

# **WESTECH ADVANCED MATERIALS LTD.**

Non-consolidated Financial Statements (unaudited)  
for the Year Ended March 31, 2018  
and Independent Practitioners' Review Engagement Report

**WESTECH ADVANCED MATERIALS LTD.**  
NON-CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2018  
(unaudited)

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**CONTENTS**

|   |        |
|---|--------|
| Independent Practitioners' Review Engagement Report.....        | 1      |
| Non-consolidated Statement of Income and Retained Earnings..... | 2      |
| Non-consolidated Balance Sheet.....                             | 3      |
| Non-consolidated Statement of Cash Flows.....                   | 4      |
| Notes to the Non-consolidated Financial Statements.....         | 5 - 10 |

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CHARTERED  
PROFESSIONAL  
ACCOUNTANTS

DURWARD JONES BARKWELL  
& COMPANY LLP

Big enough to know. SMALL ENOUGH TO CARE.

## INDEPENDENT PRACTITIONERS' REVIEW ENGAGEMENT REPORT

### To the Shareholders of Westech Advanced Materials Ltd.:

We have reviewed the accompanying non-consolidated financial statements of Westech Advanced Materials Ltd. that comprise the non-consolidated balance sheet as at March 31, 2018 and the non-consolidated statements of income and retained earnings and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Practitioners' Responsibility

Our responsibility is to express a conclusion on the accompanying non-consolidated financial statements based on our review. We conducted our review in accordance with Canadian generally accepted standards for review engagements, which require us to comply with relevant ethical requirements.

A review of non-consolidated financial statements in accordance with Canadian generally accepted standards for review engagements is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on these non-consolidated financial statements.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these non-consolidated financial statements do not present fairly, in all material respects, the financial position of Westech Advanced Materials Ltd. as at March 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

*Durward Jones Barkwell + Company LLP*

**Durward Jones Barkwell & Company LLP**  
**Licensed Public Accountants**  
**June 28, 2018**

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**WESTECH ADVANCED MATERIALS LTD.**  
NON-CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS  
YEAR ENDED MARCH 31, 2018  
(unaudited)

|   | <u>2018</u>         | <u>2017</u>         |
|---|---------------------|---------------------|
| <b>SALES</b>                                | <b>\$ 7,846,725</b> | <b>\$ 8,511,867</b> |
| <b>COST OF GOODS SOLD</b>                   | <b>7,075,297</b>    | <b>7,136,007</b>    |
| <b>GROSS PROFIT</b>                         | <b>771,428</b>      | <b>1,375,860</b>    |
| <b>GENERAL AND ADMINISTRATIVE EXPENSES</b>  |                     |                     |
| Advertising and promotion                   | 1,995               | 5,816               |
| Bank charges and interest                   | 7,765               | 7,337               |
| Computer maintenance                        | 3,228               | 15,342              |
| Depreciation                                | 232,066             | 234,167             |
| Insurance                                   | 15,965              | 26,947              |
| Interest on related party loans             | 5,622               | 19,051              |
| Office                                      | 4,549               | 23,462              |
| Professional fees                           | 52,041              | 80,724              |
| Rent  | 36,037              | 36,000              |
| Repairs and maintenance                     | 1,237               | 3,483               |
| Salaries and benefits                       | 262,373             | 327,096             |
| Travel                                      | 9,953               | 52,392              |
| Utilities and telecommunications            | 5,443               | 9,257               |
| Vehicle                                     | 11,741              | 23,833              |
|   | <b>650,015</b>      | <b>864,907</b>      |
| <b>INCOME FROM OPERATIONS</b>               | <b>121,413</b>      | <b>510,953</b>      |
| <b>GAIN ON FOREIGN EXCHANGE</b>             | <b>89,428</b>       | <b>171,487</b>      |
| <b>INCOME BEFORE INCOME TAXES</b>           | <b>210,841</b>      | <b>682,440</b>      |
| <b>INCOME TAXES (RECOVERED)</b>             |                     |                     |
| Current                                     | 66,582              | 178,431             |
| Future                                      | (39,800)            | (13,981)            |
|   | <b>26,782</b>       | <b>164,450</b>      |
| <b>NET INCOME</b>                           | <b>184,059</b>      | <b>517,990</b>      |
| <b>RETAINED EARNINGS, BEGINNING OF YEAR</b> | <b>547,205</b>      | <b>29,215</b>       |
| <b>RETAINED EARNINGS, END OF YEAR</b>       | <b>\$ 731,264</b>   | <b>\$ 547,205</b>   |

