	(1,142,216)
Cash flows from (used in) financing activities		
Due to related parties	1,859,704	651,383
Repayment of long-term debt	(154,640)	(146,293)
	1,705,064	505,090
Decrease (increase) in bank indebtedness	416,588	(464,992)
Bank indebtedness, beginning of year	(1,613,311)	(1,148,319)
Bank indebtedness, end of year	$ (1,196,723)	$ (1,613,311)

1. Nature of operations

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 Limited Partnership.

2. Going concern

These financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

In the current year, the Company reported a significant loss of $3,895,558 (2018 - $1,177,203) and the current liabilities exceeded the current assets by $2,115,683.

The Company is significantly dependent on the contributions from the PFN Group of Companies LP, the parent company; as well as Pasqua First Nation for the cash contributions to meet its current liabilities.

Pro Metal will continue to rely on PFN Group of Companies LP and Pasqua First Nation cash contributions in order to meet its current obligations and continue its operations.

The accompanying financial statements do not include any adjustments relating to the recoverability of assets and to the reclassification of asset and liability amounts that might be necessary should the Company be unable to continue its operations.

3. 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 February 11, 2021.

4. Standards and Interpretations effective in the current period

Impact of application of IFRS 9 Financial Instruments:

In the current year, the Company has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after January 1, 2018. The transition provision of IFRS 9 allow a company not to restate comparatives and the Company has elected not to restate comparatives in respect of the classification and measurement of financial instruments.

Additionally, the Company adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018 and to the comparative periods.

IFRS 9 introduced new requirements for:

(1) The classification and measurement of financial assets and financial liabilities,
(2) Impairment of financial assets, and
(3) General hedge accounting.

Details of these new requirements as well as their impact on the Company's financial statements are described below.

The Company has applied IFRS 9 in accordance with the transition provision set out in IFRS 9.

(a) Classification and measurement of financial assets

The date of initial application is November 1, 2018. Accordingly, the Company has applied the requirements of IFRS 9 to instruments that continue to be recognised as at November 1, 2018 and has not applied the requirements to instruments that have already been derecognized as at November 1, 2018.

The Company reviewed and assessed the existing financial assets as at November 1, 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has not had any impact on the Company’s financial assets but considerations were given to the following:

Financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortized cost continue to be measured at amortized cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

(b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on:

(1) Debt investments measured subsequently at amortized cost or at FVTOCI;
(2) Lease receivables;
(3) Trade receivables and contract assets; and
(4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

4. Standards and Interpretations effective in the current period, continued

In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

Because the Company has elected not to restate comparatives, the Company did not perform credit risk reassessment of the financial instruments at their initial recognition as at November 1, 2017.

(c) Classification and measurement of financial liabilities

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognized. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

Application of IFRS 9 has had no impact on the classification and measurement of the Company's financial liabilities.

(d) General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting, however; greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Company’s risk management activities have also been introduced.

The application of the IFRS 9 hedge accounting requirements has had no significant impact on the Company's financial statements.

(e) Disclosure in relation to the initial application of IFRS 9

There were no financial assets or financial liabilities which the Company had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Company has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Company has elected to designate as at FVTPL at the date of initial application of IFRS 9.

4. Standards and Interpretations effective in the current period, continued

(f) Impact of initial application of IFRS 9 on financial performance

There is no significant impact on the Company's financial performance on initial application of IFRS 9.

The application of IFRS 9 has had no impact on the cash flow of the Company.

Impact of application of IFRS 15 Revenues from Contracts with Customers

In the current year, the Company has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after January 1, 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Company’s financial statements are described below.

The Company's accounting policies for its revenue streams are disclosed in detail in note 5(m) below. Apart from providing more extensive disclosures for the Company's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Company.

5. Significant accounting policies

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The significant accounting 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 the following material items in the statement of financial position:

- Financial instruments at fair value through profit or loss are measured 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 judgements, 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 property, plant and equipment;
- Impairment of property, plant and equipment 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.

5. Significant accounting policies, continued

(b) 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 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.

5. Significant accounting policies, continued

(c) 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.

(d) 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.

(e) 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.

(f) Income taxes

The Company has elected to account for income taxes using the deferred 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 deferred taxes. The tax rates anticipated to be in effect when these temporary differences reverse are used to calculate deferred taxes.

(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 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.

5. Significant accounting policies, continued

(h) Property, plant and equipment

Property, plant and equipment 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 property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

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

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

5. Significant accounting policies, continued

(i) Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment 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.

(j) 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.

(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.

