

THE HI-TECH GEARS CANADA INC.
NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2026

THE HI-TECH GEARS CANADA INC.

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YEAR ENDED MARCH 31, 2026

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of: The Hi-Tech Gears Canada Inc.

Opinion

We have audited the accompanying non-consolidated financial statements of The Hi-Tech Gears Canada Inc., which comprise the non-consolidated balance sheet as at March 31, 2026 and the non-consolidated statements of earnings and deficit and cash flows for the year then ended, and notes to the non-consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the financial position of The Hi-Tech Gears Canada Inc. as at March 31, 2026 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 of 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 Hi-Tech Gears Canada 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 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 non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the non-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 non-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 non-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 15, 2026

Chartered Professional Accountants
Licensed Public Accountants

THE HI-TECH GEARS CANADA INC.

NON-CONSOLIDATED BALANCE SHEET (IN CDN \$)

AS AT MARCH 31, 2026

	2026	2025
ASSETS		
CURRENT		
Cash	\$ 551,894	\$ 0
Trade accounts receivable	5,310,303	6,514,123
Government remittances recoverable	198,545	127,150
Inventories (note 4)	5,827,572	5,323,522
Prepaid expenses	390,760	129,405
Due from related parties (note 6)	31,161,057	31,221,904
Deposits	<u>527,385</u>	<u>527,385</u>
	43,967,516	43,843,489
INVESTMENT IN TEUTECH HOLDING CORPORATION	3,146,211	3,146,211
PROPERTY, PLANT AND EQUIPMENT (note 5)	13,901,432	16,862,317
FUTURE INCOME TAXES (note 11)	<u>1,936,700</u>	<u>1,888,500</u>
	<u>\$ 62,951,859</u>	<u>\$ 65,740,517</u>
LIABILITIES		
CURRENT		
Bank indebtedness (note 7)	\$ 0	\$ 462,649
Accounts payable	4,070,851	3,770,782
Other payables and accrued liabilities	302,879	211,268
Income taxes payable	14,551	14,551
Due to related parties (note 6)	6,292,220	6,734,128
Current portion of long term debt (note 8)	<u>1,214,738</u>	<u>1,392,386</u>
	11,895,239	12,585,764
LONG TERM DEBT (note 8)	1,083,911	2,298,649
DEFERRED RENT	236,401	144,891
DEFERRED INCOME	<u>17,927,719</u>	<u>20,079,389</u>
	<u>31,143,270</u>	<u>35,108,693</u>
SHAREHOLDER'S EQUITY		
SHARE CAPITAL		
Authorized		
Unlimited number of common shares		
Unlimited number of Class A special shares, non cumulative, discretionary dividend, non-voting, redeemable and retractable		
Unlimited number of Class B special shares, non cumulative, discretionary dividend, voting and redeemable		
Issued Capital		
5 Common shares	47,708,560	47,708,560
DEFICIT	<u>(15,899,971)</u>	<u>(17,076,736)</u>
	<u>31,808,589</u>	<u>30,631,824</u>
	<u>\$ 62,951,859</u>	<u>\$ 65,740,517</u>

See notes to the non-consolidated financial statements

THE HI-TECH GEARS CANADA INC.

NON-CONSOLIDATED STATEMENT OF EARNINGS AND DEFICIT (IN CDN \$)

FOR THE YEAR ENDED MARCH 31, 2026

	2026	2025
REVENUE	\$ <u>35,864,817</u>	\$ <u>42,363,466</u>
COST OF SALES (note 4)	<u>29,327,176</u>	<u>33,442,650</u>
GROSS PROFIT	<u>6,537,641</u>	<u>8,920,816</u>
OPERATING EXPENSES		
Amortization of property, plant and equipment	3,341,393	3,385,893
Selling, general and administrative	4,094,265	4,208,164
Other income	<u>(315,969)</u>	<u>(402,805)</u>
	<u>7,119,689</u>	<u>7,191,252</u>
(LOSS) EARNINGS FROM OPERATIONS	<u>(582,048)</u>	<u>1,729,564</u>
OTHER INCOME		
Finance expenses (notes 7 and 8)	(441,057)	(1,097,534)
Net gain on sale of property, plant and equipment	<u>2,151,670</u>	<u>2,151,670</u>
	<u>1,710,613</u>	<u>1,054,136</u>
EARNINGS BEFORE INCOME TAXES	<u>1,128,565</u>	<u>2,783,700</u>
(RECOVERY OF) PROVISION FOR INCOME TAXES	<u>(48,200)</u>	<u>425,100</u>
NET EARNINGS for the year	1,176,765	2,358,600
DEFICIT, beginning of year	<u>(17,076,736)</u>	<u>(19,435,336)</u>
DEFICIT, end of year	\$ <u>(15,899,971)</u>	\$ <u>(17,076,736)</u>

THE HI-TECH GEARS CANADA INC.

