Grant Thornton

Financial Statements

Quickmill Inc.

March 31, 2019

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Independent Auditor's Report

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To the Directors of
Quickmill Inc.

Qualified opinion

We have audited the financial statements of Quickmill Inc., which comprise the balance sheets as at March 31, 2019 and March 31, 2018, and the statements of income and retained earnings and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effect of the matter described in the Basis for qualified opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2019 and March 31, 2018, and its results of operations and its cash flows for the years then ended in accordance with Canadian accounting standards for private enterprises.

Basis for qualified opinion

As described in Note 2 to the financial statements, in a previous business combination, the Company measured and recorded only previously recognized assets and liabilities at their previous carrying amount and all excess of the purchase price was solely recognized as goodwill. This constitutes a departure from Canadian accounting standards for private enterprises. The impact of this departure from Canadian standards for private enterprises has not been determined and therefore, we were not able to determine whether any adjustments might be necessary to net income for the years ending March 31, 2019 and March 31, 2018 or to goodwill, intangibles or retained earnings as at March 31, 2019, March 31, 2018 and April 1, 2017.

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

Emphasis of matter - Amendment of comparative information

We draw attention to Note 3 to the financial statements, which describes that certain comparative information presented for the year ended March 31, 2018 has been amended. Our opinion is not modified in respect of this matter.

Other matter

On April 25, 2019, we originally issued an unqualified opinion of the financial statements for the year ended March 31, 2019 and on May 3, 2018 we originally issued an unqualified opinion on the financial statements for the year ended March 31, 2018. These auditor’s report were issued prior to the discovery of the departure from Canadian accounting standards for private enterprises as described above in the Basis for qualified opinion of our report.

Independent Auditor's Report (continued)

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 Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditor's Report (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Grant Thornton LLP

Peterborough, Canada
June 29, 2020

Chartered Professional Accountants
Licensed Public Accountants

Quickmill Inc.
Statements of Income and Retained Earnings

Years ended March 31		**2019**		2018
Sales				
Machines	$	**5,620,626**	$	3,524,579
Parts		**1,319,232**		1,038,982
Service		**736,423**		649,292
Tooling		**107,025**		120,746
Retrofit		**651,243**		-
		8,434,549		5,333,599
Cost of sales		**6,075,766**		4,608,343
Gross profit		**2,358,783**		725,256
Expenses				
General and administrative		**598,544**		514,019
Selling		**563,432**		376,598
Interest		**37,687**		28,397
Amortization of equipment and leasehold improvements		**88,306**		90,003
Amortization of intangible assets		**100,380**		81,899
		1,388,349		1,090,916
Income (loss) before income taxes (recovery)		**970,434**		(365,660)
Income taxes (recovery)				
Current		**143,508**		6,106
Future		**(8,400)**		12,400
		135,108		18,506
Net income (loss)	$	**835,326**	$	(384,166)

Retained earnings, beginning of year	$	**3,126,111**	$	3,510,277
Net income (loss)		**835,326**		(384,166)
Dividends paid		**(105,263)**		-
Retained earnings, end of year	$	**3,856,174**	$	3,126,111

Quickmill Inc.
Balance Sheet

March 31		2019	2018 As amended (Note 3)
Assets			
Current			
Cash		**$ 558,848**	$ 49,533
Accounts receivable (Notes 4 and 5)		**1,437,696**	716,107
Inventory (Note 6)		**2,001,618**	2,249,225
Prepaid expenses		**44,923**	85,398
Investment tax credits receivable (Note 7)		**85,208**	146,111
Financing facility deposit		**83,462**	85,536
		4,211,755	3,331,910
Long-term			
Equipment and leasehold improvements (Note 8)		**318,708**	357,711
Intangible assets (Note 9)		**151,320**	52,146
Goodwill		**4,580,498**	4,580,498
		5,050,526	4,990,355
		$ 9,262,281	$ 8,322,265
Liabilities			
Current			
Demand loan (Note 10)		**$ 887,881**	$ 401,490
Accounts payable and accrued liabilities		**783,998**	728,348
Warranties payable		**68,093**	70,787
Customer deposits		**93,541**	421,540
Income taxes payable		**7,005**	-
Due to related party (Note 5)		**470,000**	470,000
		2,310,518	2,092,165
Long-term			
Future tax liability		**13,000**	21,400
Preference shares (Note 11)		**2,882,489**	2,882,489
		2,895,489	2,903,889
		5,206,007	4,996,054
Shareholder's equity			
Share capital (Note 12)		**200,100**	200,100
Retained earnings		**3,856,174**	3,126,111
		4,056,274	3,326,211
		$ 9,262,281	$ 8,322,265

See accompanying notes to the financial statements.

