**Financial Statements of**

# Quickmill Inc.

**For the year ended March 31, 2024**

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Inclusive accounting

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# Independent Auditor's Report

*To the shareholder of Quickmill Inc.*

*Opinion*

We have audited the financial statements of Quickmill Inc., which comprise the balance sheet as at March 31, 2024, and the statements of retained earnings, income 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 accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2024, and its results of 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 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 opinion.

*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:

## Independent Auditor's Report — continued

- 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.

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.

*Inclusive Accounting Professional Corporation - Kawartha*
Authorized to practise public accounting by the Chartered Professional Accountants of Ontario

Peterborough, Ontario
May 6, 2024

# Quickmill Inc.
## Balance Sheet

| As at March 31 | 2024 | 2023 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and short-term investments | **$ 2,213,558** | $ 413,648 |
| Accounts receivable (note 3) | **1,564,054** | 2,466,744 |
| Inventory (note 4) | **4,197,292** | 2,601,141 |
| Prepaid expenses | **498,207** | 158,970 |
| Government remittances receivable | **121,702** | 65,600 |
| | **8,594,813** | 5,706,103 |
| **Long-term assets** | | |
| Capital assets (note 5) | **282,877** | 293,546 |
| Goodwill | **4,381,522** | 4,381,522 |
| Intangible assets (note 6) | **4,297** | 5,263 |
| Future income tax asset | **19,266** | 34,711 |
| | **4,687,962** | 4,715,042 |
| | **$ 13,282,775** | $ 10,421,145 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | **$ 2,643,379** | $ 1,562,750 |
| Customer deposits on orders | **1,631,146** | 661,426 |
| Income taxes payable | **259,124** | 125,000 |
| | **4,533,649** | 2,349,176 |
| **Long-term liabilities** | | |
| Due to related party (note 12) | **456,000** | 456,000 |
| Preference shares (note 8) | **2,882,489** | 2,882,489 |
| | **7,872,138** | 5,687,665 |
| **Shareholder's equity** | | |
| **Share capital (note 9)** | **200,100** | 200,100 |
| **Retained earnings** | **5,210,537** | 4,533,380 |
| | **5,410,637** | 4,733,480 |
| | **$ 13,282,775** | $ 10,421,145 |

# Quickmill Inc.
## Statement of Retained Earnings

| For the year ended March 31 | 2024 | 2023 |
|---|---|---|
| **Retained earnings, beginning of year** | **$ 4,533,380** | $ 4,187,575 |
| Net income for the year | **853,628** | 345,805 |
| | **5,387,008** | 4,533,380 |
| Dividends paid | **(176,471)** | - |
| **Retained earnings, end of year** | **$ 5,210,537** | $ 4,533,380 |

# Quickmill Inc.
## Statement of Income

| For the year ended March 31 | 2024 | 2023 |
|---|---|---|
| **Sales** | | |
| Machines | **$ 11,177,629** | $ 6,752,144 |
| Parts | **1,802,463** | 1,460,700 |
| Service | **1,059,901** | 686,042 |
| Retrofit | **733,105** | 616,827 |
| Tooling | **17,944** | 208,409 |
| Interest revenue | **51,757** | 2,292 |
| | **14,842,799** | 9,726,414 |
| **Cost of sales** | **11,582,024** | 7,567,685 |
| **Gross margin** | **3,260,775** | 2,158,729 |
| **Expenses** | | |
| Selling expenses | **1,170,246** | 887,966 |
| General and administrative expenses | **854,837** | 661,335 |
| Amortization of capital assets | **105,445** | 120,886 |
| Amortization of intangible assets | **2,050** | 1,181 |
| Interest and bank charges | **-** | 16,556 |
| | **2,132,578** | 1,687,924 |
| **Income before income tax provision** | **1,128,197** | 470,805 |
| **Income tax provision** | | |
| Current | **259,124** | 125,000 |
| Future | **15,445** | - |
| | **274,569** | 125,000 |
| **Net income for the year** | **$ 853,628** | $ 345,805 |

