

2545887 ONTARIO INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2022

2545887 ONTARIO INC.

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YEAR ENDED MARCH 31, 2022

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Chartered
Professional
Accountants

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of: 2545887 Ontario Inc.

Opinion

We have audited the accompanying financial statements of 2545887 Ontario Inc., which comprise the consolidated balance sheet as at March 31, 2022 and the consolidated statements of operations and (deficit) retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of 2545887 Ontario Inc. as at March 31, 2022 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of 2545887 Ontario Inc. 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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to a 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

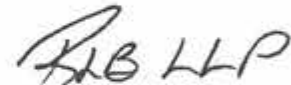
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is 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 consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement 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 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.

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.

Guelph, Ontario
May 27, 2022




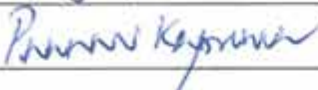
Chartered Professional Accountants
Licensed Public Accountants

2545887 ONTARIO INC.
CONSOLIDATED BALANCE SHEET
AS AT MARCH 31, 2022

	2022	2021
ASSETS		
CURRENT		
Trade accounts receivable	\$ 10,125,761	\$ 12,286,006
Inventories (note 5)	6,221,588	5,906,886
Prepays	316,232	388,059
Government remittances recoverable	320,087	405,217
Due from related parties (note 8)	<u>7,014</u>	<u>293,177</u>
	16,990,682	19,279,345
FINANCING FEES	138,762	159,068
PROPERTY, PLANT AND EQUIPMENT (note 6)	31,408,389	29,659,444
INTANGIBLE ASSETS (note 7)	9,415,625	10,314,792
GOODWILL	<u>10,454,375</u>	<u>15,135,431</u>
	<u>\$ 68,407,833</u>	<u>\$ 74,548,080</u>
LIABILITIES		
CURRENT		
Bank indebtedness (note 9)	\$ 3,215,649	\$ 3,111,856
Trade accounts payable	6,922,539	6,311,982
Other payables and accrued liabilities	1,013,380	646,811
Income taxes payable	38,636	130,558
Due to related parties (note 8)	0	1,244,006
Current portion of long term debt (note 10)	<u>1,355,920</u>	<u>586,520</u>
	12,546,124	12,031,733
DUE TO SHAREHOLDER (note 8)	3,320,113	363,891
LONG TERM DEBT (note 10)	33,048,328	30,747,487
FUTURE INCOME TAX LIABILITY (note 14)	<u>275,433</u>	<u>792,436</u>
	<u>49,189,998</u>	<u>43,935,547</u>
SHAREHOLDER'S EQUITY		
SHARE CAPITAL (note 11)	29,864,225	29,864,225
CURRENCY TRANSLATION ADJUSTMENT (note 2(n))	(329,399)	(476,518)
(DEFICIT) RETAINED EARNINGS	<u>(10,316,991)</u>	<u>1,224,826</u>
	<u>19,217,835</u>	<u>30,612,533</u>
	<u>\$ 68,407,833</u>	<u>\$ 74,548,080</u>

APPROVED ON BEHALF OF THE BOARD:


