



**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**SEPTEMBER 30, 2020 AND SEPTEMBER 30, 2019**  
**(Expressed in Canadian Dollars)**



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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Western Resources Corp.

### ***Opinion***

We have audited the consolidated financial statements of Western Resources Corp. ("the Entity"), which comprise:

- the consolidated statements of financial position as at September 30, 2020 and September 30, 2019;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- notes to the consolidated statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at September 30, 2020 and September 30, 2019, and its consolidated financial performance and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Entity 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 opinion.

***Material Uncertainty Related to Going Concern***

We draw attention to Note 1 in the financial statements, which indicates that at September 30, 2020 the Entity does not currently have a source of operating revenues, has a working capital deficit, and requires further funding in the next twelve months for construction and commissioning of its mineral property project.

As stated in Note 1 in the financial statements, these events or conditions, along with other matters as set forth in Note 1 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

***Other Information***

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

***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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 the 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 Entity'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 Entity'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 Entity 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 represents 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.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

A handwritten signature in black ink that reads 'KPMG LLP' in a cursive, slanted font. A horizontal line is drawn underneath the signature.

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Robert Ryan Owsnett, CPA, CA

Vancouver, Canada  
December 23, 2020

## Contents

Consolidated Statements of Financial Position .....	4
Consolidated Statements of Loss and Comprehensive Loss .....	5
Consolidated Statements of Shareholders' Equity .....	6
Consolidated Statements of Cash Flows .....	7
1. NATURE OF OPERATIONS AND GOING CONCERN .....	8
2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES .....	9
3. NEW ACCOUNTING STANDARDS .....	17
4. TERM DEPOSITS, INCLUDING RESTRICTED CASH .....	19
5. OTHER CURRENT ASSETS .....	19
6. MINERAL PROPERTY, PLANT AND EQUIPMENT .....	19
7. INVESTMENT IN AND LOANS RECEIVABLE FROM ASSOCIATES .....	21
8. REAL ESTATE PROPERTIES UNDER DEVELOPMENT .....	25
9. OTHER ASSETS .....	27
10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES .....	27
11. PROMISSORY NOTES .....	28
12. LEASE OBLIGATIONS .....	29
13. ASSET RETIREMENT OBLIGATION .....	29
14. LOANS PAYABLE .....	30
15. PAYABLE ON LEGAL SETTLEMENT .....	31
16. FINANCING ARRANGEMENT .....	32
17. SHARE CAPITAL .....	33
18. SUPPLEMENTAL CASH FLOW INFORMATION .....	35
19. RELATED PARTY TRANSACTIONS .....	35
20. SEGMENTED INFORMATION .....	36
21. COMMITMENTS AND CONTRACTUAL AGREEMENTS .....	37
22. CONTINGENCIES .....	37
23. FINANCIAL INSTRUMENTS .....	38
24. CAPITAL DISCLOSURES .....	40
25. FINANCE COSTS .....	41
26. INCOME TAXES .....	41

**Western Resources Corp.**  
**Consolidated Statements of Financial Position**  
(Expressed in Canadian Dollars)

	Notes	September 30, 2020 \$	September 30, 2019 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		6,711,404	2,217,828
Term deposits, including restricted cash	4	3,220,683	4,640,791
Loans receivable from associates	7	525,764	-
Other current assets	5	710,187	2,470,577
		<b>11,168,038</b>	<b>9,329,196</b>
<b>Non-current assets</b>			
Mineral property, plant and equipment	6	214,118,951	154,053,146
Investment in associates	7	10,223,829	12,018,625
Real estate properties under development	8	24,875,902	21,832,880
Other assets	9	4,381,817	699,876
		<b>253,600,499</b>	<b>188,604,527</b>
<b>TOTAL ASSETS</b>		<b>264,768,537</b>	<b>197,933,723</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	10	39,125,305	22,683,578
Promissory notes	11	4,320,000	-
Current portion of lease obligations	12	90,924	-
Mortgage on real estate properties under development	8	13,010,836	-
Current portion of payable on legal settlement	15	534,845	-
		<b>57,081,910</b>	<b>22,683,578</b>
<b>Long term liabilities</b>			
Lease obligations	12	31,272	-
Asset retirement obligation	13	3,679,603	2,649,908
Mortgage on real estate properties under development	8	-	9,500,000
Loans payable	14	26,518,359	-
Payable on legal settlement	15	510,649	-
Financing arrangement	16	7,773,398	-
		<b>38,513,281</b>	<b>12,149,908</b>
<b>TOTAL LIABILITIES</b>		<b>95,595,191</b>	<b>34,833,486</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	17	231,106,466	231,106,466
Contributed surplus		28,985,540	21,317,514
Treasury shares	17	(762,520)	(762,520)
Deficit		(92,745,140)	(91,075,223)
		<b>166,584,346</b>	<b>160,586,237</b>
<b>Non-controlling interest</b>	8	<b>2,589,000</b>	<b>2,514,000</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>169,173,346</b>	<b>163,100,237</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>264,768,537</b>	<b>197,933,723</b>
Nature of operations and going concern	1		
Commitments and contractual agreements	21		
Contingencies	22		
Subsequent events	10,11,17		

These consolidated financial statements were approved for issue by the Board of Directors and signed on its behalf by:

/s/ Guy Bentinck Director

/s/ Wenye Xue Director

**Western Resources Corp.**  
**Consolidated Statements of Loss and Comprehensive Loss**  
(Expressed in Canadian Dollars)

	Notes	For the years ended	
		September 30, 2020 \$	September 30, 2019 \$
<b>EXPENSES</b>			
Consulting fees		512,109	678,991
Depreciation	6	207,096	57,170
Office and miscellaneous expenses		514,257	704,367
Professional fees		438,966	466,417
Salaries, wages and benefits		275,445	268,508
Share-based payments	17	218,872	68,977
<b>Loss before other income (expenses)</b>		<b>(2,166,745)</b>	<b>(2,244,430)</b>
<b>Other income (expenses)</b>			
Interest income		169,027	1,765,768
Other income (loss)		177,698	(443,501)
Loss on legal settlement	15	(1,584,684)	-
Finance costs	25	(724,870)	-
Share of loss from investment in associates	7	(193,647)	-
		<b>(2,156,476)</b>	<b>1,322,267</b>
<b>Loss before income taxes</b>		<b>(4,323,221)</b>	<b>(922,163)</b>
Deferred tax recovery	14	2,657,746	-
<b>Loss and comprehensive loss for the year</b>		<b>(1,665,475)</b>	<b>(922,163)</b>
<b>Loss and comprehensive loss attributable to:</b>			
<b>Equity holders of the parent</b>		(1,665,475)	(922,163)
Non-controlling interests		-	-
		<b>(1,665,475)</b>	<b>(922,163)</b>
<b>Basic and diluted loss per share for the</b>			
<b>year attributable to common</b>			
<b>shareholders (\$ per common share)</b>		<b>(0.01)</b>	<b>(0.01)</b>
<b>Weighted average number of common</b>			
<b>shares outstanding</b>			
<b>- basic and diluted</b>		<b>186,096,820</b>	<b>137,202,332</b>

See accompanying notes to the consolidated financial statements.



**Western Resources Corp.**  
**Consolidated Statements of Shareholders' Equity**  
(Expressed in Canadian Dollars)

	Note(s)	Share capital				Deficit	Total	Non-controlling interest	Total
		Number of shares	Amount	Reserves	Treasury shares				
<b>Balance at September 30, 2018</b>		<b>93,437,110</b>	<b>219,985,801</b>	<b>21,161,490</b>	<b>(762,520)</b>	<b>(90,153,060)</b>	<b>150,231,711</b>	-	<b>150,231,711</b>
Shares issued for cash - rights offering		93,437,110	11,212,454	-	-	-	11,212,454	-	11,212,454
Share issue costs		-	(91,789)	-	-	-	(91,789)	-	(91,789)
Share-based payments		-	-	156,024	-	-	156,024	-	156,024
Initial contribution		-	-	-	-	-	-	2,514,000	2,514,000
Net loss for the year		-	-	-	-	(922,163)	(922,163)	-	(922,163)
<b>Balance at September 30, 2019</b>		<b>186,874,220</b>	<b>231,106,466</b>	<b>21,317,514</b>	<b>(762,520)</b>	<b>(91,075,223)</b>	<b>160,586,237</b>	<b>2,514,000</b>	<b>163,100,237</b>
<b>Balance at September 30, 2019</b>		<b>186,874,220</b>	<b>231,106,466</b>	<b>21,317,514</b>	<b>(762,520)</b>	<b>(91,075,223)</b>	<b>160,586,237</b>	<b>2,514,000</b>	<b>163,100,237</b>
Impact of change in accounting policy	3	-	-	-	-	(4,442)	(4,442)	-	(4,442)
<b>Adjusted balance as at October 1, 2019</b>		<b>186,874,220</b>	<b>231,106,466</b>	<b>21,317,514</b>	<b>(762,520)</b>	<b>(91,079,665)</b>	<b>160,581,795</b>	<b>2,514,000</b>	<b>163,095,795</b>
Shareholders' contributions, net of tax	14	-	-	7,185,757	-	-	7,185,757	-	7,185,757
Share-based payments	17	-	-	482,269	-	-	482,269	-	482,269
Initial contribution	8	-	-	-	-	-	-	75,000	75,000
Net loss for the year		-	-	-	-	(1,665,475)	(1,665,475)	-	(1,665,475)
<b>Balance at September 30, 2020</b>		<b>186,874,220</b>	<b>231,106,466</b>	<b>28,985,540</b>	<b>(762,520)</b>	<b>(92,745,140)</b>	<b>166,584,346</b>	<b>2,589,000</b>	<b>169,173,346</b>

See accompanying notes to the consolidated financial statements.