Quickmill Inc.
Statement of Cash Flows

Years ended March 31	2019	2018
Increase (decrease) in cash		
Operating		
Net income (loss)	**$ 835,326**	$ (384,166)
Items not affecting cash		
Amortization of equipment and leasehold improvements	**88,306**	90,003
Amortization of intangible assets	**100,380**	81,898
Future income taxes	**(8,400)**	12,400
	1,015,612	(199,865)
Change in non-cash working capital items		
Accounts receivable	**(721,589)**	23,580
Inventory	**247,607**	406,070
Prepaid expenses	**40,475**	(23,264)
Investment tax credit receivable	**60,903**	(30,342)
Financing facility deposit	**2,074**	(648)
Accounts payable and accrued liabilities	**55,651**	(280,264)
Warranties payable	**(2,694)**	(107,613)
Customer deposits	**(327,999)**	184,121
Income taxes	**7,005**	54,992
	377,045	26,767
Financing		
Demand loan advances	**486,391**	(309,939)
Due to related party	**-**	(80,373)
Dividends paid	**(105,263)**	-
	381,128	(390,312)
Investing		
Purchase of equipment	**(49,303)**	(100,800)
Purchase of trademarks	**(708)**	(41,934)
Development costs incurred	**(198,847)**	(1,371)
	(248,858)	(144,105)
Increase (decrease) in cash	**509,315**	(507,650)
Cash		
Beginning of year	**49,533**	557,183
End of year	**$ 558,848**	$ 49,533

1. Nature of operations

Quickmill Inc. ("the Company") is a manufacturer of CNC gantry and bridge type machining centres.

2. Summary of significant accounting policies

These financial statements are prepared in accordance with Canadian accounting standards for private enterprises. The significant accounting policies are detailed as follows:

Revenue recognition

Revenue from parts, service, retrofit and tooling sales is recognized when persuasive evidence of an arrangement exists, the products have been delivered to the customer or the services have been rendered and there are no significant obligations remaining, the price is fixed or determinable, and collectability is reasonably assured. Revenue recognition usually occurs when the product is delivered FOB or service is complete.

Revenue from the sale of gantry milling machines is recognized using the percentage of completion method, as performance of each individual obligation within the contract is completed. Revenue is measured by the proportion of costs incurred to date as a percentage of estimated total costs. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

The Company estimates warranty obligations based on historical experience and makes a provision at the time the revenue is recognized.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. The cost of work in progress and finished goods includes the cost of raw materials, direct labour and applicable overhead expenses.

Investment tax credits

Investment tax credits are accounted for using the cost reduction approach whereby the investment tax credits are credited to the related development costs. Investment tax credits are recorded when the qualifying expenditures have been made and there is reasonable assurance that the credits will be realized.

Research and development costs

Expenditure during the research phase of a project is recognized as an expense when incurred. Development costs are capitalized provided their technical feasibility studies clearly demonstrate that the project will be duly completed, deliver future economic benefits and these benefits can be measured reliably. The Company currently does not have any assets under development.

2. Summary of significant accounting policies (continued)

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at acquisition cost less accumulated amortization and impairment. Amortization is calculated on a declining balance basis using the following rates:

Furniture and fixtures	20%
Leasehold improvements	50%
Computer equipment	30%
Computer software	100%
Machinery and equipment	20%

Intangible assets

The Company's prototype designs are amortized on a straight line basis over 3 years.

Trademarks are amortized on a straight line basis over 5 years.

Impairment of long-lived assets

The Company tests long-lived assets for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value.

Goodwill

Goodwill consists of proprietary rights to the Company's products, manufacturing processes, customer contracts and related customer relationships. Goodwill was recorded on April 12, 2007 when the shares of the former Quickmill Inc. were acquired by Queen Project Holdings Inc. and the two companies were subsequently amalgamated.

Goodwill is carried at cost less accumulated impairment losses. Goodwill is tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the reporting unit to which the goodwill is assigned may exceed the fair value of the reporting unit. When the carrying amount of a reporting unit, including goodwill, exceeds its fair value, a goodwill impairment loss is recognized in an amount equal to the excess. If the fair value of the reporting unit subsequently increases the goodwill impairment loss is not reversed.

2. Summary of significant accounting policies (continued)

Future income taxes

The Company has elected to apply the future income taxes method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying value on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using enacted or substantively enacted tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Government assistance

Grants received to cover current period expenses are accounted for as a reduction of the related expenditures.

Defined contribution plan

The Company offers a defined contribution pension plan to employees. An expense is recorded in the period when the Company is obligated to make contributions for services rendered by the employee.

Foreign currency transactions

Foreign currency transactions are translated into Canadian dollars using the exchange rate prevailing at the date of the transaction. At each balance sheet date, monetary items denominated in a foreign currency are adjusted to reflect the exchange rate in effect at the balance sheet date and the related exchange gain or loss is recognized in net income as loss (gain) on foreign exchange.