 _____ Director


 _____ Director

2545887 ONTARIO INC.

CONSOLIDATED STATEMENT OF OPERATIONS AND (DEFICIT) RETAINED EARNINGS
FOR THE YEAR ENDED MARCH 31, 2022

	2022	2021
REVENUE	\$ 56,075,140	\$ 41,269,891
COST OF SALES (notes 8 and 12)	<u>53,595,182</u>	<u>35,295,637</u>
GROSS PROFIT	<u>2,479,958</u>	<u>5,974,254</u>
OPERATING EXPENSES		
Amortization of intangible assets	899,167	902,500
Amortization of property, plant and equipment	2,753,848	2,339,547
Automotive expenses	18,300	32,042
Bad debts	3,624	0
Bank charges and interest on long term debt	1,414,463	935,795
Office and general	1,310,102	1,312,719
Office wages (note 12)	<u>4,458,382</u>	<u>3,671,489</u>
	<u>10,857,886</u>	<u>9,194,092</u>
LOSS FROM OPERATIONS	<u>(8,377,928)</u>	<u>(3,219,838)</u>
OTHER (EXPENSES) INCOME		
Other income	845,379	655,609
Foreign exchange gain (loss)	160,738	(428,766)
Impairment of goodwill (note 16)	<u>(4,681,056)</u>	<u>0</u>
	<u>(3,674,939)</u>	<u>226,843</u>
LOSS BEFORE INCOME TAXES	<u>(12,052,867)</u>	<u>(2,992,995)</u>
INCOME TAXES		
Provision for (recovery of) current income taxes	5,953	(89,318)
Recovery of future income taxes	<u>(517,003)</u>	<u>(1,300,763)</u>
	<u>(511,050)</u>	<u>(1,390,081)</u>
NET LOSS for the year	(11,541,817)	(1,602,914)
RETAINED EARNINGS, beginning of year	<u>1,224,826</u>	<u>2,827,740</u>
(DEFICIT) RETAINED EARNINGS, end of year	\$ <u>(10,316,991)</u>	\$ <u>1,224,826</u>

Amir Khan

Ramona Kopyeva

2545887 ONTARIO INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2022

	2022	2021
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net loss for the year	\$ (11,541,817)	\$ (1,602,914)
Items not requiring an outlay of cash		
Amortization of property, plant and equipment	2,753,848	2,339,547
Amortization of intangibles	899,167	902,500
Provision for future income taxes	(517,003)	(1,300,763)
Impairment of goodwill	<u>4,681,056</u>	<u>0</u>
	(3,724,749)	338,370
Changes in non-cash working capital		
Trade accounts receivable	2,160,245	(5,987,803)
Financing fees	20,307	20,307
Inventories	(314,702)	(471,729)
Prepays	71,827	1,012,027
Government remittances recoverable	85,130	(69,743)
Trade accounts payable	610,555	1,619,689
Other payables and accrued liabilities	366,569	313,500
Income taxes payable	(91,922)	(91,794)
Currency translation adjustments	<u>16,893</u>	<u>31,394</u>
	<u>(799,847)</u>	<u>(3,285,782)</u>
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Due from related parties	286,164	(9,353)
Repayment of long term debt	(139,466)	(760,261)
Advances of long term debt	3,209,707	2,709,516
Due to related parties	(1,244,006)	(135,206)
Advances from shareholders	<u>2,956,222</u>	<u>147,417</u>
	<u>5,068,621</u>	<u>1,952,113</u>
CASH (USED IN) INVESTING ACTIVITIES		
Additions to property, plant and equipment	<u>(4,372,567)</u>	<u>(6,423,469)</u>
NET DECREASE IN CASH	(103,793)	(7,757,138)
NET (BANK INDEBTEDNESS) CASH, beginning of year	<u>(3,111,856)</u>	<u>4,645,282</u>
NET BANK INDEBTEDNESS, end of year	\$ <u>(3,215,649)</u>	\$ <u>(3,111,856)</u>

Arny Kern

Randy Korman

2545887 ONTARIO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2022

1. NATURE OF BUSINESS

The company is incorporated under the provisions of the Ontario Business Corporations Act and is primarily involved in machining, stamping and fabrication primarily for the automotive sector.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian accounting standards for private enterprises and include the following significant accounting policies:

(a) BASIS OF CONSOLIDATION

These consolidated financial statements include the accounts of the company and its privately held subsidiaries. Wholly-owned subsidiaries are 2504584 Ontario Inc., 2323532 Ontario Inc., The Hi-Tech Gears Canada Inc., Teutech Holding Co., Teutech Leasing Co. and Teutech LLC.

All significant intercompany transactions and balances have been eliminated.

(b) REVENUE RECOGNITION

Revenue is recognized when the title and risk of ownership have been transferred to the customer, which is generally upon shipment, and collection of the resulting receivable is reasonably assured.

Revenue from government grants and subsidies is recognized as earned.