5. Significant accounting policies, continued

(l) Measurement uncertainty

The preparation of financial statements in conformity with International financial 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.

(m) 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.

6. Financial instruments

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The required disclosures provide information that assists users of financial statements in assessing the extent of risk related to financial instruments.

(a) Risk management policy

The Company does not have a formal risk management policy.

(b) Fair value

The fair value of current financial assets and current financial liabilities approximates their carrying value due to their short-term maturity dates. The fair value of long-term financial liabilities approximates their carrying value based on the presumption that the Company is a going concern and thus expects to fully repay the outstanding amounts.

6. Financial instruments, continued

(c) Foreign exchange risk

The Company is exposed to foreign exchange risk in United States dollars. Foreign exchange risk is the risk that the exchange rate that was in effect on the date that an obligation in a foreign currency was made to the Company by a customer, or that an obligation in a foreign currency was made to the Company to a supplier, is different at the time of settlement than it was at time that the obligation was determined. The Company reduces its exposure to foreign exchange risk by monitoring exchange rates on obligations that are made to the Company and engaging in hedges when there is a significant risk of exchange rate movement. The Company did not have any hedges at the time that the financial statements were issued. The Company does not utilize financial instruments to manage its foreign exchange risk. The Company maintains adequate foreign currency balances in its bank provided by its customers that discharged their obligations to the Company in the related currency, to discharge its related foreign currency obligations. In the opinion of management the foreign exchange risk exposure to the Company is low and is not material.

(d) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arise principally from the Company's receivable from customers.

The Company does have credit risk in accounts receivable $485,040 (2018 - $633,008).

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Company reduces its exposure to credit risk by performing credit valuations on a regular basis; granting credit upon a review of the credit history of the applicant and creating an allowance for bad debts when applicable. In monitoring customer credit risk, customer credit balance is grouped based on the following balance aging period.

	1-30	31-60	61-90	Over 90	Total
Accounts receivable	$ 335,447	$ 66,922	$ 13,010	$ 69,661	$ 485,040

6. Financial instruments, continued

Expected credit loss assessment

The Company uses specific identification methods to measure expected credit losses of trade receivables. The Company measures expected credit losses based on the characteristics of customer, past payment history, the relationship the Company has with the customer and the length of relationship. The following table provides information about the exposure to the credit risk and expected credit losses for trade receivables from customers as at October 31, 2019.

	Weighted-average loss rate	Gross carrying amount	Loss allowance	Credit impaired
Current (not past due)	-	271,350	-	No
1-30 days past due	-	64,097	-	No
31-60 days past due	-	66,922	-	No
61-90 days past due	5.51%	13,010	718	No
More than 90 days past due	90.92%	69,661	63,336	No
	96.43%	$ 485,040	$ 64,054	

(e) Concentration risk

The Company does have concentration risk. Concentration risk is the risk that a customer has more than ten percent of the total accounts receivable balance and thus there is a higher risk to the business in the event of a default by one of these customers. Concentrations of one particular customer's account represents 80% of the total outstanding receivables at October 31, 2019 credit risk relates to groups of counterparties that have similar economic or industry characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. At October 31, 2019, receivable from one customer comprised approximately 30% of the total outstanding receivables. The Company reduces this risk by regularly assessing the credit risk associated with this account and closely monitoring any overdue balances. In the opinion of management the concentration risk exposure to the Company that is associated with their customers is low.

(f) Liquidity risk

The Company does have a liquidity risk in the bank indebtedness and accounts payable and accrued liabilities of $2,893,659 (2018 - $2,779,612). Liquidity risk is the risk that the Company cannot repay its obligations when they become due to its creditors. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due; maintains an adequate line of credit to repay trade creditors and repays long term debt interest and principal as they become due. In the opinion of management the liquidity risk exposure to the Company low and is not material.

6. Financial instruments, continued

(g) Interest rate risk

The Company is exposed to interest rate risk. Interest rate risk is the risk that the Company has interest rate exposure on its bank indebtedness, which are variable based on the bank's prime rates. This exposure may have an effect on its earnings in future periods. The Company reduces its exposure to interest rate risk by regularly monitoring published bank prime interest rates which have been relatively stable over the period presented. There are some loans payable that are at fixed term rates, or zero interest rates and do not affect interest rate risk. The Company does not use derivative instruments to reduce its exposure to interest rate risk. In the opinion of management the interest rate risk exposure to the Company low and is not material.