**Western Resources Corp.**  
**Consolidated Statements of Cash Flows**  
(Expressed in Canadian Dollars)

	Notes	For the years ended	
		September 30, 2020 \$	September 30, 2019 \$
<b>Cash flows from (used in)</b>			
<b>OPERATING ACTIVITIES</b>			
Net loss for the year		(1,665,475)	(922,163)
<b>Adjustments for items not affecting cash:</b>			
Deferred tax recovery	14	(2,657,746)	-
Finance costs	25	724,870	-
Depreciation	6	207,096	57,170
Interest income		(169,027)	(1,765,768)
Other		(124,444)	32,841
Share-based payments	17	218,872	68,977
Share of loss from investment in associates	7	193,647	-
Legal settlement	15	1,584,684	-
<b>Net changes in non-cash working capital items and other items</b>			
Other current assets	5	1,722,459	(2,106,665)
Other assets		(3,681,941)	(800,082)
Accounts payable and accrued liabilities	6,10	(96,480)	317,501
Interest received		150,818	2,143,555
Distribution of income from associates		-	1,715,113
Payments on legal settlement	15	(469,106)	-
<b>Cash flow used in operating activities</b>		<b>(4,061,773)</b>	<b>(1,259,521)</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of mineral property, plant and equipment	6	(41,410,622)	(41,808,357)
Proceeds from disposal of mineral property, plant and equipment		-	11,250
Investments in associates	7	(2,498,001)	(4,383,680)
Issue of loans receivable to associates	7	(525,764)	-
Issue of loans receivable to non-associates		-	(5,000,000)
Repayment of loans receivable to non-associates		-	21,460,000
Real estate properties under development	8	(3,043,022)	(19,317,880)
Repayment of loan receivable from associates		-	18,830,000
Return of equity in investment in associate		-	5,734,571
Acquisition of term deposits		(56,923)	(4,337,500)
Proceeds from redemption of term deposits		1,495,240	-
Sale of investment in associate	7	4,099,150	-
<b>Cash flow used in investing activities</b>		<b>(41,939,942)</b>	<b>(28,811,596)</b>
<b>FINANCING ACTIVITIES</b>			
Contribution from non-controlling interest		75,000	2,514,000
Lease payments	12	(90,924)	-
Mortgage on real estate properties under development	8	3,510,836	9,500,000
Proceeds from short-term loan	19	6,600,000	-
Repayment of short-term loan	19	(6,600,000)	-
Proceeds from loan payable	14	35,040,000	-
Proceeds from promissory notes	11	4,820,000	-
Repayment of promissory notes	11	(500,000)	-
Proceeds from financing arrangement	16	7,640,379	-
Proceeds on issuance of common shares, net of cash share issue costs		-	11,120,665
<b>Cash flow from financing activities</b>		<b>50,495,291</b>	<b>23,134,665</b>
<b>Increase (decrease in cash)</b>		<b>4,493,576</b>	<b>(6,936,452)</b>
<b>Cash, beginning of year</b>		<b>2,217,828</b>	<b>9,154,280</b>
<b>Cash, end of year</b>		<b>6,711,404</b>	<b>2,217,828</b>
Supplemental cash flow information	18		

## **1. NATURE OF OPERATIONS AND GOING CONCERN**

Western Resources Corp. (“the Company”) was incorporated on January 16, 2017 under the British Columbia Business Corporations Act.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge liabilities in the normal course of business. At September 30, 2020, the Company does not have significant sources of revenues and has not generated positive cash flow from operations. On May 14, 2020, the Company’s wholly owned subsidiary, Western Potash Corp. (“Western Potash”) delayed the completion date of construction of the Phase I Milestone Potash Project (“Milestone Project”) plant in order to seek additional funding to complete construction. Western Potash has entered into various capital expenditure commitments for the procurement and construction of the Milestone Project with a remaining committed amount of \$19,236,000 (Note 21). As at September 30, 2020, the Company has a working capital deficit of \$45,913,872 including cash of \$6,711,404. Furthermore, various vendors have filed builders’ liens for up to \$29,389,766 against Western Potash as a result of its delayed payment on the outstanding payables related to mineral property, out of which a few vendors have also filed legal claims against Western Potash (Note 10). The Company’s legal counsel is currently working directly with the vendors on a temporary solution to mitigate legal action. Based on its current cash flow forecast and its existing obligations and commitments, the Company will require further funds for the completion of construction, to successfully commission the Milestone Project and to fund its general and administrative expenses for the 2021 fiscal year.

These conditions indicate the existence of a material uncertainty that may cast significant doubt on Company’s ability to continue as a going concern. These consolidated financial statements do not reflect any adjustments to the carrying values and classifications of its assets and liabilities that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

The Company continues to work with potential investors to complete the final tranche of funding, as well as pursuing alternative sources of financing including equity and debt financing, and seeking investors to participate in the Company’s interest in its real estate partnerships or to sell the Company’s interest in these partnerships in order to complete the remaining construction activities, to commission the Milestone Project and to fund general and administrative expenses. However, there are no assurances that the Company will be successful in obtaining such equity or debt financing. In the longer term, additional financing may be required to expand the mining operation at the Milestone Project if the cash flows of the Phase I Milestone Project plant are not sufficient to fund such expansion. Furthermore, as the Company has not yet completed construction or commenced commissioning of the Phase I plant, there are no guarantees that the Phase I plant will operate as expected, or that the Company will be able to complete construction of the plant based on the revised timelines and on budget. Material cost overruns, should they occur, may also require additional financing. The ability of the Company to continue as a going concern and the recoverability of amounts shown for mineral property, plant and equipment is dependent upon the ability of the Company to obtain necessary financing to complete the development and upon future profitable production from the Milestone Project and the recoverability of investments in real estate projects.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business and results of operations. Potential impacts could include further delay in completing of construction due to inability to obtain additional financing, a temporary cessation of construction due to a localized outbreak at the Milestone Project or in Company’s supply chain, the impact and potential impairments in the value of our long-lived assets, including the Company’s real estate investments, or potential decreases in future revenue to the extent potash prices are impacted.

## **2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES**

### *Statement of Compliance*

These consolidated financial statements have been prepared in accordance with International Accounting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements of the Company for the year ended September 30, 2020 were approved by the Board of Directors on December 23, 2020.

### *Basis of Presentation and Functional Currency*

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 2. All amounts are expressed in Canadian dollars, which is also the functional currency of the Company and its subsidiaries.

### *Significant Accounting Judgments and Estimates*

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the year. Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates. Significant judgements made by management relate to the Company’s ability to continue as a going concern (Note 1) and the determination that certain leases related to the Milestone Project are not within the scope of IFRS 16, Leases as they grant the Company the right to explore, develop, produce or otherwise use the mineral resource contained in that land (see note 3 and 12).

The most significant accounts that require estimates and judgments as the basis for determining the stated amounts are as follows:

- ***Economic recoverability and probability of future economic benefits of mineral property, plant and equipment***

In assessing whether indicators of impairment exist, management uses judgement in assessing the impact of changes in commodity prices, discount rates and other economic factors related to the project. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geological and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

The Company estimates its mineral reserves and mineral resources based on information compiled by qualified persons as defined by National Instrument (“NI”) 43-101. Mineral reserves are used in the calculation of depreciation and impairment charges, and for forecasting the timing of the payment of closure and restoration costs. There are numerous uncertainties inherent in estimating mineral reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of mineral reserves and may, ultimately, result in mineral reserve estimates being revised. Such changes in mineral reserves could impact depreciation and amortization rates, the timing of asset retirement obligation costs which affect the amount of the asset retirement obligation provision and could result in impairment losses associated with mineral property, plant and equipment.

## **2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### *Significant Accounting Judgments and Estimates (continued)*

- ***Valuation of investment in associates and real estate properties under development***

The Company is required to assess whether there are indicators of impairment associated with investments in associates and real estate properties under development at the end of each reporting period and if such indicators exist, recognize an impairment loss. The assessment of these indicators is based on an evaluation of the business underlying the investment. Judgements and estimates are required with respect to whether there will be a sufficient return from real estate sales in order to recover the Company's investment. An impairment charge would be based on discounted estimated future cash flows expected to be received from the investments. Such estimates are based on an evaluation of the financial condition and operating results of invested associates. Changes in these assumptions may result in an impairment loss.

- ***Determination of asset retirement obligation***

The Company's provision for asset retirement obligation represents management's best estimate of the present value of the future cash outflows required to settle the liability which reflects estimates of costs, inflation, and assumptions of risks associated with the future cash outflows including the timing of such outflows, and the applicable discount rates used to determine the net present value of the future cash outflows. Changes in the above factors can result in a change to the provision recognized by the Company. Changes to the asset retirement obligation are recorded with a corresponding change to the carrying amounts of related mineral property, plant and equipment. Adjustments to the carrying amounts of related mineral property, plant and equipment can result in a change to future depreciation expense. Assumptions with respect to the Company's asset retirement obligation provision are disclosed in Note 13.

- ***Determining fair value of financial instruments***

Certain financial instruments, including loans payable, were recognized at their fair value on initial recognition. The fair value of these instruments is determined using a discounted cash flow model which requires an estimate of a market rate of interest for similar instruments. Determining such discount rate requires estimates with respect to the risk-free rate and the Company's credit risk. See note 14 for additional information regarding the fair value of loans payable.

### *Significant Accounting Policies*

Except as disclosed in Note 3, the accounting policies set out below have been applied consistently by all group entities and for all periods presented.

- **Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: Western Potash, 0907414 B.C. Ltd. ("BC Ltd."), Western Garden Properties Corp. ("Western Gardens") (companies incorporated in the province of British Columbia), and its 80% owned subsidiary WGP Seaton Development Limited Partnership (a partnership incorporated in the province of British Columbia). All inter-company transactions and balances have been eliminated in the consolidated financial statement presentation.

## **2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### *Significant Accounting Policies (continued)*

- **Cash and cash equivalents**

The Company considers all highly liquid investments with maturities when purchased of three months or less to be cash equivalents.

- **Investments in associates**

Associates are all entities over which the Company has significant influence but not control, generally when the Company's shareholding is between 20% and 50% of the voting rights. Associates also includes joint ventures. Joint ventures are arrangements whereby there is contractually agreed sharing of control of an arrangement by the Company and other unrelated parties and the parties have rights to the net assets of the arrangement. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss of the investee after the date of acquisition. The Company's share of post-acquisition profit or loss is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income (loss) is recognized in other comprehensive income (loss) with a corresponding adjustment to the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

- **Exploration and evaluation expenditures**

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation including acquisition costs, are capitalized. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditures, in excess of estimated recoveries, are written off to profit or loss. The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined and sufficient funds have been obtained to commence development, the property is considered to be a mine under development. At such time, accumulated exploration and evaluation expenditures are tested for impairment and then reclassified to "mineral properties, plant and equipment".

- **Mineral property, plant and equipment**

#### Building and Equipment

Building and equipment is recorded at cost less accumulated amortization. Cost includes all expenditures incurred to bring assets to the location and condition necessary for them to be operated in the manner intended by management, including estimated decommissioning and restoration costs and, where applicable, borrowing

## **2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### *Significant Accounting Policies (continued)*

- **Mineral property, plant and equipment (continued)**

costs. If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of plant and equipment. Amortization is calculated using the declining balance method at the following annual rates:

○ Building	4%
○ Automobiles	30%
○ Computer Hardware	50%
○ Computer Software	100%
○ Furniture and Fixtures	20%

Leasehold improvements are amortized on a straight-line basis over the term of the lease. Right of use assets are amortized over the shorter of their useful lives or the term of the lease.

- **Mineral interests and mine development costs**

Mineral interests and mine development costs are recorded at cost. Costs include reclassified exploration and evaluation expenditures, feasibility and other technical studies, engineering and design costs, depreciation on equipment used during the development phase, borrowing costs, if applicable, cost of asset retirement obligation, and other costs incurred to bring a mine into production. These costs are not amortized until the mine is operating as intended by management at which time the costs will be amortized using the units of production method. Mineral properties are tested for impairment whenever there are indicators that suggest that the carrying value is not recoverable. Costs not directly attributable to development activities, including general administrative overhead costs, are expensed in the period in which they occur.

- **Income taxes**

Income taxes comprises current and deferred income tax expense. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax expense is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, adjusted for amendments to tax payable or receivable in respect of previous years.

Deferred tax assets and liabilities are recognized based on differences in the financial statement carrying amount for assets and liabilities and the amounts used for tax purposes. Deferred tax assets and liabilities are generally recognized for all taxable temporary differences. Temporary differences are not provided for goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting or taxable loss, and differences relating to investments in subsidiaries to the extent it is not probable that they will reverse in the foreseeable future. The amount of deferred income tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets are generally recognized for all deductible temporary differences, unused tax credits carried forward and unused tax losses only to the extent that it is probable that there will be taxable profits against which the deductible temporary differences can be utilized. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current

## **2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### *Significant Accounting Policies (continued)*

- **Income taxes (continued)**

tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

- **Basic and diluted income (loss) per share**

Basic income (loss) per share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted income per share reflect adjustments to the weighted average number of common shares outstanding for the potential dilution of securities, including stock options, that could share in income of the Company. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive.