(c) OTHER INCOME

Other income is primarily comprised of salvage income, interest income and volume adjustments. Other income is recognized as earned and collection is reasonably assured.

(d) INVENTORIES

Work in process inventories are measured at the lower of cost and net realizable value, with cost being determined on a standard cost basis. The cost of work in process inventories includes raw materials, direct labour costs and manufacturing overhead based on normal production capacity.

Finished goods inventories are measured at the lower of cost and net realizable value, with cost being determined on a standard cost basis. The cost of finished goods inventories includes raw materials, direct labour costs and manufacturing overhead based on normal production capacity.

Raw materials inventories are measured at the lower of cost and net realizable value, with cost being determined on a first-in first-out (FIFO) basis.

Supplies inventories are measured at the lower of cost and net realizable value, with cost being determined on a first-in first-out (FIFO) basis.

Net realizable value is the estimated selling price in the ordinary course of business, less any applicable variable selling costs.

Amir Khan

Ramkishan

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) INVESTMENT TAX CREDITS

Investment tax credits generated through the expenditure of scientific research and experimental development costs are accounted for using the cost reduction approach whereby the investment tax credits are credited to the related expenses and/or capitalized items of the period in which the costs were incurred. The benefits are recognized when the company has complied with the terms and conditions of the applicable tax legislation and there is reasonable assurance that the credits will be realized.

(f) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less applicable investment tax credits and amortized on the basis of their estimated useful life using the following methods and rates:

Buildings	- 25 years straight line-basis
Vehicles	- 5 years straight line-basis
Furniture and equipment	- 5 years straight line-basis
Manufacturing equipment	- 10 years straight line-basis
Leasehold improvements	- 5 years straight line-basis

(g) IMPAIRMENT OF LONG LIVED ASSETS

Long lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when the carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

(h) INTANGIBLE ASSETS

Intangible assets are amortized on the basis of their useful life using the straight-line method at the following rates, except for goodwill, which is not amortized.

Customer relationships	- 16 years
Non-compete arrangements	- 5 years
Brand name	- 2 years

(i) GOODWILL

Goodwill, which represents the excess of the cost of an enterprise over the net of the amounts assigned to assets acquired and liabilities assumed, is not amortized. 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.

Anuj Kataria

Purnav Kapoor

2545887 ONTARIO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant areas requiring management's estimates include the assessment of future income taxes, an estimate for the allowance for doubtful accounts, net realizable value of inventory, estimated useful life of property, plant and equipment and life of intangible assets. Actual results could differ from those estimates.

(k) FINANCIAL INSTRUMENTS

Measurement of financial instruments

The company initially measures its financial assets and liabilities at fair value, except for a related party transaction which is recorded at cost and measured using the carrying amount or exchange amount depending on the circumstances.

The company subsequently measures all its financial assets and financial liabilities at amortized cost, unless otherwise noted below.

Cost in a related party transaction with no repayment terms is determined using the consideration transferred or received by the company in the transaction.

Impairment

For financial assets measured at cost or amortized cost, the company determines whether there are indications of possible impairment. When there are, and the company determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows, a write-down is recognized in income. If the indicators of impairment have decreased or no longer exist, the previously recognized impairment loss may be reversed to the extent of the improvement. The carrying amount of the financial asset may be no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in income.

Transaction costs

Transaction costs attributable to financial instruments subsequently measured at fair value are recognized in income in the period incurred. Transaction costs related to financial instruments originated or exchanged in an arm's length transaction that are subsequently measured at cost or amortized cost are recognized in the original cost of the instrument. When the instrument is measured at amortized cost, transaction costs are recognized in income over the life of the instrument using the straight-line method.

(l) INCOME TAXES

The company applies the future income taxes method of accounting for income taxes.

Amir Khan

Pawan Kumar

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) LEASES

Leases are classified as either capital or operating leases. A lease that transfers substantially all the benefits and risks incidental to the ownership of property is classified as a capital lease. All other leases are accounted for as operating leases wherein rental payments are amortized on a straight-line basis over the term of the lease to rental expense. At the inception of a capital lease, an asset and obligation is recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of such lease.