*The accompanying notes are an integral part of these financial statements*

# Quickmill Inc.
## Statement of Cash Flows

| For the year ended March 31 | 2024 | 2023 |
|---|---|---|
| **Cash provided from (used for)** | | |
| **Operating activities** | | |
| Net income | **$ 853,628** | $ 345,805 |
| Items not involving cash | | |
| Amortization of capital assets | **105,445** | 120,886 |
| Amortization of intangible assets | **2,050** | 1,181 |
| Future income taxes | **15,445** | - |
| | **976,568** | 467,872 |
| Changes in non-cash working capital items: | | |
| Accounts receivable | **902,690** | (1,262,985) |
| Inventory | **(1,596,151)** | (651,858) |
| Prepaid expenses | **(339,237)** | (34,012) |
| Government remittances | **(56,102)** | (65,600) |
| Accounts payable and accrued liabilities | **1,080,628** | 120,507 |
| Customer deposits on orders | **969,720** | 111,667 |
| Income taxes | **134,124** | 34,330 |
| | **1,095,672** | (1,747,951) |
| Cash flows from operating activities | **2,072,240** | (1,280,079) |
| **Investing activities** | | |
| Purchase of capital assets | **(94,775)** | (145,065) |
| Purchase of trademarks | **(1,084)** | (628) |
| Cash flows from investing activities | **(95,859)** | (145,693) |
| **Financing activity** | | |
| Dividends paid | **(176,471)** | - |
| **Net increase (decrease) in cash position** | **1,799,910** | (1,425,772) |
| **Cash position, beginning of year** | **413,648** | 1,839,420 |
| **Cash position, end of year** | **$ 2,213,558** | $ 413,648 |

## 1. Nature of operations

Quickmill Inc. is a manufacturer of CNC gantry and bridge type machining centres and operates in Peterborough, Ontario.

## 2. Summary of significant accounting policies

The Company applies the Canadian accounting standards for private enterprises.

(a) *Cash and short term investments*

Cash and short term investments consist of cash held at financial institutions and investments in cashable Guaranteed Investment Certificates with terms of one year or less.

(b) *Inventory*

Inventory is measured at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. Cost includes all costs of purchase, direct labour, variable and fixed production overheads, and other costs incurred in bringing the inventories to their present location and condition.

(c) *Capital assets*

Capital assets are recorded at cost. The Company provides for amortization using the declining balance method at rates designed to amortize the cost of the capital assets over their estimated useful lives. The annual amortization rates are as follows:

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

(d) *Intangible assets*

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

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

(e) *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 does not have any assets under development.

## 2. Summary of significant accounting policies — continued

(f) *Impairment of long-lived assets*

The Company tests for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected undiscounted future net cash flows the long-lived assets are expected to generate through their direct use and eventual disposition. When a test for impairment indicates that the carrying amount of an asset is not recoverable, an impairment loss is recognized to the extent carrying value exceeds its fair value.

(g) *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 value 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.

(h) *Future income taxes*

Future income taxes are calculated using the liability method of tax allocation 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 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.

(i) *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 shipped 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.

## 2. Summary of significant accounting policies — continued

(j) *Government assistance*

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

(k) *Pension expense and obligation*

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.

(l) *Foreign exchange*

The monetary assets and liabilities of the company denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. Revenues and expenses are translated at the average exchange rate prevailing during the year. Exchange gains or losses are included in operations.

(m) *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 and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(n) *Financial instruments*

The Company's financial instruments consist of cash, term deposits, advances receivable, accounts receivable, accrued interest receivable, due from related parties, bank indebtedness, accounts payable and accrued liabilities and long-term debt. Unless otherwise noted it is management's opinion that the Company is not exposed to significant interest, currency or credit risks.

## 3. Accounts receivable

| | 2024 | 2023 |
|---|---|---|
| Unbilled contract and other receivables | $ 533,871 | $ 1,902,362 |
| Trade accounts receivable | 1,030,183 | 564,382 |
| | $ 1,564,054 | $ 2,466,744 |

## 4. Inventory

| | 2024 | 2023 |
|---|---|---|
| Raw materials | $ 1,605,930 | $ 1,471,118 |
| Raw materials reserve | (113,729) | (240,116) |
| Work in progress | 2,705,091 | 1,370,139 |
| | $ 4,197,292 | $ 2,601,141 |

## 5. Capital assets

| | 2024 | | 2023 | |
|---|---|---|---|---|
| | **Cost** | **Accumulated amortization** | Cost | Accumulated amortization |
| Machinery and equipment | $ 1,404,515 | $ 1,327,783 | $ 1,404,515 | $ 1,297,068 |
| Furniture and fixtures | 868,913 | 822,038 | 850,204 | 812,564 |
| Leasehold improvements | 110,324 | 110,324 | 110,324 | 110,324 |
| Computer equipment | 1,049,114 | 895,030 | 983,420 | 843,072 |
| Computer software | 504,204 | 499,018 | 493,832 | 485,721 |
| | $ 3,937,070 | $ 3,654,193 | $ 3,842,295 | $ 3,548,749 |
| Net book value | | $ 282,877 | | $ 293,546 |