**WESTECH ADVANCED MATERIALS LTD.**

NON-CONSOLIDATED BALANCE SHEET

MARCH 31, 2018

(unaudited)

|  | <u>2018</u>         | <u>2017</u>         |
|--|---------------------|---------------------|
| <b>ASSETS</b>  |                     |                     |
| <b>Current assets</b>  |                     |                     |
| Cash   | \$ 119,426          | \$ 338,647          |
| Accounts receivable (Note 2)   | 2,826,689           | 1,814,752           |
| Income taxes recoverable   | 22,638              | -                   |
| Inventory  | 159,066             | 705,386             |
|  | <b>3,127,819</b>    | 2,858,785           |
| <b>Future income taxes</b>   | <b>69,802</b>       | 30,000              |
| <b>Investment in Brilliare Inc.</b> - 100 common shares, at cost, 100% interest              | <b>100</b>          | -                   |
| <b>Computer equipment</b> (Note 3)   | <b>638</b>          | 1,341               |
| <b>Intangibles</b> (Note 4)  | <b>2,629,615</b>    | 2,687,769           |
| <b>Goodwill</b> (Note 5)   | <b>3,344,727</b>    | 3,344,727           |
|  | <b>\$ 9,172,701</b> | <b>\$ 8,922,622</b> |
| <b>LIABILITIES</b>   |                     |                     |
| <b>Current liabilities</b>   |                     |                     |
| Accounts payable and accrued liabilities, government remittances<br>\$2,881 (2017 - \$3,004) | \$ 1,788,981        | \$ 1,197,842        |
| Income taxes payable   | -                   | 112,931             |
| Due to related parties (Note 6)  | 6,669               | 209,120             |
|  | <b>1,795,650</b>    | 1,519,893           |
| <b>Commitment</b> (Note 8)   |                     |                     |
| <b>SHAREHOLDERS' EQUITY</b>  |                     |                     |
| <b>Share capital</b> (Note 9)  | <b>6,175,717</b>    | 6,175,717           |
| <b>Currency translation adjustment</b>   | <b>470,070</b>      | 679,807             |
| <b>Retained earnings</b>   | <b>731,264</b>      | 547,205             |
|  | <b>7,377,051</b>    | 7,402,729           |
|  | <b>\$ 9,172,701</b> | <b>\$ 8,922,622</b> |

Approved by the Board:

..... Director

..... Director

**WESTECH ADVANCED MATERIALS LTD.**

## NON-CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2018

(unaudited)

|   | <u>2018</u>       | <u>2017</u>       |
|---|-------------------|-------------------|
| <b>OPERATING ACTIVITIES</b>   |                   |                   |
| Net income  | \$ 184,059        | \$ 517,990        |
| Items not affecting cash:   |                   |                   |
| Depreciation  | 232,066           | 234,167           |
| Future income taxes   | (39,800)          | (13,981)          |
|   | <b>376,325</b>    | 738,176           |
| Changes in non-cash operating assets and liabilities                    |                   |                   |
| Accounts receivable   | (1,011,937)       | 272,620           |
| Income taxes  | (135,569)         | 71,231            |
| Inventory   | 546,320           | (542,238)         |
| Accounts payable and accrued liabilities                                | 591,139           | 1,038,349         |
|   | <b>366,278</b>    | 1,578,138         |
| <b>INVESTING ACTIVITIES</b>   |                   |                   |
| Investment in Brillaire Inc.  | (100)             | -                 |
| Purchase of computer equipment  | -                 | (1,788)           |
|   | <b>(100)</b>      | (1,788)           |
| <b>FINANCING ACTIVITIES</b>   |                   |                   |
| Net repayments to related parties                                       | (202,451)         | (1,399,306)       |
| <b>FOREIGN EXCHANGE GAIN (LOSS) ON AMOUNTS HELD IN FOREIGN CURRENCY</b> | <b>(382,948)</b>  | 30,080            |
| <b>INCREASE (DECREASE) IN CASH</b>                                      | <b>(219,221)</b>  | 207,124           |
| <b>CASH, BEGINNING OF YEAR</b>  | <b>338,647</b>    | 131,523           |
| <b>CASH, END OF YEAR</b>  | <b>\$ 119,426</b> | <b>\$ 338,647</b> |

**WESTECH ADVANCED MATERIALS LTD.**  
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2018  
(unaudited)

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## 1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

### ***Basis of accounting***

These non-consolidated financial statements have been prepared in accordance with Canadian accounting standards for private enterprises.