- **Share-based payments**

The Company has an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued determined on the grant date and amortized over the relevant vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of stock options is determined using a Black-Scholes option pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

- **Financial instruments**

#### **Financial assets**

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The classification of debt instruments is driven by the business model for managing the financial assets and their contractual cash flow characteristics. Debt instruments are measured at amortized cost if the business model is to hold the instrument for collection of contractual cash flows and those cash flows are solely principal and interest. If the business model is not to hold the debt instrument, it is classified as FVTPL. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest. Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTPL, for other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument by-instrument basis) to designate them as at FVTOCI.



## **2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### *Significant Accounting Policies (continued)*

- **Financial instruments (continued)**

#### **Financial assets (continued)**

Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are recognized in profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in profit or loss in the period in which they arise. Derivatives are also categorized as FVTPL unless they are designated as hedges. Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income or loss. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current or non-current assets based on their maturity date. The Company's cash, term deposits (including restricted cash), loan receivable from associate and other current assets are all classified as financial assets at amortized cost. Marketable securities are classified as FVTPL.

#### **Impairment of financial assets at amortized cost**

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset credit risk has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

#### **Derecognition of financial assets**

Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized cost are recognized in profit or loss. Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive income.

#### **Financial liabilities**

Financial liabilities are recognized initially at fair value, net of transaction costs incurred and are subsequently measured at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

## **2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### *Significant Accounting Policies (continued)*

- **Financial instruments (continued)**

#### **Impairment of non-financial assets**

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that an impairment loss exists. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the amount of the impairment loss. 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 to which the asset belongs. The recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows that the asset or cash generating unit is expected to generate along with the expected costs to complete the project 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.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in the profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized.

- **Foreign currency translation**

Foreign currency transactions are translated into the Canadian dollar functional currency using the prevailing exchange rates on the date of each transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at the end of the reporting period, are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the prevailing exchange rates on the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the prevailing exchange rates on the date when the fair value was determined.

- **Provision for asset retirement obligation**

The Company recognizes provisions for statutory, contractual, constructive or legal obligations associated with the reclamation of mineral properties and the retirement of assets in the year in which it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount can be made. Initially, a provision for an asset retirement obligation is recognized based on expected cash flows required to settle the obligation and is discounted at a pre-tax rate specific to the liability. The cost of such obligation is included in mineral property, plant and equipment, as applicable, and is depreciated on the same basis as the related asset. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate and the amount or timing of the underlying cash flows needed to settle the obligation. The increase in the provision due to passage of time is recognized as interest expense. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation cash flows.

## **2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### *Significant Accounting Policies (continued)*

- **Employee benefits**

Short-term employee benefit obligations are recognized as personnel expenses as the corresponding service is provided. Liabilities are recognized at the amount that is expected to be paid if the Company has a present legal or constructive obligation to pay that amount based on past services rendered by the employee, and the obligation can be estimated reliably. There are no long-term employee benefits.

- **Leases**

Prior to the adoption of IFRS 16 *Leases* ("IFRS 16") on September 1, 2019, the Company recognized operating lease payments as an expense on a straight-line basis over the term of the operating lease. Effective October 1, 2019, IFRS 16 was effective for the Company and it has applied the following policy effective October 1, 2019 (see Note 3).

The Company assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration. Leases are recognized as a lease liability and a corresponding ROU asset at the date on which the leased asset is available for use by the Company. Liabilities and assets arising from a lease are initially measured at the present value of the remaining lease payments, discounted using the Company's estimated incremental borrowing rate when the rate implicit in the lease is not readily available. The incremental borrowing rate reflects the rate of interest that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Company will exercise a purchase, extension or termination option that is within the control of the Company.

Lease payments are allocated between the lease liability and finance costs. Cash outflows for repayment of the principal portion of the lease liability are classified as cash flows from financing activities. The interest portion of the lease payments is classified as cash flows from operating activities.

The ROU asset is initially measured at an amount equal to the corresponding lease liability and is subsequently depreciated on a straight-line basis, over the shorter of the estimated useful life of the asset or the lease term. The ROU asset may be adjusted for certain remeasurements of the lease liability and impairment losses.

Leases that have terms of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in the consolidated statement of loss on a straight-line basis over the lease term.

- **Comparative information**

Certain comparative amounts have been reclassified to conform with the current year's financial statement presentation. Such reclassifications were not considered material.

### **3. NEW ACCOUNTING STANDARDS**

#### *Adoption of new and amended accounting standards*

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that were effective for accounting periods beginning before or on January 1, 2019 and were adopted by the Company on October 1, 2019.

- **IFRS 16 – Leases**

IFRS 16 introduced a single accounting model for lessees. The Company, as lessee, is required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. The Company was permitted to elect to not apply IFRS 16 to leases with a term of less than 12 months, which election is made by the underlying class of assets to which the right of use asset relates, or leases where the underlying asset is of low value, which election is made on an asset by asset basis.

The Company adopted this standard using the modified retrospective approach. Accordingly, the comparative information presented for the year ended September 30, 2019 has not been restated.

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4, 'Determining Whether an Arrangement contains a Lease'. On adoption of IFRS 16, the Company now assesses whether a contract is or contains a lease based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. On transition to IFRS 16, the Company elected to apply the practical expedient permitted by the standard to grandfather the assessment of which transactions are leases. IFRS 16 was applied only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed using the definition of a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after October 1, 2019.

On initial adoption, the Company used the following practical expedients as permitted by the standard when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with low value.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term remaining.
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases in a similar economic environment).
- Used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

On adoption of IFRS 16, the Company excluded certain arrangements which management concluded were not within the scope of IFRS 16 because they are arrangements for the use of land that grant the Company the right to explore, develop, produce or otherwise use the mineral resource contained in that land. As a result of the above, on adoption of IFRS 16, the Company determined the lease obligation based on the present value of the office lease payment using an incremental borrowing rate of 8% as of October 1, 2019.

## Western Resources Corp.

### Notes to the Consolidated Financial Statements

For the years ended September 30, 2020 and September 30, 2019

(Expressed in Canadian Dollars)

### 3. NEW ACCOUNTING STANDARDS (CONTINUED)

#### • IFRS 16 – Leases (continued)

The impact of the adoption of IFRS 16, as at October 1, 2019, are as follows:

	Balance at September 30, 2019, as previously reported	Office lease	Restated balance as at October 1, 2019
	\$	\$	\$
<b>ASSETS</b>			
<b>Non-current assets</b>			
Mineral property, plant and equipment	154,053,146	196,068	154,249,214
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Current portion of lease obligations	-	(90,924)	(90,924)
<b>Long term liabilities</b>			
Lease obligations	-	(109,586)	(109,586)
	-	(200,510)	(200,510)
<b>SHAREHOLDERS' EQUITY</b>			
Deficit	91,075,223	4,442	91,079,665

#### *Reconciliation of Commitments to Lease Liabilities*

The following table provides a reconciliation of the office lease commitments as at September 30, 2019 to the Company's lease liabilities as at October 1, 2019:

	\$
<b>Office lease commitments at September 30, 2019</b>	<b>219,733</b>
Extension options reasonably certain to be exercised	-
<b>Undiscounted office lease payments at October 1, 2019</b>	<b>219,733</b>
Effect of discounting using the incremental borrowing rate at October 1, 2019	(19,223)
<b>Present value of the office lease payments</b>	<b>200,510</b>
Finance lease liabilities under IAS 17	-
<b>Lease liabilities recognized at October 1, 2019</b>	<b>200,510</b>

#### IFRIC 23 – Uncertainty Over Income Tax Treatments

This standard was issued by the IASB in June 2017 and specifies the interpretation to be applied to the determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12, Income Taxes. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The adoption of this standard by the Company on October 1, 2019 did not have an impact on the unaudited condensed consolidated interim financial statements.

#### *Accounting Standards Issued but Not Yet Effective*

The following amended standard has been issued but has not yet been applied in these consolidated financial statements:

## Western Resources Corp.

### Notes to the Consolidated Financial Statements

For the years ended September 30, 2020 and September 30, 2019

(Expressed in Canadian Dollars)

### 3. NEW ACCOUNTING STANDARDS (CONTINUED)

#### *Accounting Standards Issued but Not Yet Effective (continued)*

- **IAS 16 – Property, Plant and Equipment**

On May 14, 2020, the IASB published a narrow scope amendment to IAS 16 Property, Plant and Equipment - Proceeds Before Intended Use. The amendment prohibits deducting from the cost of property, plant and equipment amounts received from selling items produced while preparing the asset for its intended use. Instead, amounts received will be recognized as sales proceeds and related cost in profit or loss. The effective date is for annual periods beginning on or after January 1, 2022. The amendment does not currently impact the consolidated financial statements but the Company is assessing the effect that the narrow scope amendment may have on the accounting for the future commencement of production at the Milestone project.

### 4. TERM DEPOSITS, INCLUDING RESTRICTED CASH

Term deposits as of September 30, 2020 and 2019 include the following restricted cash items:

	September 30, 2020	September 30, 2019
	\$	\$
Collateral for construction of infrastructure	2,387,760	3,660,000
Collateral for equipment purchases	56,923	-
Collateral for credit card facility	-	100,000
Collateral to secure banking facility for real estate	727,000	850,000
Interest receivable related to term deposits	49,000	30,791
	<b>3,220,683</b>	<b>4,640,791</b>

The above term deposits support letters of credit issued as security for committed expenditures and banking facilities.

### 5. OTHER CURRENT ASSETS

	September 30, 2020	September 30, 2019
	\$	\$
Goods and services tax receivable	324,333	2,210,713
Other receivables	-	13,129
Prepaid expenses	307,278	119,699
Marketable securities	78,576	40,645
Prepaid expense for storage facility	-	86,391
	<b>710,187</b>	<b>2,470,577</b>

### 6. MINERAL PROPERTY, PLANT AND EQUIPMENT

The Company owns a 100% interest in the Milestone Project located in the province of Saskatchewan under various property leases. The Company's rights to these properties is subject to a renewable 21-year Crown Lease issued by the Saskatchewan Ministry of Energy and Resources and renewable freehold leases. Those leases provide the Company with full and exclusive rights to mine Crown owned subsurface minerals and privately-owned subsurface minerals, including potash. Annual lease payments total approximately \$420,000.