Use of estimates

Many items in the preparation of these financial statements require management’s best estimate. Management determines these estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action.

These estimates are reviewed periodically and adjustments are made to net income as appropriate in the year they become known.

Items subject to significant management estimates include the allowance for doubtful accounts, raw materials reserve, useful life of equipment and leasehold improvements and intangible assets, percentage of completion pertaining to revenue recognition and the warranty provision.

2. Summary of significant accounting policies (continued)

Financial instruments

The Company considers any contract creating a financial asset, liability or equity instrument as a financial instrument, except in certain limited circumstances. The Company accounts for the following as financial instruments:

- cash
- accounts receivables
- financing facility deposit
- accounts payable
- demand loan
- due to related party
- preference shares

A financial asset or liability is recognized when the Company becomes party to contractual provisions of the instrument.

Financial assets or liabilities obtained in arm's length transactions are initially measured at their fair value. In the case of a financial asset or liability not being subsequently measured at fair value, the initial fair value will be adjusted for financing fees and transaction costs that are directly attributable to its origination, acquisition, issuance or assumption.

The Company subsequently measures all of its financial assets and financial liabilities at amortized cost.

The Company removes financial liabilities, or a portion of, when the obligation is discharged, cancelled or expires.

Financial assets measured at amortized cost are tested for impairment when there are indicators of impairment. Previously recognized impairment losses are reversed to the extent of the improvement provided the asset is not carried at an amount, at the date of the reversal, greater than the amount that would have been the carrying amount had no impairment loss been recognized previously. The amounts of any write-downs or reversals are recognized in net income.

3. Amendments to previously issued financial statements

During the year ended March 31, 2019, the Company determined that the Class A special shares and Class B special shares were inappropriately classified as equity rather than liabilities. As a result, total liabilities were understated and share capital was overstated. The result of this correction to the comparative information is as follows:

March 31, 2018	Previously reported	Adjustments	Amended
Balance sheet			
Preference shares (liability)	$ -	$ 2,882,489	$ 2,882,489
Share capital	3,082,589	(2,882,489)	200,100

4. Accounts receivable

	2019	2018
Unbilled contract revenue	$ **838,616**	$ 67,180
Trade accounts receivable	**256,178**	493,107
Government remittances	**17,164**	3,338
Other receivables	**325,738**	152,482
	$ **1,437,696**	$ 716,107

5. Related party transactions

(a) During the year, the Company entered into transactions with the following related parties:

Batliboi Ltd. - parent company
760 Rye Street Inc. - company under common control
Queen Projects (Mauritius) Ltd. - company under common control

(b) During the year, the Company paid rent to 760 Rye Street Inc. in the amount of $208,548 (2018 - $208,548). The Company has a year to year lease agreement with 760 Rye Street Inc. The Company also incurred expenses of $116,908 (2018 - $57,225) with Batliboi Ltd. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(c) Due to related party

	2019	2018
760 Rye Street Inc.	$ **470,000**	$ 470,000

The balance due to 760 Rye Street Inc. is non-interest bearing with no specific terms of repayment.

(d) Accounts receivable include amounts receivable from:

	2019	2018
Batliboi Ltd.	$ **-**	$ 145,190
Queen Projects (Mauritius) Ltd.	**80,000**	70,000
	$ **80,000**	$ 215,190

These balances due from related parties are in the normal course of operations, unsecured, non-interest bearing with no specific terms of repayment.

6. Inventory

Inventory is classified as follows:

	2019	2018
Raw materials	**$ 1,298,263**	$ 1,478,147
Raw materials reserve	**(165,487)**	(333,289)
Work in progress	**126,885**	319,947
Finished goods	**741,957**	784,420
	$ 2,001,618	$ 2,249,225

7. Investment tax credits receivable

As of March 31, 2019, the Company has recorded $85,208 (2018 - $146,111) in respect of tax credits for scientific research and experimental development (SR&ED) expenditures and the Ontario innovation tax credit.

8. Equipment and leasehold improvements

The major categories of equipment and leasehold improvements and accumulated amortization are as follows:

	2019		2018	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and fixtures	$ 825,852	$ 767,063	$ 825,852	$ 752,366
Leasehold improvements	110,324	110,103	110,324	109,882
Computer equipment	737,471	638,039	691,150	605,351
Computer software	445,173	445,173	445,173	444,540
Machinery and equipment	1,353,509	1,193,243	1,350,527	1,153,176
	3,472,329	3,153,621	3,423,026	3,065,315
Net book value	**$ 318,708**		$ 357,711	

9. Intangible assets

	Cost	Accumulated Amortization	**2019 Net Book Value**	2018 Net Book Value
Prototype designs	$ 260,982	$ 115,310	**$ 145,672**	$ 46,498
Trademarks	17,422	11,774	**5,648**	5,648
	$ 278,404	$ 127,084	**$ 151,320**	$ 52,146

10. Demand loan

A bank loan has been authorized by the bank to a maximum of $1.69 million and bears interest at the Canadian Dollar Offered Rate rate plus 2.00%. The company has drawn $887,881 (2018 - $401,940) on this loan as at March 31, 2019.