The non-consolidated financial statements are presented in Canadian dollars. The functional currency of the Company is U.S. dollars.

### ***Nature of business***

The Company was incorporated on May 29, 2015 under the laws of British Columbia and is in the business of distributing industrial fabrics.

### ***Revenue recognition***

Revenue is recognized upon shipment, when significant risks and rewards of ownership are transferred, and when collection is reasonably assured.

### ***Investments***

The Company's investment in its wholly-owned subsidiary Brillaire Inc., a private company, is accounted for by the cost method under which the investment is carried at the cost thereof and the net earnings of the investment are reflected in the determination of the net earnings of the Company only to the extent of dividends received or receivable. When there is an indication of impairment and such an impairment is determined to have occurred, the carrying amount is reduced to the greater of the discounted future cash flows expected or the proceeds that could be realized from sale. Such impairments can be subsequently reversed if value subsequently improves.

### ***Inventory***

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

During the year, the total cost of inventory expensed in cost of sales amounted to \$6,576,965 (2017 - \$6,710,998).

### ***Computer equipment***

Computer equipment is recorded at acquisition cost. Computer equipment is depreciated using the declining balance method at the annual rate indicated in note 3. Depreciation in the year of acquisition is recorded at one-half of the normal rate.

Long-lived assets are tested for recoverability if events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of the long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Impairment losses are measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

### ***Intangibles***

Intangible assets are recorded at cost. Depreciation on the intangibles is calculated using the declining balance method at the annual rates indicated in note 4. Depreciation in the year of acquisition is recorded at one-half of the normal rates.

**WESTECH ADVANCED MATERIALS LTD.**  
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2018  
(unaudited)

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**1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION - continued**

***Goodwill***

Goodwill represents the excess of the acquisition cost over the fair market value of identifiable net assets acquired at the date of acquisition. Goodwill is not amortized. Goodwill is tested for impairment whenever events or changes in circumstances indicate that the fair value of the reporting unit to which the goodwill is assigned may be less than its carrying amount. The fair value of the reporting unit is calculated on a discounted basis.

***Financial instruments***

**(a) Measurement of financial instruments**

The Company initially measures its financial assets and financial liabilities at their fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributed to the instrument.

The Company subsequently measures all its financial assets and financial liabilities at amortized cost, except for equity securities quoted in an active market, which are subsequently measured at fair value. Changes in fair value are recognized in net income.

Financial assets measured at amortized cost include cash and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

**(b) Impairment**

Financial assets measured at amortized cost are tested for impairment when there are indicators of possible impairment. When a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset or group of assets, a write-down is recognized in net income. The write-down reflects the difference between the carrying amount and the higher of:

- (a) the present value of the cash flows expected to be generated by the asset or group of assets;
- (b) the amount that could be realized by selling the asset or group of assets;
- (c) the net realizable value of any collateral held to secure repayment of the asset or group of assets.

When events occurring after the impairment confirm that a reversal is necessary, the reversal is recognized in net income up to the amount of the previously recognized impairment.

***Future income taxes***

The Company applies the future income taxes method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on the difference between the carrying amounts of existing assets and liabilities and their respective tax bases. Any change in the net amount of future income tax assets and liabilities is included in income. Future income tax assets and liabilities are determined based on enacted or substantively enacted tax rates and laws which are expected to apply to taxable income for the years in which the assets and liabilities will be recovered. Future income tax assets are recognized when it is more likely than not that they will be realized.