A continuity of mineral property interests and property, plant and equipment are as follows:

**Western Resources Corp.**
**Notes to the Consolidated Financial Statements**

For the years ended September 30, 2020 and September 30, 2019

(Expressed in Canadian Dollars)

**6. MINERAL PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	Mineral interests and mine development costs	Asset retirement obligation	Construction in progress	Property and office equipment	Right- of-use assets	Total
Note	\$	\$	\$	\$	\$	\$
<b>Cost</b>						
<b>As at September 30, 2018</b>	<b>84,567,583</b>	-	<b>3,422,785</b>	<b>978,722</b>	-	<b>88,969,090</b>
Additions	4,561,859	2,649,908	58,306,881	152,901	-	65,671,549
Disposals	-	-	-	(89,587)	-	(89,587)
<b>As at September 30, 2019</b>	<b>89,129,442</b>	<b>2,649,908</b>	<b>61,729,666</b>	<b>1,042,036</b>	-	<b>154,551,052</b>
Impact of change in accounting policy	-	-	-	-	196,068	196,068
3						
<b>Restated balance as at October 1, 2019</b>	<b>89,129,442</b>	<b>2,649,908</b>	<b>61,729,666</b>	<b>1,042,036</b>	<b>196,068</b>	<b>154,747,120</b>
Additions	545,412	970,070	58,516,015	45,336	-	60,076,833
<b>As at September 30, 2020</b>	<b>89,674,854</b>	<b>3,619,978</b>	<b>120,245,681</b>	<b>1,087,372</b>	<b>196,068</b>	<b>214,823,953</b>
<b>Accumulated Depreciation</b>						
<b>As at September 30, 2018</b>	-	-	-	<b>(528,171)</b>	-	<b>(528,171)</b>
Depreciation for the year	-	-	-	(57,170)	-	(57,170)
Disposals	-	-	-	87,435	-	87,435
<b>As at September 30, 2019</b>	-	-	-	<b>(497,906)</b>	-	<b>(497,906)</b>
<b>Restated balance as at October 1, 2019</b>	-	-	-	<b>(497,906)</b>	-	<b>(497,906)</b>
Depreciation for the year	-	-	-	(125,964)	(81,132)	(207,096)
<b>As at September 30, 2020</b>	-	-	-	<b>(623,870)</b>	<b>(81,132)</b>	<b>(705,002)</b>
<b>Net book value</b>						
<b>As at September 30, 2019</b>	<b>89,129,442</b>	<b>2,649,908</b>	<b>61,729,666</b>	<b>544,130</b>	-	<b>154,053,146</b>
<b>As at September 30, 2020</b>	<b>89,674,854</b>	<b>3,619,978</b>	<b>120,245,681</b>	<b>463,502</b>	<b>114,936</b>	<b>214,118,951</b>

The additions for the construction in progress during the year ended September 30, 2020 included the following:

	September 30, 2020	September 30, 2019
	\$	\$
Capitalized interest on loans payable	2,510,853	-
Share-based payments	263,397	87,047
Amounts included in accounts payable and accrued liabilities	37,088,883	22,166,992
	<b>39,863,133</b>	<b>22,254,039</b>

## Western Resources Corp.

### Notes to the Consolidated Financial Statements

For the years ended September 30, 2020 and September 30, 2019

(Expressed in Canadian Dollars)

#### 7. INVESTMENT IN AND LOANS RECEIVABLE FROM ASSOCIATES

	FB Burrard LP	FB Eighth LP	FB Robinson LP	FB Third LP	Alabaster LP	WGP LP	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Investment in Associates</b>							
<b>As at September 30, 2018</b>	<b>1,999,363</b>	<b>6,443,293</b>	<b>4,546,878</b>	<b>2,257,445</b>	-	-	<b>15,246,979</b>
Contributions	-	-	598,930	88,750	3,696,000	-	4,383,680
Return of equity investment	-	(4,728,180)	(906,391)	(100,000)	-	-	(5,734,571)
Distribution from investment in associates	-	(1,715,113)	-	-	-	-	(1,715,113)
Elimination of interest income earned from associates	-	-	(120,064)	(42,286)	-	-	(162,350)
<b>As at September 30, 2019</b>	<b>1,999,363</b>	-	<b>4,119,353</b>	<b>2,203,909</b>	<b>3,696,000</b>	-	<b>12,018,625</b>
Transfer of investments in associates	-	-	-	(2,425,909)	(4,936,000)	7,361,909	-
Disposition of interest in associate	-	-	-	-	-	(4,099,150)	(4,099,150)
Contributions	-	-	1,036,001	222,000	1,240,000	-	2,498,001
Share of loss from investment in associates	(193,647)	-	-	-	-	-	(193,647)
<b>As at September 30, 2020</b>	<b>1,805,716</b>	-	<b>5,155,354</b>	-	-	<b>3,262,759</b>	<b>10,223,829</b>
<b>Loan Receivable from Associates</b>							
<b>As at September 30, 2018</b>	-	<b>4,936,007</b>	<b>4,674,895</b>	<b>9,328,499</b>	-	-	<b>18,939,401</b>
Interest receivable collected	-	(21,007)	(19,895)	(68,499)	-	-	(109,401)
Loan repayment	-	(4,915,000)	(4,655,000)	(9,260,000)	-	-	(18,830,000)
<b>As at September 30, 2019</b>	-	-	-	-	-	-	-
Loan receivable from associates	525,764	-	-	-	-	-	525,764
<b>As at September 30, 2020</b>	<b>525,764</b>	-	-	-	-	-	<b>525,764</b>

#### a) Investment in Associates

##### FB Burrard Development Limited Partnership ("FB Burrard LP")

As of September 30, 2020, the Company had a 72.31% limited partnership interest in FB Burrard LP which is in the business of developing a real estate project in Vancouver, British Columbia. FB Burrard LP is controlled by its general partner, FB Burrard Development Ltd. ("FB Burrard"). FB Burrard is jointly controlled by the Company and Formwerks Boutique Investments Ltd. ("Formwerks"), a Vancouver based real estate development company. Amongst other things, the shareholder agreement requires unanimous consent by the Company and Formwerks for decisions related to all relevant activities of FB Burrard. Accordingly, the Company accounts for its investment in FB Burrard using the equity method.

Western Potash is obligated to fund 72.31% of FB Burrard LP's development and construction costs not financed by bank financing obtained by FB Burrard LP and any cost over runs. However, the aggregate amount which the limited partners are required to contribute to the Partnership in the form of capital contributions will not exceed \$6,500,000, of which Western Potash's share is \$4,700,150. If FB Burrard LP needs further funding, the limited partners, have the right but not the obligation to loan funds to FB Burrard LP. On July 26, 2018 FB Burrard LP secured a construction loan for its development project and the Company is a guarantor for this construction loan which at September 30, 2020 amounted to \$5,400,000. The maximum liability under this guarantee is limited to \$6,250,000 plus interest and costs.



**7. INVESTMENT IN ASSOCIATES (CONTINUED)**

**a) Investment in Associates (Continued)**

**FB Burrard Development Limited Partnership ("FB Burrard LP") (Continued)**

FB Burrard LP had net loss of \$267,802 from partial sales of units in its real estate project and marketing expenses incurred during the year ended September 30, 2020; accordingly, the Company has recognized loss of \$193,647 as its share of net loss from investment in associates. Cash flows will be distributed to the partners initially in accordance with their respective capital contribution until the initial capital contribution has been recovered; subsequent distributions to the Company are limited to 52.31% of profit as defined in the partnership agreement.

**FB Robinson Development Limited Partnership ("FB Robinson LP")**

As of September 30, 2020, the Company had an 80% interest in FB Robinson LP which is in the business of developing a real estate project in Coquitlam, British Columbia. FB Robinson LP is controlled by its general partner FB Robinson Development Limited ("FB Robinson"). FB Robinson is jointly controlled by the Company and Formwerks. Amongst other things, the shareholder agreement requires unanimous consent by the Company and Formwerks for decisions related to all relevant activities of FB Robinson. Accordingly, the Company accounts for its investment in FB Robinson using the equity method.

The Company is obligated to fund 80% of FB Robinson LP's development and construction costs not financed by bank financing and any cost over runs. The aggregate amount which the limited partners are required to contribute to FB Robinson LP in the form of capital contributions will not exceed \$8,500,000, of which the Company's share is \$6,800,000. If FB Robinson LP needs further funding, the limited partners, have the right, but not the obligation to, loan funds to FB Robinson LP.

On June 10, 2019, FB Robinson LP secured a land loan of up to \$6,325,000. The Company provided a corporate guarantee limited to 50% of the loan facility. FB Robinson LP repaid a loan receivable to the Company of \$4,655,000 and accrued interest of \$20,852 in full on July 17, 2019 (Note 7 (b)). As a result of financings received, during the year ended September 30, 2019 FB Robinson LP distributed \$906,391 to the Company's subsidiary Western Potash as a return of equity.

Cash flows will be distributed to the partners initially in accordance with their respective capital contributions until the initial capital contribution has been recovered and subsequent distributions to the Company are limited to 60% of profit as defined in the partnership agreement.

**7. INVESTMENT IN ASSOCIATES (CONTINUED)**

**a) Investment in Associates (Continued)**

**FB 234 Third Avenue Development Limited ("FB Third")**

On June 22, 2018, the Company entered into a shareholders' agreement with Formwerks, 1168930 B.C. Ltd. ("1168930"), CWC Group Enterprises Ltd. ("CWC"), and 1168387 B.C. Ltd ("1168387") to invest in FB Third. The Company, Formwerks, 1168930 and CWC initially each held a 22.5% voting interest in FB Third and 1168387 holds a 10% voting interest. Amongst other things, the shareholder agreement of FB Third requires unanimous consent by all the shareholders for decisions related to all relevant activities of FB Third. Accordingly, the Company jointly controls FB Third and accounts for its investment using the equity method. FB Third is the general partner of FB 234 Third Development Limited Partnership ("FB Third LP") which is developing a real estate project in Vancouver, British Columbia.

On June 12, 2020, the Company transferred 2,517,000 units of FB Third LP representing its 22.5% interest in FB Third LP to a newly created entity WGP Investment Limited Partnership ("WGP LP") for \$1 per unit. As at September 30, 2020, the Company has a 45% interest in WGP LP (see below for a further discussion of WGP LP). As a result, the Company has effectively reduced its interest in FB Third LP to 10.125%.

WGP LP and all limited partners will advance capital to FB Third LP by way of additional capital contributions to fund the costs of the acquisition of the development lands and the development cost of the project proportionate to its respective ownership interest. The aggregate amount which the limited partners are required to contribute to FB Third LP in the form of capital contributions will not exceed \$12,000,000 of which WGP LP's share is \$2,700,000, and the Company's obligation to fund WGP LP is \$1,215,000. If FB Third LP needs further funding, the limited partners, have the right, but not the obligation to, loan funds to FB Third LP. Cash flow and allocation of net income and losses from FB Third LP will be distributed to the limited partners, pro rata in accordance with their respective proportionate interest.

On December 10, 2018, FB Third LP secured a land loan of \$10,000,000 and the Company provided a corporate guarantee for the loan limited to a maximum of \$2,250,000 plus interest and costs. FB Third LP repaid a loan previously received from the Company of \$9,260,000 plus interest in full on December 11, 2018 (Note 7(b)). During the year ended September 30, 2020, the Company made additional contributions to FB Third LP of \$222,222. The guarantee provided by the Company on the land loan is not affected by the transfer of the units of FB Third LP to WGP LP and the subsequent disposition of a partial interest in FB Third LP.

**Alabaster (Spires 2) Limited Partnership ("Alabaster LP")**

On December 4, 2018, the Company entered into an arrangement with Alabaster Holdings Corp. ("Alabaster") and Invesca Holdings Inc. ("Invesca"), together as limited partners of Alabaster LP to develop a real estate project in Richmond, British Columbia. The Company initially held an 80% interest in Alabaster LP. Alabaster (Spires 2) G.P. Ltd. ("Alabaster GP") is the general partner of Alabaster LP, in which the Company has a 50% interest, 1091970 B.C. Ltd. ("109", a related party of Alabaster) has a 25% interest and Kensington Homes Ltd. ("Kensington" a related party of Invesca) has a 25% interest. The Company jointly controls Alabaster GP with 109 and Kensington, and accordingly the Company accounts for its investment in Alabaster GP using the equity method.