The company has available letters of credit/guarantees of up to an additional $1.5M, of which $nil has been drawn as at March 31, 2019. The company was required to make a refundable cash margin deposit of $83,462 (2018 - $85,536) with the Bank of Baroda in India in order to obtain stand by letters of credit with its bankers, ICICI Bank, Canada.

The demand loan is secured by a general security agreement representing a priority interest over all of the assets and undertakings of the company and assignment of property insurance proceeds.

11. Preferred shares

Authorized

Unlimited class A special shares, 4% non-cumulative dividend, redeemable at $1 per share
Unlimited class B special shares, 4% non-cumulative dividend, redeemable at the stated capital divided by the number of shares

Issued

	2019	2018 As amended (Note 3)
568,489 Class A special shares	**$ 568,489**	$ 568,489
2,314,000 Class B special shares	**2,314,000**	2,314,000
	$ 2,882,489	$ 2,882,489

12. Share capital

Authorized

Unlimited common shares

Issued

	2019	2018 As amended (Note 3)
20,010 Common shares	**$ 200,100**	$ 200,100

13. Financial instruments risks

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The required disclosures provide information that assists users of financial statements in assessing the extent of risk related to financial instruments. Unless otherwise noted, there has been no change in risk exposure from the prior year.

(a) Foreign exchange risk

The Company is exposed to foreign exchange risk in United States dollars. Foreign exchange risk is the risk that the exchange rate that was in effect on the date that an obligation in a foreign currency was made to the Company by a customer, or that an obligation in a foreign currency was made to the Company to a supplier, is different at the time of settlement than it was at the time that the obligation was determined. The Company undertakes a significant amount of customer sales and vendor purchases denominated in U.S. dollars. Consequently, some of its assets, liabilities and expenses are exposed to foreign exchange fluctuations. This risk is reduced by managing the amount of U.S. denominated debt and payables versus the amount of U.S. denominated receivables. As at March 31, 2019, U.S. dollar accounts receivable amounted to $1,055,276 (2018 - $467,021) and U.S. dollar accounts payable amounted to $92,481 (2018 - $148,076).

(b) Credit risk

The Company has credit risk on its accounts receivable and amounts owing from related parties. Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. The Company reduces its exposure to credit risk from accounts receivable by obtaining scheduled deposits throughout the construction of the machines. Therefore, the resulting accounts receivable on shipment is usually a small portion of the total amount. Additionally, these sales are often secured by letters of credit, which also helps to mitigate associated credit risk.

13. Financial instruments risks (continued)

(c) Liquidity risk

The Company has liquidity risk on its accounts payable and accrued liabilities. Liquidity risk is the risk that the Company cannot repay its obligations when they become due to its creditors. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due, maintains an adequate line of credit to repay trade creditors and repays long term debt interest and principal as they become due.

(d) Interest rate risks

Interest rate risk is the risk that the fair value or future cash flows associated with the Company's financial instruments will fluctuate as a result of changes in interest rates. The Company has interest rate risk on its demand loan, which is variable based on the bank's prime rates. Changes in the bank's prime lending rate can cause fluctuations in interest payments and future cash flows associated with the demand loan.

14. Defined contribution plan

The pension expense for the year was $55,651 (2018 - $48,904).

15. Government assistance

During the year, the Company received $78,597 (2018 - $Nil) and recorded $25,689 (2018 - $Nil) as receivable in financial assistance from the Industrial Research Assistance Program (IRAP), for a total of $104,286 (2018 - $Nil) which was recorded as a reduction of wages. The maximum assistance received under the terms of the agreements are subject to the Company meeting specified targets.

16. Guarantee

The Company provided a general security agreement in support of the borrowings of 760 Rye Street Inc. to the Business Development Bank of Canada. The general security agreement was subject to the ICICI Bank's first charge over all assets of the Company. The outstanding balance on 760 Rye Street Inc.'s borrowings from the Business Development Bank amounted to $1,205,580 at March 31, 2019 (2018 - $1,273,500).

17. Comparative figures

Comparative figures have been adjusted to conform to changes in the current year presentation.

18. COVID-19 implications

Since December 31, 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses were forced to cease or limit operations for long periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

The Company has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended March 31, 2019 have not been adjusted to reflect their impact.