**WESTECH ADVANCED MATERIALS LTD.**  
 NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS  
 MARCH 31, 2018  
 (unaudited)

**1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION - continued**

***Translation of foreign currency***

Foreign currency accounts are translated to Canadian dollars as follows:

At the transaction date, each asset, liability, revenue or expense is translated to U.S. dollars by the use of the exchange rate in effect on that date. At the year end date, monetary assets and liabilities are translated into U.S. dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in income in the current period.

For financial statement presentation purposes amounts are translated using the current rate method whereby assets and liabilities are translated at the rate of exchange in effect at the balance sheet date, and revenue and expense items are translated at the rate of exchange prevailing on the transaction date. The resulting exchange differences are deferred and classified as currency translation adjustments in shareholders' equity.

***Use of estimates***

The preparation of non-consolidated financial statements in accordance with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the non-consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates, as additional information becomes available in the future. Significant estimates and assumptions are used when accounting for items such as revenue recognition, allowance for doubtful accounts receivable, inventory obsolescence and future income taxes.

**2. ACCOUNTS RECEIVABLE**

|                           | <u>2018</u>         | <u>2017</u>         |
|---------------------------|---------------------|---------------------|
| Trade accounts receivable | \$ 2,822,233        | \$ 1,804,633        |
| HST recoverable           | 4,456               | 10,119              |
|                           | <u>\$ 2,826,689</u> | <u>\$ 1,814,752</u> |

**3. COMPUTER EQUIPMENT**

|                    | Annual<br>Depreciation<br>Rates | <u>2018</u> |                             | <u>2017</u> |                             |
|--------------------|---------------------------------|-------------|-----------------------------|-------------|-----------------------------|
|                    |                                 | Cost        | Accumulated<br>Depreciation | Cost        | Accumulated<br>Depreciation |
| Computer equipment | 50%                             | \$ 1,656    | \$ 1,018                    | \$ 1,788    | \$ 447                      |
| Net book value     |                                 |             | <u>\$ 638</u>               |             | <u>\$ 1,341</u>             |

**WESTECH ADVANCED MATERIALS LTD.**  
 NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS  
 MARCH 31, 2018  
 (unaudited)

**4. INTANGIBLES**

|                    | Annual<br>Depreciation<br>Rates | <u>2018</u>      |                             | <u>2017</u> |                             |
|--------------------|---------------------------------|------------------|-----------------------------|-------------|-----------------------------|
|                    |                                 | Cost             | Accumulated<br>Depreciation | Cost        | Accumulated<br>Depreciation |
| Business name      | 8%                              | \$ 394,486       | \$ 88,717                   | \$ 370,591  | \$ 58,060                   |
| Customer relations | 8%                              | 2,998,095        | 674,249                     | 2,816,488   | 441,250                     |
|                    |                                 | <b>3,392,581</b> | <b>762,966</b>              | 3,187,079   | 499,310                     |
| Net book value     |                                 |                  | <b>\$ 2,629,615</b>         |             | \$ 2,687,769                |

**5. GOODWILL**

Goodwill is stated at historical cost. The foreign currency adjustment in the amount of \$206,863 has been netted against the currency translation adjustment account in the current year. Had this adjustment been made, the balance of goodwill as at March 31, 2018 would be \$3,551,590.

**WESTECH ADVANCED MATERIALS LTD.**  
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2018  
(unaudited)

## 6. RELATED PARTY TRANSACTIONS

Related parties and their respective relationship to the Company are as follows:

|                           |  |
|---------------------------|--|
| Arvind Limited            | Owner of 51% of the outstanding shares of this Company |
| Bodam Corp.               | Owner of 49% of the outstanding shares of this Company |
| Brillaire Inc.            | 100% owned subsidiary                                  |
| Westech Group Ltd.        | Company under common control                           |
| Westech Industries Africa | Company under common control                           |

### DUE TO RELATED PARTIES

|  | <u>2018</u>     | <u>2017</u>       |
|--|-----------------|-------------------|
| Westech Group Ltd.   | \$ -            | \$ 209,120        |
| Brillaire Inc. - unsecured, non-interest bearing and with no set terms of repayment. | <b>6,669</b>    | -                 |
|  | <b>\$ 6,669</b> | <b>\$ 209,120</b> |

As at March 31, 2018, accounts receivable includes \$709 from Westech Group Ltd. and \$7,045 from Westech Industries Africa.