On June 12, 2020, the Company transferred 4,936,000 units of Alabaster LP representing its 80% interest in Alabaster LP to WGP LP for \$1 per unit. As at September 30, 2020, the Company has a 45% interest in WGP LP (see below for a further discussion of WGP LP). As a result, the Company has effectively reduced its interest in Alabaster LP to 36%.

**7. INVESTMENT IN ASSOCIATES (CONTINUED)**

**a) Investment in Associates (Continued)**

**Alabaster (Spires 2) Limited Partnership (“Alabaster LP”) (Continued)**

WGP LP and all limited partners will advance capital to Alabaster LP by way of additional capital contributions to fund the costs of the acquisition of the development lands and the development cost of the project proportionate to their respective ownership interest. The aggregate amount which the limited partners are required to contribute to Alabaster LP in the form of capital contributions will not exceed \$8,075,000 of which WGP LP’s share is \$6,460,000, and the Company’s obligation to fund WGP LP is \$2,907,000. If Alabaster LP needs further funding, the limited partners have the right but not the obligation to loan funds to Alabaster LP.

During the year ended September 30, 2019, Alabaster LP acquired land for the real estate project and during the year ended September 30, 2020, Alabaster LP closed the acquisition of the remaining lots of land. To finance the closing of these land purchase on closing, Alabaster LP received a land loan of \$6,690,000 from Canadian financial institution for which the Company and its subsidiary Western Garden have provided a limited corporate guarantee of up to \$3,345,000. In relation to the closing of the land purchase, on November 18, 2019, Western Garden made additional capital contribution of \$1,242,000 to Alabaster LP. The guarantees provided by the Company is not affected by the transfer of the units of Alabaster LP to WGP LP and the subsequent disposition of a partial interest in Alabaster LP.

Cash flow and allocation of net income and losses from Alabaster LP will be distributed to WGP LP until its capital contribution has been recovered and a specified rate of return on funds invested has been achieved. Subsequent distributions to WGP LP are limited to 50% of profit as defined in the partnership agreement.

**WGP Investment Limited Partnership (“WGP LP”)**

WGP LP was created as an investment vehicle to allow new limited partners to invest in the Company’s real estate projects. On June 12, 2020, the Company transferred its 22.5% interest in FB Third LP and its 80% interest in Alabaster LP, which had a total carrying value of \$7,361,909, to WGP LP in exchange for cash of \$4,099,150 and 3,353,850 units in WGP LP with a value of \$1 per unit. The cash portion paid by WGP LP was funded by the issuance of 4,099,150 units of WGP LP at \$1 per unit, representing a 55% interest, to a new partner 1168387 BC Ltd. (“1168387 BC”). As a result of the transaction, the Company’s interest in FB Third LP and Alabaster LP were reduced to 10.125% and 36%, respectively. The transaction has been accounted for as a partial disposition of these interests but did not result in a gain or loss. In connection with the transaction, the Company accrued a finder’s fee of \$250,000 and may be required to pay additional amounts equal to 0.25 times the amount of cash distributions received from FB Burrard.

WGP LP is controlled by its general partner WGP Investment (GP) Limited (“WGP GP”). Although the Company owns 100% of the common shares in WGP GP, the governing documents and related agreements of WGP GP and WGP LP require unanimous consent by representatives from both the Company and 1168387 BC for substantive decisions affecting the business activities of WGP GP. As a result, the Company and 1168387 BC jointly control WGP GP and equity accounting has been applied to the Company’s interest in FB Third LP and Alabaster LP. Cash flow and allocation of net income and losses from WGP LP will be distributed first to 1168387 BC with equity repatriation plus a 12% return, and then secondly to the Company to cover its equity repatriation plus a 12% return. Any remaining cash thereafter will be distributed on a pro-rated basis. In addition, the Company will receive a management bonus if 1168387 BC’s return reaches 15%. The management bonus will equal 0% of the profits exceeding the 15% return. As of September 30, 2020, WGP LP has total net assets of \$7,453,000 of which \$4,936,000 relates to its interest in Alabaster LP and \$2,517,000 relates to its interest in FB Third LP which continue to be accounted for using the equity method of accounting.

## Western Resources Corp.

### Notes to the Consolidated Financial Statements

For the years ended September 30, 2020 and September 30, 2019

(Expressed in Canadian Dollars)

## 7. INVESTMENT IN ASSOCIATES (CONTINUED)

### a) Investment in Associates (Continued)

The below table summarizes the financial information of FB Burrard LP, FB Robinson LP, FB Third LP and Alabaster LP for the year ended September 30, 2020:

	FB Burrard Development Limited Partnership \$	FB Robinson Development Limited Partnership \$	FB 234 Third Avenue Development Limited Partnership \$	Alabaster (Spires 2) Limited Partnership \$
<b>As at September 30, 2020</b>				
Land and capitalized development cost	10,345,961	12,859,378	21,416,642	12,264,368
Other assets	918	124,966	67,661	172,058
Current liabilities	60,836	21,278	174,471	18,965
Mortgage on properties and other long-term debt	5,407,832	6,347,067	10,037,206	6,326,054
Other liabilities	1,595,924	-	-	-
Loan payable to Western Garden	525,764	-	-	-
Net loss	(267,802)	-	-	-

### b) Loans Receivable from Associates

During the year ended September 30, 2018, the Company provided a loan to FB Eighth LP in the amount of \$4,915,000 to facilitate the acquisition of land. The loan bore interest at the CWB prime rate plus 1.5% per annum with interest payable monthly. The loan principal of \$4,915,000 and accrued interest of \$21,007 was repaid to the Company in full on October 10, 2018.

During the year ended September 30, 2018, the Company provided a loan to FB Robinson LP in the amount of \$4,655,000 to facilitate the acquisition of land. The loan bore interest at the CWB prime rate plus 1.5% per annum with interest payable monthly. The loan principal of \$4,655,000 and accrued interest of \$20,852 was repaid to the Company in full on July 17, 2019.

During the year ended September 30, 2018, the Company provided a loan to FB Third LP in the amount of \$9,260,000 to facilitate the acquisition of land. The loan bore interest at 9% per annum until October 28, 2018 and bore interest at 12% thereafter. Interest was payable monthly. The loan principal of \$9,260,000 plus accrued interest was repaid to the Company in full on December 11, 2018.

On August 11, 2020, the Company advanced a loan of \$525,764 to FB Burrard LP to fund continuous marketing and interest cost on the remaining homes. The loan is interest free and has a term of 9 months. The effect of discounting on the fair value of the advance on initial recognition was not material.

## 8. REAL ESTATE PROPERTIES UNDER DEVELOPMENT

### Investment in Seaton LP

On October 5, 2018, the Company completed the purchase of multiple residential unit lots which could permit the development of townhouses in the City of Coquitlam, for a total purchase price of \$20,380,000.

**8. REAL ESTATE PROPERTIES UNDER DEVELOPMENT (CONTINUED)****Investment in Seaton LP (Continued)**

On August 17, 2018, the Company signed a shareholder agreement with Formwerks to set up WGP Seaton Development Ltd. ("WGP Seaton"). The Company owns an 80% voting interest in WGP Seaton and Formwerks owns a 20% voting interest. On October 1, 2018, the Company entered into an arrangement with Formwerks, as limited partners, in WGP Seaton Development Limited Partnership ("Seaton LP"), to develop this real estate project with the Company holding an 80% interest and Formwerks a 20% interest. WGP Seaton is the general partner of Seaton LP and as such is authorized to, and has the power to, carry on the business of Seaton LP. In accordance with the shareholder agreement, the Company has the right to appoint two of the three board members of WGP Seaton and the day-to-day operation of WGP Seaton will be overseen and conducted by individuals designated by the Company. Accordingly, the Company has concluded that it controls WGP Seaton and has consolidated WGP Seaton and Seaton LP. The Company and Formwerks are obligated to fund Seaton LP's development and construction costs not financed by bank financing and any cost over runs in proportion to their ownership interest. Cash flow and allocation of net income and losses from Seaton LP will be distributed to the limited partners initially in accordance with their respective capital contributions until the initial capital contributions have been recovered and a specified rate of return on funds invested has been achieved. Subsequent distributions to the Company are limited to 60% of net profit as defined in the partnership agreement.

The Company made total capital contributions of \$9,856,000 to Seaton LP as of September 30, 2019 to finance the land purchase and development costs. During the year ended September 30, 2020, the Company made additional capital contributions of \$500,000 to Seaton LP. As of September 30, 2020, Formwerks has made net capital contributions of \$2,589,000 which are reflected as non-controlling interest on the statement of financial position.

The following table summarizes information related to the Seaton project consolidated by the Company and the 20% non-controlling interest in WGP Seaton:

	September 30, 2020 \$	September 30, 2019 \$
<b>ASSETS</b>		
<b>Current Assets</b>	917,648	44,877
<b>Non-current Assets</b>		
Real estate properties under development	24,875,902	21,832,880
Other assets	185,050	-
	25,978,600	21,877,757
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Mortgage on real estate properties under development	(13,010,836)	-
Accounts payable and accrued liabilities	(22,764)	(7,757)
<b>Long term liabilities</b>		
Mortgage on real estate properties under development	-	(9,500,000)
	(13,033,600)	(9,507,757)
<b>Net assets</b>	<b>12,945,000</b>	<b>12,370,000</b>
<b>Net asset attributable to the NCI</b>	<b>2,589,000</b>	<b>2,514,000</b>

## Western Resources Corp.

### Notes to the Consolidated Financial Statements

For the years ended September 30, 2020 and September 30, 2019

(Expressed in Canadian Dollars)

#### 8. REAL ESTATE PROPERTIES UNDER DEVELOPMENT (CONTINUED)

##### Mortgage on real estate properties under development

To finance the project, Seaton LP obtained the following mortgages to finance the land purchases:

	Footnote	September 30, 2020 \$	September 30, 2019 \$
Mortgage amount at prime rate plus 1.35% per annum payable monthly, with the principal amount payable on maturity date or on demand. During the year ended September 30, 2020, the maturity date was extended from October 5, 2020 to April 15, 2021 with an option to extend for an additional 6-month period.	1	9,500,000	9,500,000
Mortgage amount with interest at the higher of 5.7% or prime rate plus 1.75% per annum payable monthly, with the principal amount payable on the maturity date of January 8, 2021 and the option to extend the maturity date for 1 additional year.	2	1,300,000	-
Principal up to \$4,500,000 at an interest rate of the greater of 10% per annum, or the prime rate of Royal Bank of Canada ("RBC") plus 6% per annum, payable monthly, with the principal amount payable on July 9, 2021 and the option to extend the maturity date for an additional 6 months.	3	2,210,836	-
		13,010,836	9,500,000

1) Mortgage is secured by a first charge on the mortgaged properties, a corporate guarantee by the Company of up to \$7,600,000, a General Security Agreement over all assets of WGP Seaton and a certain of the Company's term deposits in Note 4.

2) Mortgage is secured by a first charge on the mortgaged property, a corporate guarantee by the Company and personal guarantees by the officers of Seaton LP, and a General Security Agreement over all assets of WGP Seaton specific to the mortgaged property.

3) Mortgage is secured by a charge on the mortgaged property; the Company provides a corporate guarantee of up to 80% of the loan amount.