(n) FOREIGN CURRENCY TRANSLATION

Foreign currency accounts are translated to Canadian dollars as follows:

At the transaction date, each asset, liability, revenue or expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, monetary asset and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in the current year statements of operations.

Self-sustaining foreign operations are translated to Canadian dollars as follows:

The assets and liabilities of the self-sustaining foreign operations are translated into Canadian dollars using the exchange rate in effect at the year end date. Revenue and expense items are translated using the average exchange rate for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rate at the dates of the transaction are used. The resulting foreign exchange gains and losses are recognized as a separate component of equity as a foreign currency translation adjustment.

Anuj Kam

Ramona Kapur

2545887 ONTARIO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2022

3. CHANGE IN ACCOUNTING POLICY

Financial Instruments - Related Party Transactions

The company adopted the amendments to Financial Instruments, Section 3856, relating to the recognition of financial instruments originated or exchanged in a related party transaction.

Under these new requirements, such a financial instrument is initially measured at cost, which is determined depending on whether the instrument has repayment terms. If it does, cost is determined using its undiscounted cash flows, excluding interest and dividend payments, less any impairment losses. Otherwise, its cost is determined using the consideration transferred or received by the company. Subsequent measurement is based on how the instrument was initially measured. In general, a financial instrument is subsequently measured at cost less any reduction for impairment, or at fair value. According to the transition provisions, such financial instruments that exist at the date these amendments are applied for the first time, i.e. April 1, 2021, are measured as follows:

- The cost of an instrument that has repayment terms is determined using its undiscounted cash flows, excluding interest and dividend payments, less any impairment as at the beginning of the earliest comparative period, i.e. April 1, 2020.
- The cost of an instrument that does not have repayment terms is deemed to be its carrying amount in the company's consolidated financial statements, less any impairment, as at the same date.
- The fair value of an instrument that is an investment in shares quoted in an active market is determined as at the same date.

The adoption of these new requirements had no impact on the company's consolidated financial statements.

Income Taxes

The company adopted the amendments to Income Taxes, Section 3465, relating to the classification of future income tax assets and liabilities, and to the disclosure of the amount of future income tax assets and liabilities. Under these new requirements, a company that uses the future income taxes method shall:

- Classify its future income tax assets and liabilities as non-current when it segregates assets and liabilities between current and non-current assets and liabilities
- Disclose the amount of future income tax assets and liabilities in respect of each type of temporary difference for each period presented

These amendments, which apply to annual financial statements relating to fiscal years beginning on or after January 1, 2021, were applied retrospectively and had no impact on the company's consolidated financial statements.

Anuj Kaur

Pawan Kaur

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2022

4. FINANCIAL INSTRUMENTS

Transacting in financial instruments exposes the company to certain financial risks and uncertainties. These risks include:

Credit risk

The company is exposed to credit risk which may result from failure to collect accounts receivable or failure of repayment of the due from related parties balances. At the end of the year, approximately 66% (2021 - 60%) of the accounts receivable balance was owing by three (2020 - three) customers.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company is exposed to interest rate risk as a result of the floating interest rate on the bank indebtedness and long term debt.

Currency risk

The currency risk refers to the risk that the fair value of the financial instruments or future cash flows associated with them will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates. The company is exposed to United States currency rate risk on foreign cash account balances in the amount of \$4,914,083 (2021 - \$1,303,629), foreign accounts receivable balances in the amount of \$9,404,238 (2021 - \$10,949,715) and foreign accounts payable balances in the amount of \$4,415,333 (2021 - \$3,694,334), foreign long term debt balances in the amount of \$342,628 (2021 - \$503,700) and foreign due to related parties balances in the amount of \$nil (2021 - \$1,021,006) denominated in Canadian dollars. Included in sales is an exchange gain of \$10,037,695 (2021 - gain of \$8,052,098) and included in cost of goods sold is an exchange loss of \$6,929,742 (2021 - loss of \$4,306,444).