NON-CONSOLIDATED STATEMENT OF CASH FLOWS (IN CDN \$)

FOR THE YEAR ENDED MARCH 31, 2026

	2026	2025
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net earnings for the year	\$ 1,176,765	\$ 2,358,600
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of property, plant and equipment	3,341,393	3,385,893
(Recovery of) provision for future income taxes	(48,200)	425,100
Net gain on sale of property, plant and equipment	(2,151,670)	(2,151,670)
Deferred rent	91,510	91,510
Finance expenses	441,057	1,097,534
Restatement of currency adjustment	(65,489)	184,227
	<u>2,785,366</u>	<u>5,391,194</u>
Change in non-cash working capital		
Trade accounts receivable	1,310,993	3,087,305
Inventories	(504,050)	811,820
Prepaid expenses	(261,355)	237,577
Deposits	0	500,000
Government remittances recoverable	(71,395)	558,387
Accounts payable	219,713	(1,183,311)
Other payables and accrued liabilities	91,611	(68,300)
	<u>3,570,883</u>	<u>9,334,672</u>
CASH USED IN FINANCING ACTIVITIES		
Repayment of bank indebtedness	(423,979)	(716,473)
Repayment of long term debt	(1,392,386)	(8,541,812)
Repayment of due to related parties	(441,908)	(37,400)
Finance expenses	(441,057)	(1,097,534)
	<u>(2,699,330)</u>	<u>(10,393,219)</u>
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Net additions to property, plant and equipment	(380,506)	0
Repayments from related parties	60,847	1,058,547
	<u>(319,659)</u>	<u>1,058,547</u>
NET INCREASE IN CASH	551,894	0
NET CASH, beginning of year	<u>0</u>	<u>0</u>
NET CASH, end of year	<u>\$ 551,894</u>	<u>\$ 0</u>

THE HI-TECH GEARS CANADA INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2026

1. NATURE OF BUSINESS

The company (formerly known as Teutech Industries Inc.) is incorporated under the provisions of the Ontario Business Corporations Act and is primarily involved in operating a machining, stamping and fabrication facility primarily for the automotive sector.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) 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.

(b) 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 weighted average 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.

(c) INVESTMENT IN SUBSIDIARY AND LLC

The company has elected to account for its wholly-owned subsidiary, Teutech Holding Corporation, using the cost method of accounting. The cost method is a basis of accounting for investments whereby the investment is initially recorded at cost and earnings from such investment are recognized only to the extent received or receivable.

The company has elected to account for its wholly-owned US subsidiary, Teutech Leasing Co., using the cost method of accounting.

The company also has a wholly-owned Limited Liability Company (LLC), Teutech LLC. The earnings of this wholly-owned LLC have been recognized only to the extent received or receivable. As such, the statements have been prepared on a non-consolidated basis. The company has assessed its investments for indicators of impairment and has determined that its investment is recoverable.

THE HI-TECH GEARS CANADA INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2026

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) 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

(e) 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.

(f) 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 of doubtful accounts, the net realizable value of the inventories and the estimated useful life of the property, plant and equipment. Actual results could differ from those estimates.

(g) 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 during the year as a current account. Cost in a related party transaction with no repayment terms is determined using the consideration transferred or received by the company in the transaction.

THE HI-TECH GEARS CANADA INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2026

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) FINANCIAL INSTRUMENTS (continued)

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 and to those originated or exchanged in a related party transaction 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.

(h) INCOME TAXES

The company applies the future income taxes method of accounting for income taxes. Future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their tax bases. Future income tax assets are recognized for the benefit of any deductions or losses available to be carried forward to future periods for tax purposes that are likely to be realized. These amounts are measured using substantively enacted tax rates and are remeasured annually for changes in these rates. Any effect of the remeasurement or reassessment is recognized in the year of the change.

(i) 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.

(j) 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.

THE HI-TECH GEARS CANADA INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2026

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) 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.