#### 9. OTHER ASSETS

	September 30, 2020 \$	September 30, 2019 \$
Term deposits for credit card facility	184,000	172,500
Security deposits	12,767	11,767
Prepaid expense for storage facility	2,000,000	515,609
Other deposits	185,050	-
Collateral for asset retirement obligation	2,000,000	-
	<b>4,381,817</b>	<b>699,876</b>

#### 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Note	September 30, 2020 \$	September 30, 2019 \$
Trade payables		203,909	325,359
Trade payable related to mineral property	6	37,088,883	22,166,992
Accrued liabilities		340,334	115,750
Interest payable related to loan payable	14	1,171,923	-
Interest payable related to promissory note	11	194,393	-
Other payables		122,478	69,977
Security deposit payable		3,385	5,500
		<b>39,125,305</b>	<b>22,683,578</b>

## Western Resources Corp.

### Notes to the Consolidated Financial Statements

For the years ended September 30, 2020 and September 30, 2019

(Expressed in Canadian Dollars)

#### 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (CONTINUED)

During the year ended September 30, 2020, various vendors have filed builders' liens for up to \$29,389,766 against Western Potash as a result of its delayed payment on the outstanding payables related to mineral property, plant and equipment. Certain of these vendors have also filed legal claims against Western Potash in amounts totaling \$4,100,000. All of these amounts have already been recorded in trade payable related to mineral property and no additional provisions have been made. The Company's legal counsel is currently working directly with the vendors on a temporary solution to mitigate legal action.

Subsequent to September 30, 2020, the Company received additional builders' liens of \$1,473,245 and legal claims of up to \$4,700,000 related to the existing liens and outstanding payables.

#### 11. PROMISSORY NOTES

During the year ended September 30, 2020, the Company issued the following unsecured promissory notes to various note holders:

Term	Interest Rate per Annum	Footnote	September 30,	September 30,
			2020	2019
			\$	\$
On demand upon written notice by the Note Holder	8%	1	500,000	-
On demand upon written notice by the Note Holder	8%	2	2,700,000	-
Note payable on maturity date of May 8, 2021	12%	3	820,000	-
Note payable on maturity date of June 8, 2021	12%	4	300,000	-
<b>As at September 30, 2020</b>			<b>4,320,000</b>	<b>-</b>
<b>Accrued interest expenses</b>			<b>194,393</b>	<b>-</b>

1) Issued to the Company's majority shareholder.

2) Issued to an officer of the Company.

3) Issued to a party related to an officer of the Company.

4) Issued to unrelated party.

The Company also issued a \$500,000 promissory note to an unrelated third party on May 27, 2020 which was repaid on August 17, 2020. On November 18, 2020, the partnership units in FB Robinson LP were pledged as security for all of these promissory notes.

## Western Resources Corp.

### Notes to the Consolidated Financial Statements

For the years ended September 30, 2020 and September 30, 2019

(Expressed in Canadian Dollars)

## 12. LEASE OBLIGATIONS

As at September 30, 2020, future minimum lease payments for the Company's under finance lease are as follows:

	Note	\$
<b>As at September 30, 2019</b>		-
Impact of change in accounting policy	3	200,510
<b>Restated balance as at October 1, 2019</b>		<b>200,510</b>
Add: Interest		12,610
Less: Payments		(90,924)
<b>As at September 30, 2020</b>		<b>122,196</b>

  

	\$
<b>Minimum lease payments for each fiscal year:</b>	
2021	90,924
2022	37,885
	<b>128,809</b>
Amount representing interest	(6,613)
<b>Total</b>	<b>122,196</b>

  

<b>Current</b>	<b>90,924</b>
<b>Long-term</b>	<b>31,272</b>

The Company concluded that certain arrangements were not within the scope of IFRS 16 because they are arrangements for the use of land that grant the Company the right to explore, develop, produce or otherwise use the mineral resource contained in that land. In addition, the Company does not recognize a lease liability for leases with terms to maturity of less than 12 months. Payments related to such arrangements are expensed as incurred. During the year ended September 30, 2020, the Company recognized \$575,326 (2019 - \$599,119) in development cost and net loss related these arrangements.

## 13. ASSET RETIREMENT OBLIGATION

At September 30, 2020, the Company recognized an asset retirement obligation of \$3,679,603 (September 30, 2019 - \$2,649,908) for mine development activities that have occurred to date. The following assumptions were used in the calculation of the Company's asset retirement obligation:

	For the years ended	
	September 30, 2020	September 30, 2019
	\$	\$
Undiscounted cost of asset retirement obligation	4,050,000	2,772,236
Pre-tax risk-free discount rate	1.25%	2.25%
Inflation rate	0.50%	1.90%
Year of settlement	2033	2032

A continuity of the asset retirement obligation is as follows:



## Western Resources Corp.

### Notes to the Consolidated Financial Statements

For the years ended September 30, 2020 and September 30, 2019

(Expressed in Canadian Dollars)

#### 13. ASSET RETIREMENT OBLIGATION (CONTINUED)

Asset Retirement Obligation	\$
As of September 30, 2018	-
Additions	2,649,908
<b>As at September 30, 2019</b>	<b>2,649,908</b>
Increase in liability due to changes in estimated cost and discount rate	970,070
Interest cost	59,625
<b>As at September 30, 2020</b>	<b>3,679,603</b>

The asset retirement obligation at the date of the statement of financial position represents management's best estimate of the present value of the future site restoration costs required. Changes to estimated future costs are recognized in the statement of financial position by adjusting the asset retirement obligation and associated asset. The Company's obligation is secured by a \$2,000,000 cash deposit (Note 9)

#### 14. LOANS PAYABLE

	Related Party Loan Payable	Canada Emergency Business Account (CEBA)	Total
	\$	\$	\$
<b>As at September 30, 2019</b>	-	-	-
Amounts advanced during the year	35,000,000	40,000	35,040,000
Fair value discount	(9,843,503)	(17,408)	(9,860,911)
Fair value of financial liability at issuance	25,156,497	22,592	25,179,089
Accretion of interest	2,510,853	340	2,511,193
Cash interest recorded in accounts payable and accrued liabilities	(1,171,923)	-	(1,171,923)
<b>As at September 30, 2020</b>	<b>26,495,427</b>	<b>22,932</b>	<b>26,518,359</b>

##### Related Party Loan Payable

On September 12, 2019, Western Potash entered into a Credit Facility Agreement to borrow up to an aggregate amount of \$40,000,000 from the Company's majority shareholder to provide financing for construction costs associated with the Milestone Project. The loan is unsecured and matures on September 30, 2024. The initial interest rate (the "Initial Interest Rate") of the loan is 4% per annum, with interest payable at the end of each fiscal year. However, should Western Potash secure a commercial loan from any Canadian bank during the construction period of Phase I of the Milestone potash project, the weighted average interest rate offered by the Canadian commercial bank will be used to replace the Initial Interest Rate.

During the year ended September 30, 2020 a total of \$35,000,000 was advanced under the terms of the Credit Facility Agreement ("Advanced Amount"). The Initial Interest Rate provided in the Credit Facility Agreement is considered a below market-rate loan. For accounting purposes, the Company calculated the fair value of the Advanced Amount at the date of advance by discounting the principal and interest payments using a risk-adjusted discount rate of 12%, and the difference between the fair value of the loan payable and the proceeds received of \$7,185,757, net of deferred tax expense of \$2,657,746, has been recorded in contributed surplus as a contribution from shareholders.

#### **14. LOANS PAYABLE (CONTINUED)**

##### **Related Party Loan Payable (continued)**

During the year ended September 30, 2020, the Company reclassified \$1,171,923 from loan payable to accounts payable and accrued liabilities to reflect cash interest payable.

##### **Canada Emergency Business Account (CEBA)**

On May 12, 2020, the Company received a \$40,000 COVID-19 relief line of credit from the Canada Small Business Financing Program as support for businesses impacted by COVID-19. The line of credit is non-interest bearing until December 31, 2022 (the "Term Period") and 25% of the amount will be forgiven if the Company repays the amount before the Term Period.

For accounting purposes, the Company calculated the fair value of the CEBA loan to be \$17,408 and recognized this amount as government grant under Other Income (Expenses).

#### **15. PAYABLE ON LEGAL SETTLEMENT**

##### **Amarillo Gold Corporation**

In May 2018, the Company received a demand letter from Amarillo Gold Corporation ("Amarillo") with respect to a services agreement between Amarillo and the Company's subsidiary, Western Potash dated April 28, 2008. Amarillo sought to recover \$2,136,000 in taxes and penalties related to certain exploration permits Amarillo has become liable to pay as a result of Amarillo's Brazilian subsidiary taking potash claims in Brazil during 2008 on behalf of Western Potash.

On April 15, 2020, Western Potash entered into a settlement agreement with Amarillo (the "Amarillo Settlement") to resolve the disputes in respect of the aforementioned events. The Amarillo Settlement released all of the obligations of Western Potash up to the date of the settlement provided that the Company is not released from any of the obligations provided in the settlement.

Pursuant to the Amarillo Settlement, Western Potash is required to make the following payments to Amarillo (collectively "Settlement Amount"):

- \$178,238 legal fees incurred by Amarillo ("Awarded Costs"), paid in the year ended September 30, 2020;
- 25-monthly payments of approximately \$17,000 starting from April 28, 2020, to reimburse the taxes (\$426,000) paid by Amarillo ("Paid Taxes"); and
- Monthly payments of \$33,000 from March 2020 to May 2023 for the tax payment required to be paid by Amarillo ("Outstanding Taxes").

For the Outstanding Taxes, the estimated amount for the period from March 2020 to May 2023 at the date of settlement was \$1,240,532 (BRL 4,540,748). Pursuant to the Amarillo Settlement, Amarillo will remit the required monthly tax amount in Brazilian Real ("BRL") to the Brazilian government. Every quarter-end, Amarillo will reconcile the equivalent Canadian dollar of the quarterly tax payment made to the Brazilian government with the quarterly payment Western Potash paid to Amarillo. Any excess amount paid by Western Potash to Amarillo due to the fluctuation of the exchange rate will be reimbursed by Amarillo to the Company and vice versa. Western Potash may settle the monthly Outstanding Taxes payment at any time before it comes due. In any event, if Western Potash fails to make any Settlement Amount within 15 days after the due date, Amarillo has the right to apply and obtain leave of the court to enforce the remaining Settlement Amount to be paid by Western Potash immediately.

## Western Resources Corp.

### Notes to the Consolidated Financial Statements

For the years ended September 30, 2020 and September 30, 2019

(Expressed in Canadian Dollars)

#### 15. PAYABLE ON LEGAL SETTLEMENT (CONTINUED)

##### Amarillo Gold Corporation (continued)

The Company determined the fair value (\$1,584,684) of the Settlement Amount by discounting the expected payments using a risk-adjusted discount rate of 12% and recognized a payable on legal settlement as of September 30, 2020 and a corresponding loss on settlement of legal claim for the year ended September 30, 2020:

	\$
<b>As at September 30, 2019</b>	-
Payable on legal settlement	1,878,532
Fair value discount	(293,848)
Fair value of payable on legal settlement	1,584,684
Payments made during the year	(469,106)
Interest expense	74,883
Effect of changes in foreign currency exchange	(144,967)
<b>As at September 30, 2020</b>	<b>1,045,494</b>
Current portion of payable on legal settlement	534,845
Non-current portion of payable on legal settlement	510,649

#### 16. FINANCING ARRANGEMENT

	Financing Arrangement \$
<b>As at September 30, 2019</b>	-
Sale proceeds from land disposition	8,300,000
Repurchase deposit	(300,000)
Commission and other costs	(359,621)
Net proceeds from land disposition	7,640,379
Interest expense	133,019
<b>As at September 30, 2020</b>	<b>7,773,398</b>

Western Potash through its subsidiary BC Ltd entered into an agreement to sell the ownership of certain Phase II and Phase III vacant farm-lands (the "Property") for gross proceeds of \$8,300,000 on condition that Western Potash will repurchase the Property back by July 7, 2022 for \$9,300,000. The Company has the option to extend the repurchase date to July 7, 2023 at which time the Company will pay \$9,700,000. As the transaction has an obligation to repurchase the property at a future date, the Company accounted for the transaction as a "financing arrangement". The obligation is recognized at its amortized cost using an effective interest rate of 8.5%.