As at March 31, 2018, accounts payable and accrued liabilities includes \$611,381 to Brillaire Inc., \$1,101,221 to Arvind Limited, \$4,123 to Westech Group Ltd. and \$14,912 to Westech Industries Africa.

During the year, the Company had the following transactions with companies related by common ownership:

|  | <u>2018</u>         | <u>2017</u>  |
|--|---------------------|--------------|
| <b>Arvind Limited</b>                                  |                     |              |
| Purchases  | <b>\$ 2,067,968</b> | \$ 4,748,049 |
| <b>Bodam Corp.</b>                                     |                     |              |
| Interest paid  | \$ -                | \$ 6,397     |
| <b>Brillaire Inc.</b>                                  |                     |              |
| Purchases  | <b>\$ 1,660,674</b> | \$ -         |
| <b>Westech Group Ltd.</b>                              |                     |              |
| Interest paid  | \$ 5,622            | \$ 12,654    |
| Management fees included in salaries and benefits paid | 111,307             | -            |
| Rent paid  | 36,000              | 36,000       |
| Utilities paid   | 3,426               | -            |
| Vehicle expenses paid                                  | 11,504              | -            |
| <b>Westech Industries Africa</b>                       |                     |              |
| Purchases  | \$ 16,603           | \$ -         |
| Sales  | 7,045               | -            |

All transactions between related parties have taken place in the normal course of operations and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**WESTECH ADVANCED MATERIALS LTD.**  
 NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS  
 MARCH 31, 2018  
 (unaudited)

## 7. ECONOMIC DEPENDENCE

During the year, purchases from 2 suppliers represented approximately 57% of the Company's total purchases. As at March 31, 2018, approximately 89% of the total accounts payable balance was also due to these two suppliers.

## 8. COMMITMENT

The Company leases a property from a related party as disclosed in note 6 on a month-to-month basis and requires monthly payments of \$3,000 plus HST.

## 9. SHARE CAPITAL

|                                 | <u>2018</u>         | <u>2017</u>         |
|---------------------------------|---------------------|---------------------|
| Authorized                      |                     |                     |
| Unlimited class A common shares |                     |                     |
| Unlimited class B common shares |                     |                     |
| Issued                          |                     |                     |
| 2,717,447 class A common shares | \$ 2,702,770        | \$ 2,702,770        |
| 2,828,363 class B common shares | <u>3,472,947</u>    | <u>3,472,947</u>    |
|                                 | <u>\$ 6,175,717</u> | <u>\$ 6,175,717</u> |

## 10. FINANCIAL RISK MANAGEMENT

The Company has a comprehensive risk management framework to monitor, evaluate and manage the principal risks assumed with financial instruments. The risks that arise from transacting financial instruments include interest rate risk, market (other price) risk, currency risk, credit risk, and liquidity risk. Price risk arises from changes in interest rates, foreign currency exchange rates and market prices.

### (a) Currency risk:

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The majority of the Company's sales are in foreign currency. Consequently, some assets are exposed to foreign exchange fluctuations. As at March 31, 2018, the following amounts are held in U.S. currency denominated in Canadian dollars: cash of \$60,692 (2017 - \$98,422), trade accounts receivable of \$1,409,745 (2017 - \$1,006,968) trade accounts payable of \$170,739 (2017- \$478,818) and due to related parties of \$nil (2017 - \$66,610). As at March 31, 2018, the following amounts are held in Euro currency denominated in Canadian dollars: cash of \$15,626 (2017 - \$198,762), trade accounts receivable of \$694,459 (2017 - \$714,621) trade accounts payable of \$696,417 (2017 - \$623,144) and due to related parties of \$nil (2017 - \$142,510).

### (b) Credit risk:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The entity's main credit risks relate to its accounts receivable. The entity provides credit to its clients in the normal course of operations.

It is management's opinion that the Company is not exposed to significant interest, liquidity or market risks arising from its financial instruments.

## 11. COMPARATIVE FIGURES

**WESTECH ADVANCED MATERIALS LTD.**  
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2018  
(unaudited)

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Certain of the prior year's figures have been reclassified to conform to the current year's financial statement presentation.

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