(h) Price risk

The Company is exposed to price risk. Price risk is the risk that the commodity prices that the Company charges are significantly influenced by its competitors and the commodity prices that the Company must charge to meet its competitors may not be sufficient to meet its expenses. The Company reduces its exposure to price risk by ensuring that it obtains information regarding the commodity prices that are set by the competitors in the region to ensure that its prices are appropriate. In addition, management closely monitors expenses and matches capital outlays to its revenue stream. In the opinion of management the price risk exposure to the Company is low and is not material.

7. Accounts receivable

	2019	2018
Trade receivables	$ 485,040	$ 633,008
GST receivable	29,019	7,060
	514,059	640,068
Less: Allowance for doubtful accounts	64,054	53,686
	$ 450,005	$ 586,382

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

8. Inventory

	2019	2018
Materials	$ 327,404	$ 482,733
Work in progress	68,625	94,265
	$ 396,029	$ 576,998

The cost of materials used in finished goods are recognized as an expense and are included in cost of sales in the amount of $736,488 (2018 - $1,338,498).

9. Prepaid expenses

	2019	2018
Rent Deposit	$ 32,713	$ 32,713
Insurance	30,253	9,249
Property Tax	4,730	-
Contracts	1,550	-
	$ 69,246	$ 41,962

10. Income taxes recoverable

In the current year, the Company reassessed its probability to generate sufficient taxable income to utilize the carried forward non-capital losses generated from the prior year. Based on the assessment, there is a low probability that the Company will be able to generate sufficient taxable income to utilize the carried forward non-capital loss and therefore, recognized Income tax recoverable of $577,816 from prior year became impaired and written down to $193,695. The Company has future income taxes payable balance of $193,695 resulting from the temporary differences. The Company will be able to use income taxes recoverable against the future income taxes payable and the net impact on the Company will be nil. Given the low probability of earning taxable income, the Company did not set up current taxes recoverable.

	2019
Opening Deferred taxes	$ 577,816
Less: Impairment	(384,121)
Closing Deferred taxes	$ 193,695

11. Write down of Gasification unit deposit

In the prior year, Pro Metal Industries Ltd. had placed a deposit of $484,210 towards the purchase of Gasification Equipment. In the current year, management identified that the equipment would not be able to meet the stringent Canadian Standards Association code and would not be able to be imported to Canada.

Pro Metal Industries Ltd. management is currently negotiating with the vendor to recover this deposit. At the time that these statements were issued nothing had been settled.

12. Property, plant and equipment

Property, plant and equipment as listed below:

A - Buildings
B - Equipment
C - Vehicles
D - Furniture and fixtures
E - Leasehold improvements
F - Computer equipment
G - Computer software
H - Assets under construction

									2019
	A	B	C	D	E	F	G	H	Total
Cost									
Balance at November 1, 2018	9,961	3,637,048	247,808	108,492	973,586	109,504	1,309,616	350,201	6,746,216
Additions	-	35,110	-	1,300	-	3,447	-	-	39,857
Writedown of asset	-	-	-	-	-	-	-	(350,201)	(350,201)
Total at October 31, 2019	9,961	3,672,158	247,808	109,792	973,586	112,951	1,309,616	-	6,435,872
Accumulated Depreciation									
Balance at November 1, 2018	7,194	2,478,162	223,908	57,223	627,199	88,097	493,865	-	3,975,648
Depreciation	277	243,694	7,170	7,799	55,856	6,939	261,923	-	583,658
Total at October 31, 2019	7,471	2,721,856	231,078	65,022	683,055	95,036	755,788	-	4,559,306
Net book amount at October 31, 2019	2,490	950,302	16,730	44,770	290,531	17,915	553,828	-	1,876,566

12. Property, plant and equipment, continued

Property, plant and equipment as listed below:

A - Buildings
B - Equipment
C - Vehicles
D - Furniture and fixtures
E - Leasehold improvements
F - Computer equipment
G - Computer software
H - Assets under construction

									2018
	A	B	C	D	E	F	G	H	Total
Cost									
Balance at November 1, 2017	9,961	3,521,993	247,808	108,492	970,186	109,504	1,309,616	-	6,277,560
Additions	-	115,055	-	-	3,400	-	-	350,201	468,656
Total at October 31, 2018	9,961	3,637,048	247,808	108,492	973,586	109,504	1,309,616	350,201	6,746,216
Accumulated Depreciation									
Balance at November 1, 2017	6,887	2,173,619	213,665	48,175	567,060	78,923	289,927	-	3,378,256
Depreciation	307	304,543	10,243	9,048	60,139	9,174	203,938	-	597,392
Total at October 31, 2018	7,194	2,478,162	223,908	57,223	627,199	88,097	493,865	-	3,975,648
Net book amount at October 31, 2018	2,767	1,158,886	23,900	51,269	346,387	21,407	815,751	350,201	2,770,568

13. 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.