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. The company is exposed to liquidity risk as a result of accounts payable, accrued liabilities, and long term debt. The company controls liquidity risk by management of working capital, cash flows and the availability of borrowing facilities.

Financial derivative contracts

On occasion, the company enters into financial derivative contracts to mitigate risks associated with its interest-bearing instruments and transactions executed in foreign currency. The company does not designate these contracts as hedging items and, accordingly, accounts for them as freestanding derivatives whereby they are measured at fair value without adjustment for transaction costs. Changes in fair value are recognized in income in the period such changes are recorded.

5. INVENTORIES

Inventories consist of:

	2022	2021
Raw materials and supplies	\$ 3,896,671	\$ 4,296,277
Work in process	1,619,502	1,389,928
Finished goods	<u>705,415</u>	<u>220,681</u>
	<u>\$ 6,221,588</u>	<u>\$ 5,906,886</u>

During the year, the company expensed \$32,352,990 (2021 - \$22,133,812) in cost of goods sold.

Amir Kemi

Ramona Kayman

2545887 ONTARIO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2022

6. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	Net 2022	Net 2021
Land	\$ 2,218,195	\$ 0	\$ 2,218,195	\$ 2,219,775
Buildings	5,727,414	1,653,573	4,073,841	4,285,059
Vehicles	539,515	538,236	1,279	61,013
Furniture and equipment	880,718	686,414	194,304	31,122
Manufacturing equipment	48,445,280	23,534,834	24,910,446	23,034,313
Leasehold improvements	529,365	519,041	10,324	28,162
	<u>\$ 58,340,487</u>	<u>\$ 26,932,098</u>	<u>\$ 31,408,389</u>	<u>\$ 29,659,444</u>

7. INTANGIBLE ASSETS

	Cost	Accumulated Amortization	Net 2022	Net 2021
Customer relationships	\$ 13,800,000	\$ 4,384,375	\$ 9,415,625	\$ 10,278,125
Non-compete arrangements	200,000	200,000	0	36,667
Brand name	500,000	500,000	0	0
	<u>\$ 14,500,000</u>	<u>\$ 5,084,375</u>	<u>\$ 9,415,625</u>	<u>\$ 10,314,792</u>

8. RELATED PARTY TRANSACTIONS

Advances from The Hi-Tech Gears Ltd., the shareholder of 2545887 Ontario Inc., includes \$1,318,128 of a loan payable with principal-in-kind interest of 5.90% per annum, with no repayments until September 2026. The remaining balance is non-interest bearing with no fixed terms of repayment. The shareholder will not demand repayment within the next twelve months.

During the year, the company made purchases of goods and services from the shareholder in the amount of \$3,310,368 (2021 - \$1,336,129).

The amounts due from related parties consist of amounts due from companies controlled by The Hi-Tech Gears Ltd., which is the shareholder of 2545887 Ontario Inc., are non-interest bearing, unsecured and are due on demand.

The amounts due to related parties consist of amounts due to directors of The Hi-Tech Gears Ltd., which is the shareholder of 2545887 Ontario Inc., and are due on demand, bearing interest at 6%. The balance was repaid in full in the year.

Anuj Karna

Pawan Karna

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2022

9. **BANK INDEBTEDNESS**

Toronto-Dominion Bank Facility:

The company, along with Teutech LLC, have entered into a credit facility agreement with The Toronto-Dominion Bank. This facility agreement includes the following:

The company has a revolving credit facility of \$10,000,000 based on a margining calculation. Advances under the facility bear interest at prime plus 2% (2021 - prime plus 0.25%). The company has utilized \$5,021,735 (2021 - \$5,230,151) of this facility at year end.

The company has an equipment credit facility of \$3,000,000 of which \$349,103 (2021 - \$503,699) was utilized. Advances under the facility bear interest at prime plus 0.25%.

The equivalent amount in Canadian Dollars of all such Revolving Loans outstanding at any time shall not exceed the revolving credit facility commitment of \$10,000,000, subject to the margining calculation above.