## Western Resources Corp.

### Notes to the Consolidated Financial Statements

For the years ended September 30, 2020 and September 30, 2019

(Expressed in Canadian Dollars)

## 17. SHARE CAPITAL

### Authorized share capital

The Company's authorized share capital consists of an unlimited number of common shares issued without par value.

### Issued share capital

As of September 30, 2020 and September 30, 2019, the Company had 186,874,220 common shares issued and outstanding with a carrying value of \$231,106,466. 777,400 common shares with a carrying value of \$762,520 are classified as treasury shares which the Company reacquired from its shareholders but has not retired.

Pursuant to a rights offering (the "Rights Offering") on March 14, 2019, the Company provided each eligible registered shareholder of the Company One Right (the "Right") for every one common share held. The Right entitled the holder to subscribe for one common share at a subscription price of \$0.12 per common share ("Basic Subscription Privilege"). Shareholders who fully exercised their Rights under the Basic Subscription Privilege were entitled to subscribe for additional common shares, on a pro rata basis, if available as a result of unexercised Rights prior to their expiry. Unexercised Rights expired on April 9, 2019.

On April 10, 2019, the Company completed the Rights Offering. A total of 93,437,110 common shares of the Company were issued to holders of Rights at a subscription price of \$0.12 per common share for gross cash proceeds of \$11,212,454. In connection with the Right Offerings, the Company incurred \$91,789 in share issuance costs.

### Stock options

The changes in stock options during the year ended September 30, 2020 are as follows:

	Number outstanding	Weighted average exercise price \$
<b>Balance, September 30, 2018</b>	-	-
Granted	12,250,000	0.195
Forfeited	(400,000)	0.120
<b>Balance, September 30, 2019</b>	<b>11,850,000</b>	<b>0.150</b>
Granted	1,900,000	0.185
Forfeited	(1,300,000)	0.120
<b>Balance, September 30, 2020</b>	<b>12,450,000</b>	<b>0.158</b>

During the year ended September 30, 2020, the Company recognized \$482,269 (September 30, 2019 – \$156,024) of share-based payments of which \$218,872 (September 30, 2019 – \$68,977) was charged to the statement of loss and \$263,397 (September 30, 2019 – \$87,047) was capitalized to mineral property, plant and equipment.

The Company determined the fair value of its stock options using the Black-Scholes option pricing model with the following weighted average assumptions:

## Western Resources Corp.

### Notes to the Consolidated Financial Statements

For the years ended September 30, 2020 and September 30, 2019

(Expressed in Canadian Dollars)

## 17. SHARE CAPITAL (CONTINUED)

### Stock options (continued)

Assumptions	2020	2019
Risk-free interest rate	0.39%	1.49%
Expected life (years)	5	5
Forfeiture rate	0%	0%
Expected volatility	81%	66%
Dividend rate	0%	0%

The following summarizes information about stock options outstanding and exercisable at September 30, 2020:

Expiry date	Exercise price (\$)	Options outstanding	Options exercisable	Estimated grant date fair value (\$)	Weighted average remaining contractual life (in years)
May 28, 2024	0.120	8,550,000	2,565,000	498,471	3.66
June 27, 2024	0.185	2,000,000	600,000	279,600	3.74
April 23, 2025	0.185	1,800,000	540,000	244,260	4.56
August 3, 2025	0.185	100,000	30,000	13,570	4.84
		<b>12,450,000</b>	<b>3,735,000</b>	<b>1,035,901</b>	<b>3.81</b>
<b>Weighted average exercise price (\$)</b>		<b>0.140</b>	<b>0.140</b>		

On April 24, 2020, the Company issued 1,800,000 stock options with an exercise price of \$0.185 and expiry date of April 23, 2025 to its directors and officers. These options will vest 30% each year commencing on the date of successful completion of the commissioning of the Phase I of the Milestone Project as determined by the Board of Directors. On April 24, 2020, the Company revised the exercise price of the 2,000,000 stock options issued to a senior executive on June 28, 2019 with an expiry date of June 27, 2024 from \$0.27 to \$0.185.

On May 7, 2020, the Company's Board of Directors approved the vesting of 30% of the stock options granted on May 28, 2019, June 27, 2019 and April 24, 2020 (the "Vested Options") despite the successful commissioning of Phase 1 of the Milestone Project not having been completed. Upon the approval, the Vested Options became exercisable. The remaining options will vest 30% on each of May 7, 2021 and May 7, 2022 with the remainder vesting on May 7, 2023.

On August 4, 2020, the Company issued 100,000 stock options with an exercise price of \$0.185 and expiry date of August 3, 2025 to its staff. These options will vest 30% each year.

A total of 1,300,000 options with exercise price ranging from \$0.12 to \$0.185 were forfeited during the year ended September 30, 2020.

Subsequent to September 30, 2020, an additional 400,000 stock options with an exercise price of \$0.17 were granted to a director which vest in annual installments of 30% in the next three years with the remainder vesting on the fourth anniversary date.

## Western Resources Corp.

### Notes to the Consolidated Financial Statements

For the years ended September 30, 2020 and September 30, 2019

(Expressed in Canadian Dollars)

#### 18. SUPPLEMENTAL CASH FLOW INFORMATION

	Notes	September 30, 2020 \$	September 30, 2019 \$
<b>Non-cash financing and investing activities</b>			
Accretion of interest of loan payable capitalized as mineral property, plant and equipment	14	2,510,853	-
Share-based payments capitalized as mineral property, plant and equipment	17	263,397	87,047
Mineral property, plant and equipment costs included in accounts payable and accrued liabilities	6, 10	14,921,891	22,166,992
<b>Others</b>			
Contribution from shareholders	14	9,843,503	-
Increase in asset retirement obligation	13	970,070	-

#### 19. RELATED PARTY TRANSACTIONS

##### Payments to key management personnel

The Company's key management personnel include the Company's Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and members of the Board of Directors. Payments to key management personnel included in the net loss and mineral property, plant and equipment are as follows:

	For the year ended	
	September 30, 2020 \$	September 30, 2019 \$
<b>Included in net loss</b>		
Consulting fees	309,080	432,750
Bonus	-	135,000
Share-based payments	126,072	5,995
	435,152	573,745
<b>Included in mineral property, plant and equipment</b>		
Consulting fees	120,000	178,500
Salaries and wages	240,000	140,000
Bonus	36,000	-
Share-based payments	148,647	42,624
	544,647	361,124
<b>Total payments to key management personnel</b>	<b>979,799</b>	<b>934,869</b>

##### Other related party transactions

- On November 18, 2019, the Company received an unsecured non-interest-bearing bridge loan ("Bridge Loan") from a company which is controlled by an officer of the Company of \$6,600,000. The Bridge Loan was fully repaid by the Company in December 2019.
- On September 12, 2019, the Company entered into a Credit Facility Agreement for an aggregate amount of \$40,000,000 from the Company's majority shareholder (Note 14). During the year ended September 30, 2020, \$35,000,000 was advanced from the Credit Facility Agreement. Interest of \$1,171,923 was incurred during the year ended September 30, 2020 and as of September 30, 2020, interest payable related to the Credit Facility Agreement is \$1,171,923 which are included in accounts payable and accrued liabilities.

**19. RELATED PARTY TRANSACTIONS (CONTINUED)**

**Other related party transactions (continued)**

- During the year ended September 30, 2020, the Company issued promissory notes with a total face value of \$3,200,000 to the Company's majority shareholder (Note 11). On August 6, 2020, the majority shareholder transferred \$2,700,000 of these promissory notes to an officer of the Company (Note 11). Interest of \$145,630 was incurred during the year ended September 30, 2020 and as of September 30, 2020, interest payable related to this promissory note is \$145,630 which are included in accounts payable and accrued liabilities.
- On May 8, 2020, the Company issued a promissory note with a face value of \$820,000 to a party related to an officer of the Company (Note 11). Interest of \$37,761 was incurred during the year ended September 30, 2020 and as of September 30, 2020, interest payable related to the promissory note is \$37,671 which are included in accounts payable and accrued liabilities.
- Accounts payable at September 30, 2020 includes \$88,334 in outstanding to directors and officers (September 30, 2019 – \$214,564).

All related party transactions are in the normal course of operations and have been measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties except for the amount borrowed under the Credit Facility Agreement which was recognized at fair value on the issuance date.

**20. SEGMENTED INFORMATION**

The Company operates in two reportable operating segments, being the acquisition, exploration and development of mineral properties and the investment in real estate projects in Canada. Segmented information is as follows:

	Real estate \$	Mineral properties \$	Total \$
<b>For the year ended September 30, 2020</b>			
Operating expenses	(203,338)	(1,963,407)	(2,166,745)
Interest and other income (expense)	(638,040)	(1,518,436)	(2,156,476)
Deferred tax recovery	-	2,657,746	2,657,746
Net loss for the year	(841,378)	(824,097)	(1,665,475)
<b>For the year ended September 30, 2019</b>			
Operating expenses	(195,364)	(2,049,066)	(2,244,430)
Interest and other income (expense)	11,397	1,310,870	1,322,267
Net loss for the year	(183,967)	(738,196)	(922,163)
<b>As at September 30, 2020</b>			
Total assets	36,840,635	227,927,902	264,768,537
Non-current assets	35,360,152	218,240,347	253,600,499
Current assets	1,480,483	9,687,555	11,168,038
Total liabilities	(17,559,896)	(78,035,295)	(95,595,191)
Non-controlling interest	(2,589,000)	-	(2,589,000)
<b>As at September 30, 2019</b>			
Total assets	33,950,695	163,983,028	197,933,723
Non-current assets	33,851,505	154,753,022	188,604,527
Current assets	99,190	9,230,006	9,329,196
Total liabilities	(9,512,380)	(25,321,106)	(34,833,486)
Non-controlling interest	(2,514,000)	-	(2,514,000)

## **21. COMMITMENTS AND CONTRACTUAL AGREEMENTS**

- Western Potash entered into a water supply agreement with respect to the Milestone Project which provide Western Potash a preferential right to access a maximum of up to 25,000 cubic meters of water at a rate of \$0.2628/cubic meter (increasing by a multiplier every year) per day of recycled water for an agreed term of 40 years from the start of water flow. Prior to water usage commencing, the Company is required to pay annual stand by fees. A total of \$110,726 in standby fees were made during the year ended September 30, 2020 (2019 - \$104,725). Half of the commitment fee and the standby fees will be credited against the annual water usage fees if water usage commences on or before December 31, 2025. If the Company does not commence usage on or before December 31, 2025, all credits accrued until that date will no longer be creditable against the annual usage fees. Furthermore, the Company will be required to pay a standby fee of \$500,000 annually after December 31, 2025 until the earlier of the date water usage commences and the term of the agreement which is defined in the agreement as 40 years after connection to the Regina water system is completed. Both the City of Regina and the Company have the option to terminate the contract on or after December 3, 2025 if usage has not commenced by that date.
- On October 25, 2018, Western Potash signed an off-take agreement with a North American company in the business of selling agricultural fertilizers to purchase an annual production of 146,000 metric tons of product from Western Potash once production at the Milestone Project reaches the designed capacity, for a duration of 10 years commencing no later than May 31, 2020. The Company is currently discussing an extension of the commencement date with the customer. Following the commencement date, if the Company fails to make delivery of a committed volume in a 12-month period, a make-whole payment maybe required to be made to the customer to compensate the customer of any net price difference for fertilizer purchased by the customer on the open market and any direct incremental costs incurred by the customer to acquire alternative product.
- Western Potash has entered into various capital expenditure commitments for the procurement and construction of Phase I of the Milestone Project. As of September 30, 2020, total capital expenditure commitments are \$19,236,000.
- During the year ended September 30, 2020, the Company entered into non-exclusive financial advisory agreements with various third parties to assist in raising money for the purpose of completing the Milestone Project. Pursuant to these agreements, the Company is required to pay a compensation upon the completion of an equity or debt financing with an introduced investor. The compensation on these agreements will equal to 5% of the amount raised from equity financing and 2.5% of gross proceeds on debt financing or royalty transactions with the introduced investor.