	2019	2018
Operating	$ 1,196,723	$ 1,613,311

14. Accounts payable and accrued liabilities

	2019	2018
Trade payables	$ 1,616,831	$ 1,118,574
Wages and vacation pay	49,867	38,008
PST	-	874
Pension	4,118	3,081
	$ 1,670,816	$ 1,160,537

15. Due to related party

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.

	2019	2018
Due to Pasqua First Nation	$ 2,261,985	$ 576,383
Due to PFN Group of Companies LP	174,102	-
	$ 2,436,087	$ 576,383

16. Long-term debt

	2019	2018
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.	$ 437,730	$ 592,370
Less current portion	163,424	154,701
Due beyond one year	$ 274,306	$ 437,669

16. Long-term debt, continued

Estimated principal repayments are as follows:

2020	$ 163,424
2021	172,642
2022	101,664
2023	-
2024	-
	$ 437,730

Interest paid to Peace Hills Trust in the current year was $28,251 (2018 - $37,127)

17. Deferred 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.

	2019	2018
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	10,159
2019 fiscal year	44,408	-
Balance, end of year	$ 193,695	$ 149,287

18. Share capital

	2019	2018
Authorized		
Unlimited number of Class A common voting shares		
Unlimited number of Class B non-voting shares		
Issued		
PFN Group of Companies LP - 1,410 Class A common	$ 1,666,680	$ 1,666,680

19. Contributed surplus

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

	2019	2018
PFN Group of Companies LP	$ 3,690,270	$ 3,690,270
Pasqua First Nation	593,000	593,000
	$ 4,283,270	$ 4,283,270

20. Mack Defence, LLC - Claim settlement payment

In the current year, the Company recognized $1,017,411 in compensation to it's customer Mack Defence, LLC for providing non-compliant manufactured parts that did not meet paint specification.

Also in the current year, Pro Metal Industries Ltd. management proactively identified the non-compliant parts and was voluntarily self-declared to Mack Defence, LLC. Pro Metal Industries Ltd. management was able to negotiate a reimbursement amount to Mack Defence, LLC that significantly reduced the any further potential compensation.

In December 2020, Pro Metal Industries Ltd. filed a legal claim against a former Director and General Manager to recover damages.

21. Repayment of Western Economic Development Grant

In the current year, the Company was unable to bring the Gasification unit into Canada which the contribution agreement with Western Economic Diversification Canada (WED) required. Due to this, the Company. subsequently repaid $209,845 of the grant back to WED on June 26, 2020.

Subsequent to year end, the Company renegotiated the contribution agreement with WED. Both parties agreed that the grant repayment would be returned to Pro Metal Industries Ltd. in the form of an amended contribution agreement for the year ending October 31, 2021.

22. Economic dependence

The Company has incurred significant losses in the last two years and the accumulated deficit has increased to $8,895,558. The Company is dependent upon the parent company, PFN Group of Companies LP and Pasqua First Nation for cash injections in order to continue to operate.

23. Subsequent events

On March 11, 2020, the World Health Organization categorized COVID-19 as a pandemic. The potential economic effects within the Company's environment and in the global markets due to the possible disruption in supply chains, and measures being introduced at various levels of government to curtail the spread of the virus (such as travel restrictions, closures of non-essential municipal and private operations, imposition of quarantines and social distancing) could have a material impact on the Company's operations.

23. Subsequent events, continued

The extent of the impact of this outbreak and related containment measures on the Company's operations cannot be reliably estimated at this time.

On March 29, 2020 the Company entered into a contract with Public Works and Government Services Canada to deliver and install fifteen Mobile Medical Units at various locations in Saskatchewan and Alberta. An estimate of $2.68 million of revenue should be generated from the contract.

24. Capital management

The Company's objective when managing capital is to safeguard the Company'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.

25. 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.

26. Related party disclosure

The related party entities are as follows:

PFN Group of Companies LP is the parent organization of the Company and own 100% of the Company.

Pasqua First Nation who is the limited partner owning 99.9% partnership units in the PFN Group of Companies LP who is the parent company of the Company. Pasqua First Nation indirectly owns the Company.

During the year, the following transactions were conducted with the related parties:

PFN Group of Companies LP provided total of $174,102 funds to the Company.

Pasqua First Nation provided total of $1,685,602 funds to the Company.

The Company provided goods and services of $8,349 to the PFN Group of Companies LP.

These transactions are in the normal course of operations and are measured at their exchange amount, which is the amount of consideration established and agreed to by the related parties.