In addition, the company has a foreign exchange contracts contingency limit of US \$1,000,000. There are no derivatives contracts outstanding at year end.

All Toronto-Dominion Bank facilities are secured by each company in The Hi-Tech Gears Group of Companies (2504584 Ontario Inc., 2545877 Ontario Inc., 2323532 Ontario Inc., Teutech Holding Co. and Teutech Leasing Co.), and a general security agreement creating a first ranking security in accounts receivable and inventories and a second ranking security in property, plant and equipment of the company, a waiver and consent from the landlord for leased property, directing to pay from EDC with regard to receivable insurance to cover all receivables from a specific customer, a guarantee from the company, assignment of fire and other perils insurance on the property, postponement and subordination agreements made by each of the Directors in respect of the Director Loans, all other collateral of the loan parties, and an inter-credit facility with Fiera Private Debt Fund V LP (formerly IAM Private Debt Fund V LP).

The agreements governing the Toronto-Dominion revolving credit facility and the equipment credit facility contain certain financial covenants which must be maintained by The Hi-Tech Gears Group of Companies on a consolidated basis. As a result of an existing default on these covenants, the company entered into a forbearance agreement with Toronto-Dominion on January 10, 2022. As per the terms of this agreement, Toronto-Dominion has agreed to forbear from exercising any other rights and remedies under the financing agreements until the earlier of June 30, 2022 or an intervening event per the terms of the forbearance agreement. In accordance with the agreement, the company is in the process of refinancing the bank indebtedness and long term debt owing to Toronto-Dominion by the date of June 30, 2022. As such, all loans owing to Toronto-Dominion have been classified as current liabilities.

Bank of Nova Scotia Facility:

The company has entered into an equipment credit facility agreement of \$6,000,000 with The Bank of Nova Scotia of which \$5,961,344 (2021 - \$2,910,873) was utilized. Advances under the facility bear interest at 4.85%. The Bank of Nova Scotia facility is secured by 2545877 Ontario Inc., a company in The Hi-Tech Gears Group of Companies, and a general security agreement over the company's present and future personal property with appropriate insurance coverage, and any resulting loss payable to the Bank of Nova Scotia.

Amy Kern

Raman Kayama

2545887 ONTARIO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2022

10. LONG TERM DEBT

	2022	2021
Fiera Private Debt loan, due Jan 2024, repayable interest only until January 2024 charged at 2.00% and principal-in-kind interest charged at 3.99%, secured by a first charge on all fixed assets and working capital assets through GSA's with a carve out for the bank operating facility (note 9) which shall rank senior on accounts receivable and inventory	\$ 26,836,453	\$ 26,574,074
CIBC mortgage, due May 2025, repayable in monthly instalments of \$6,944 principal plus interest charged at 2.24%, secured by real property with a carrying value of \$2,004,531	1,245,050	1,289,991
Term loan, due June 2022, repayable in blended monthly instalments of \$2,325, interest charged at 4.88%, secured by an automobile with a carrying value of \$nil	6,177	30,886
Term loan, due July 2022, repayable in blended monthly instalments of \$1,687, interest charged at 3.90%, secured by an automobile with a carrying value of \$nil	6,121	24,484
TD equipment facility loan #1, due June 2022, repayable in blended monthly instalments of US \$3,334, interest charged at 4.17%, secured by equipment with a carrying value of \$187,377	133,377	177,937
TD equipment facility loan #2, due June 2022, repayable in blended monthly instalments of US \$5,984, interest charged at 4.01%, secured by equipment with a carrying value of \$174,420	80,630	166,324
TD equipment facility loan #3, due June 2022, repayable in blended monthly instalments of US \$3,215, interest charged at 4.17%, secured by equipment with a carrying value of \$204,491	135,096	159,438
Bank of Nova Scotia equipment facility loan, due January 2027, repayable in blended monthly instalments of \$50,000 until August 2022 and then due in blended monthly instalments of \$119,857, interest charges at 4.85%, secured by equipment with a carrying value of \$5,961,344	<u>5,961,344</u>	<u>2,910,873</u>
	34,404,248	31,334,007
Less current portion:		
Cash repayments required within 12 months	<u>1,355,920</u>	<u>586,520</u>
	<u>\$ 33,048,328</u>	<u>\$ 30,747,487</u>