## **22. CONTINGENCIES**

The Company is involved in various claims and other matters in the ordinary course of business. In addition to the legal claims and builders' liens against Western Potash related to the delayed payment of outstanding payables disclosed in Note 10, the Company has the following contingency:

### **Lockwood Financial Ltd.**

By an agreement dated September 1, 2010, the Company retained Lockwood Financial Ltd. ("Lockwood") to provide certain services. That agreement provided for various potential payments from the Company to Lockwood if specific triggering events occurred. A Notice of civil claim has been filed by Lockwood seeking a payment in an amount of \$1,439,056 for a success fee and additional service fee owing. It is the position of the Company that none of the triggering events occurred and that no amount is currently payable to Lockwood. The case is on hold due to the withdrawal of Lockwood's legal counsel from the case on March 8, 2019. The Company, in consultation with legal counsel, assesses that it is not probable at September 30, 2020 that the claim of Lockwood will be successful.



## **23. FINANCIAL INSTRUMENTS**

### **Fair value**

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

**Level 1** – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

**Level 2** – Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

**Level 3** – Unobservable (supported by little or no market activity) prices.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

As of September 30, 2020, investments in marketable securities of other public entities are included in other current assets and were recorded at fair value on the statement of financial position with changes to fair value recognized in profit or loss. The Company's investments in marketable securities have been valued using Level 1 inputs. During the year ended September 30, 2020, the Company received a loan payable (Note 14) from a significant shareholder which was recognized on issuance using level 2 inputs. The carrying values of the Company's cash, term deposits, accounts receivables, deposits (current and non-current), accounts payable, deposit liabilities, mortgage on real estate properties under development, promissory notes, payable on legal settlement, and loan payable approximate their fair value at September 30, 2020 due to their short terms to maturity, associated market based interest rates, or based on expected future cash flows and discount rates applicable to the instruments.

### **Financial risk management**

In the normal course of business, the Company is inherently exposed to certain financial risks, including market risk, credit risk and liquidity risk, through the use of financial instruments. The timeframe and manner in which the Company manages these risks varies based upon management's assessment of the risk and available alternatives for mitigating risk. The Company does not acquire or issue derivative financial instruments for trading or speculative purposes. All transactions undertaken are to support the Company's operations.

- ***Credit risk***

Credit risk is the risk of loss associated with a counter party's inability to fulfil its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents, term deposits, accounts receivable and deposits, the carrying value of which represents the Company's maximum exposure to credit risk.

Cash and cash equivalents, term deposits other deposits included in other assets are held with reputable Canadian financial institutions, from which management believes the risk of loss to be minimal.

At September 30, 2020, other current assets include goods and services taxes recoverable from the Government of Canada for which minimal credit risk exists.

**23. FINANCIAL INSTRUMENTS (CONTINUED)****Financial risk management (continued)****• *Liquidity risk***

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2020, the Company had cash of \$6,711,404 and a credit facility with an undrawn amount of \$5,000,000 (Note 14).

The Company's major liabilities and obligations mature as follows:

	<b>1 Year</b>	<b>2 Year</b>	<b>3 Year</b>	<b>4 Year</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Accounts payable and accrued liabilities	39,125,305	-	-	-
Mortgage on real estate properties under development	13,010,836	-	-	-
Loans payable	-	-	30,000	35,000,000
Promissory notes	4,320,000	-	-	-
Payable on legal settlement	534,845	450,845	220,563	-
Financing arrangement	-	-	9,700,000	-
<b>Total undiscounted value</b>	<b>56,990,986</b>	<b>450,845</b>	<b>9,950,563</b>	<b>35,000,000</b>
<b>Carry value as of September 30, 2020</b>	<b>56,990,986</b>	<b>450,845</b>	<b>7,856,134</b>	<b>26,495,427</b>

The Company will need to raise additional funds to meet its obligations. The mortgage on real estate properties under development was due on October 5, 2020 but was extended for an additional 6-month period with the intention to exercise the option to extend for an additional 6 months' period at that time. The Company's operating cash requirements including amounts projected to complete its existing capital expenditure program are continuously monitored and adjusted as input variables change. These variables include but are not limited to, available credit facilities, changes in commodity prices, cost overruns on capital projects and changes to government regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the need for the Company to pursue equity issuances, obtain project or debt financing, or enter into joint arrangements. There is no assurance that the necessary financing will be available in a timely manner (Note 1).

**• *Market risk***

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company is subject to the following market risks:

**- *Interest rate risk***

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash and cash equivalents are held mainly in high yield saving accounts and term deposits and therefore there is currently minimal interest rate risk. Because of the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of September 30, 2020. The Company's loan payable and promissory notes are not subject to interest rate risk as they are not subject to a variable interest rate.

The Company is exposed to interest rate risk through the mortgages on real estate properties under development, which bears interest at a variable rate. Based on the outstanding amount as of September 30,

**23. FINANCIAL INSTRUMENTS (CONTINUED)****Financial risk management (continued)**• **Market risk (continued)**- **Interest rate risk**

2020, an increase or decrease in the prime rate by 100 basis points would result in approximately \$130,000 change to the Company's interest expense on an annual basis.

- **Foreign currency risk**

The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars ("CAD"). The Company has not entered into any foreign currency contracts to mitigate this risk. The Company's cash and accounts payable and accrued liabilities are held in CAD, United States dollars ("USD"), and Brazilian Real ("BRL"); therefore, USD and BRL accounts are subject to fluctuation against the CAD.

As at September 30, 2020, the Company had the following balances in foreign currency which were subject to foreign exchange risk:

	US\$	BRL\$
Cash	15,733	-
Term deposits, including restricted cash	42,674	-
Accounts payable and accrued liabilities	(2,995,736)	-
Payable on legal settlement	-	(3,174,936)
	<b>(2,937,329)</b>	<b>(3,174,936)</b>
Rate to convert to \$1.00 CAD	1.3339	0.2368
<b>Equivalent to CAD</b>	<b>(3,918,103)</b>	<b>(751,825)</b>

Based on the above net exposures as at September 30, 2020, and assuming that all other variables remain constant, a 1% change of the CAD against the USD and BRL would change profit or loss by approximately \$47,000.

**24. CAPITAL DISCLOSURES**

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, to pursue the development of its potash properties and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company includes cash, term deposits, loans payable, promissory notes and the components of shareholders' equity in the management of its capital. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, and acquire or dispose of assets. During the year ended September 30, 2020, the Company secured total mortgages of \$3,510,836 for its real estate properties under development (Note 8), entered into a credit facility with its majority shareholder and drew \$35,000,000 (Note 14), and issued total promissory notes of \$4,320,000 (Note 11) to finance operations.

## Western Resources Corp.

### Notes to the Consolidated Financial Statements

For the years ended September 30, 2020 and September 30, 2019

(Expressed in Canadian Dollars)

#### 24. CAPITAL DISCLOSURES (CONTINUED)

Historically, the Company has been dependent on the capital markets for its operating capital. The Company's capital resources are largely determined by the strength of the resource markets, by the status of the Company's project in relation to those markets, and by its ability to compete for investor support of its project. The Company is not subject to any externally imposed capital requirements. However, it is subject to any regulations and rules imposed by the Toronto Stock Exchange in issuing and/or maintaining debt or equity financings. In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

#### 25. FINANCE COSTS

	For the year ended	
	September 30, 2020	September 30, 2019
	\$	\$
<b>Charged to finance costs</b>		
Interest expense related to promissory notes	194,393	-
Finder's fee	250,000	-
Interest expense on asset retirement obligation	59,625	-
Interest expense on lease obligations	12,610	-
Interest expense on financing arrangements	133,019	-
Interest expense on government grant	340	-
Interest expense on legal settlement	74,883	-
	<b>724,870</b>	<b>-</b>

#### 26. INCOME TAXES

A reconciliation of income taxes computed at the statutory rate with the reported income taxes is as follows:

	September 30, 2020	September 30, 2019
	\$	\$
Statutory tax rate	27%	27%
Loss for the year	<b>(4,323,221)</b>	(922,163)
Income tax recovery at statutory rates	<b>(1,167,270)</b>	(248,984)
Non-deductible items and other	<b>54,564</b>	55,766
Temporary differences not recognized (recognized)	<b>(1,545,040)</b>	193,218
	<b>(2,657,746)</b>	<b>-</b>

Deferred income tax assets (liabilities) recognized at September 30, 2020 are as follows:

	September 30, 2020	September 30, 2019
	\$	\$
Loan payable	<b>(2,657,746)</b>	-
Mineral property, plant and equipment	<b>(2,073,600)</b>	-
Finance arrangement	<b>2,073,600</b>	-
Non-capital losses carried forward	<b>2,657,746</b>	-
	<b>-</b>	<b>-</b>

**Western Resources Corp.****Notes to the Consolidated Financial Statements**

For the years ended September 30, 2020 and September 30, 2019

(Expressed in Canadian Dollars)

**26. INCOME TAXES (CONTINUED)**

Deferred tax assets for the following deductible temporary differences have not been recognized:

	September 30, 2020	September 30, 2019
	\$	\$
Non-capital losses carried forward	<b>45,733,908</b>	53,663,230
Capital losses carried forward	<b>5,252,290</b>	5,252,290
Mineral property, plant and equipment	<b>15,548,566</b>	5,670,910
Asset retirement obligation	<b>3,679,603</b>	2,649,908
Finance arrangement	<b>93,398</b>	-
Legal settlement	<b>1,045,494</b>	-
Others	<b>1,792,852</b>	1,920,592
	<b>73,146,111</b>	69,156,930

The Company's non-capital and capital losses carried forward for Canadian income tax purposes expire in various years from 2028 to 2040. Non-capital losses may be applied against future taxable income and capital losses are deductible against future capital gains, if any. The Company has approximately \$218 million of undepreciated capital cost and exploration and development expenditures which are available for deduction against future income for tax purposes. The deductions do not expire.