## 6. Intangible assets

| | | | 2024 | 2023 |
|---|---|---|---|---|
| | **Cost** | **Accumulated amortization** | **Net** | Net |
| Prototype designs | $ 239,473 | $ 239,473 | $ - | $ - |
| Trademarks | 26,886 | 22,589 | 4,297 | 5,263 |
| | $ 266,359 | $ 262,062 | $ 4,297 | $ 5,263 |

## 7. Demand loan

The Company has available a revolving demand facility of up to $1,500,000, of which $nil has been drawn as at March 31, 2024. Advances on the loan bear interest at the Royal Bank Prime (RBP) rate plus 2.24% and are due on demand. The loan is secured by a general security agreement constituting a first security interest in all property of the Company and a collateral mortgage in the amount of $1,500,000 on the land and improvements held by the related party, 760 Rye Street Inc. In addition, the loan requires postponement and subordination of claims by the Company's shareholder. As at March 31, 2024, the Company is in compliance with the financial covenants stipulated by the lender.

## 8. Preference shares

Authorized

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

Issued

| | 2024 | 2023 |
|---|---|---|
| 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 |

## 9. Share capital

Authorized:

Unlimited number of common shares

| | 2024 | 2023 |
|---|---|---|
| Issued: | | |
| 20,010 common shares | $ 200,100 | $ 200,100 |

## 10. Financial instruments

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

Liquidity risk

The Company does have a liquidity risk in the accounts payable and accrued liabilities of $2,643,379 (2023 - $1,562,750). Liquidity risk is the risk that the Company cannot repay its obligations when they become due to its creditors. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due; maintains an adequate line of credit to repay trade creditors and repays long term debt interest and principal as they become due. In the opinion of management the liquidity risk exposure to the Company is  low and is not material.

Credit risk

The Company does have credit risk in accounts receivable of $1,564,054 (2023 - $2,466,744). 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 by performing credit valuations on a regular basis; granting credit upon a review of the credit history of the applicant and creating an allowance for bad debts when applicable. The Company maintains strict credit policies and limits in respect to counterparties. In the opinion of management the credit risk exposure to the Company is low and is not material.

Interest rate risk

The Company is exposed to interest rate risk due to the variable rate interest on their long-term debt. Changes in the lending rates may cause fluctuations in cash flows and interest expense.

## 10. Financial instruments — continued

Foreign exchange risk

The Company is exposed to foreign exchange risk in United States dollars. Foreign exchange risk is the risk that the exchange rate that was in effect on the date that an obligation in a foreign currency was made to the Company by a customer, or that an obligation in a foreign currency was made to the Company to a supplier, is different at the time of settlement than it was at time that the obligation was determined. The Company reduces its exposure to foreign exchange risk by carefully monitoring exchange rates on obligations that are made to the Company and engaging in hedges when there is a significant risk of exchange rate movement. The Company did not have any hedges at the time that the financial statements were issued. The Company does not utilize financial instruments to manage its foreign exchange risk. The Company maintains adequate foreign currency balances in its bank provided by its customers that discharged their obligations to the Company in the related currency, to discharge its related foreign currency obligations. In the opinion of management the foreign exchange risk exposure to the company is low and is not material. As at March 31, 2024, U.S. dollar accounts receivable amounted to $1,023,342 (2023 - $370,370) and U.S. dollar accounts payable amounted to $493,286 (2023 - $296,735).

## 11. Related party transactions

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.

During the year, the Company paid rent to 760 Rye Street Inc. in the amount of $168,000 (2023 - $144,000). The Company has a year to year lease arrangement with 760 Rye Street Inc.

During the year, the Company incurred expenses of $145,879 (2023 - $101,234) with Batliboi Ltd.

These related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

| | 2024 | 2023 |
|---|---|---|
| **Due to related party - 760 Rye Street Inc.** | $ 456,000 | $ 456,000 |

These balances due from related parties are in the normal course of operations and are unsecured and have no set terms of repayment. The amount owing to 760 Rye Street Inc. bears no interest.

## 12. Defined contribution plan

The pension expense for the year was $89,452 (2023 - $62,374).

## 13. Government assistance

During the year, the Company received the following financial assistance:

| | 2024 | 2023 |
|---|---|---|
| Industrial Research Assistance Program | $ 42,115 | $ 68,000 |

These funds were recorded as a reduction of wages. The maxmium assistance received under the terms of the agreements are subject to the Company meeting specified targets.

## 14. Guarantee

The Company has provided a general security agreement in support of the borrowings of 760 Rye Street Inc. to the Royal Bank of Canada. The general security agreement is subject to the Royal Bank of Canada's first charge over all assets of the Company. The outstanding balance on 760 Rye Street Inc.'s borrowings from Royal Bank of Canada amounted to $1,000,765 at March 31, 2024.

## 15. Comparative figures

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.