Arij Khan

Renu Koyama

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2022

10. LONG TERM DEBT (continued)

Future minimum payments on long term obligations are as follows:

2023	\$ 1,355,920
2024	28,115,494
2025	1,340,915
2026	2,419,398
2027	<u>1,172,521</u>
	<u>\$ 34,404,248</u>

The agreement governing the Fiera Private Debt loan contains certain financial covenants which must be maintained by The Hi-Tech Gears Group of Companies on a consolidated basis. As a result of an existing default on these covenants, the company entered into a forbearance agreement with Fiera Private Debt on March 26, 2021. As a result of further defaults during the forbearance period, an amendment to the forbearance agreement was agreed to by the companies and Fiera Private Debt on Feb 28, 2022. As per the terms of this amended agreement Fiera Private Debt has agreed to forbear from initiating a Lender Enforcement Action until the earlier of January 15, 2024 or an intervening event per the terms of the forbearance agreement.

11. SHARE CAPITAL

Authorized:

Unlimited number of Common shares

	2022	2021
Issued:		
29,864,225 Common shares	\$ <u>29,864,225</u>	\$ <u>29,864,225</u>

12. GOVERNMENT SUBSIDY

During the year, the company received \$nil (2021- \$990,574) government assistance through the Canada Emergency Wage Subsidy program. This income is recorded as an offset to cost of sales and operating expenses.

	2022	2021
Cost of sales: Plant wages and benefits	\$ 0	\$ 770,290
Operating expenses: Office wages	<u>0</u>	<u>220,284</u>
	<u>\$ 0</u>	<u>\$ 990,574</u>

13. ECONOMIC DEPENDENCE

The company has two major clients which account for 80% (2021 - 59%) of its sales volume for the year. The company would have difficulty replacing the sales volume from these clients if such circumstance were to arise. The volume of transactions is normal for the company and the industry in which it operates. The company's clients are large automotive manufacturing companies, which due to the scale of their operations, have a large volume of transactions with their approved suppliers. Suppliers are approved based on protocols surrounding acceptable product quality by the client.

Anuj Karna

Anuj Karna

2545887 ONTARIO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2022

14. FUTURE INCOME TAX LIABILITY

The amount of future income tax attributable to each type of temporary difference, unused tax losses and unused income tax reductions is as follows:

	2022	2021
Property, plant and equipment	\$ (809,700)	\$ 256,000
Intangible assets	(2,491,330)	(2,729,433)
Unused tax losses	<u>3,025,597</u>	<u>1,680,997</u>
	<u>\$ (275,433)</u>	<u>\$ (792,436)</u>

The future income tax balance is separated between future income tax assets and liabilities as follows:

	2022	2021
Future income tax asset	\$ 3,025,597	\$ 1,936,997
Future income tax liability	<u>(3,301,030)</u>	<u>(2,729,433)</u>
	<u>\$ (275,433)</u>	<u>\$ (792,436)</u>

15. UNCERTAINTY RELATED TO THE NOVEL CORONAVIRUS (COVID-19)

During and subsequent to year end, the impact of the Novel Coronavirus (COVID-19) in Canada and on the global economy has disrupted economic activities. Although the disruption from the virus is expected to be temporary, given the dynamic nature of these circumstances, the duration of business disruption and the related financial impact cannot be reasonably estimated at this time. Further, the timing and amounts realized on the company's assets as well as its future ability to provide services may be impacted by the evolving circumstances of the virus.

16. IMPAIRMENT OF GOODWILL

The Goodwill has been impaired as of Thursday, March 31, 2022 due to a lower fair market value resulting from a decrease in the projected future discounted cash flows. The impairment loss, in the amount of \$4,681,056, is recorded along with other (expenses) income in the Consolidated Statement of Operations and (Deficit) Retained Earnings.

Amir K... ..

Ranvir Kapur