(l) TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS

The company uses the temporal method to translate its foreign currency transactions. Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Other assets and liabilities are translated at the exchange rate in effect at the transaction date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Exchange gains and losses are included in the statement of earnings and deficit.

3. FINANCIAL INSTRUMENTS

Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, credit, currency, liquidity, or other price risks arising from the financial instruments.

The extent of the company's exposure to these risks did not change in 2026 compared to the previous period.

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 trade accounts receivable or failure of repayment of the due from related parties. At the end of the year, approximately 81% (2025 - 88%) of the trade accounts receivable balance was owing by two (2025 - two) 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 market interest rate risk as a result of the floating interest rate on the bank indebtedness and long term debt. The company is also exposed to fair value interest rate risk on the due to related parties, which bear interest at a fixed rate.

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 \$736,593 (2025 - \$(429,963)), foreign accounts receivable balances in the amount of \$4,859,767 (2025 - \$6,047,369) and foreign accounts payable balances in the amount of \$3,074,276 (2025 - \$3,089,650), denominated in Canadian dollars.

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 trade accounts payable, other payables and accrued liabilities, due to related parties, and long term debt. The company controls liquidity risk by management of working capital, cash flows and the availability of borrowing facilities.

THE HI-TECH GEARS CANADA INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2026

3. FINANCIAL INSTRUMENTS (continued)

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.

4. INVENTORIES

Inventories consist of:

	2026	2025
Raw materials and supplies	\$ 3,575,793	\$ 3,613,038
Work in process	861,141	516,253
Finished goods	<u>1,390,638</u>	<u>1,194,231</u>
	<u><u>\$ 5,827,572</u></u>	<u><u>\$ 5,323,522</u></u>

During the year, the company expensed \$21,508,607 (2025 - \$24,498,817) in cost of goods sold.

5. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	Net 2026	Net 2025
Land	\$ 568,275	\$ 0	\$ 568,275	\$ 568,275
Buildings	1,780,763	629,023	1,151,740	1,222,869
Vehicles	508,034	507,908	126	126
Furniture and equipment	925,359	859,173	66,186	109,184
Manufacturing equipment	<u>45,124,360</u>	<u>33,009,255</u>	<u>12,115,105</u>	<u>14,961,863</u>
	<u><u>\$ 48,906,791</u></u>	<u><u>\$ 35,005,359</u></u>	<u><u>\$ 13,901,432</u></u>	<u><u>\$ 16,862,317</u></u>

6. RELATED PARTY TRANSACTIONS

During the year, the company had the following related party transactions with related companies that are related by virtue of common control:

	2026	2025
Interest paid to 2545887 Ontario Inc.	\$ 201,000	\$ 201,000
Purchases from The Hi-Tech Gears Limited	3,046,497	2,683,920
Due to Related Parties		
	2026	2025
2545887 Ontario Inc.	\$ 3,350,000	\$ 3,350,000
Teutech LLC	2,702,106	2,822,375
The Hi-Tech Gears Limited	<u>240,114</u>	<u>561,753</u>
	<u><u>\$ 6,292,220</u></u>	<u><u>\$ 6,734,128</u></u>

THE HI-TECH GEARS CANADA INC.**NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED MARCH 31, 2026**

6. RELATED PARTY TRANSACTIONS (continued)**Due from Related Parties**

	2026	2025
Teutech Leasing Co.	\$ 36,447	\$ 30,675
The Hi-Tech Robotic Systemz Limited	5,312	5,312
Teutech Holding Corporation	70,977	61,343
2545887 Ontario Inc.	<u>31,048,321</u>	<u>31,124,574</u>
	<u>\$ 31,161,057</u>	<u>\$ 31,221,904</u>

2545887 Ontario Inc., Teutech LLC, The Hi-Tech Gears Limited, Teutech Leasing Co., The Hi-Tech Robotic Systemz Limited, and Teutech Holding Corporation are related by virtue of ultimate common control.

The amounts due to Teutech LLC and The Hi-Tech Gears Limited are unsecured, non-interest bearing and have no fixed terms of repayment. The amount due to 2545887 Ontario Inc. is unsecured, interest bearing at 6% per annum, and has no fixed terms of repayment.

The amounts due from Teutech Leasing Co., The Hi-Tech Robotic Systemz Limited, Teutech Holding Corporation, and 2545887 Ontario Inc. are unsecured, non-interest bearing, and due on demand.

7. BANK INDEBTEDNESS**Pathward, National Association Facility:**

The company has entered into a revolving line of credit loan of \$2,500,000 CAD and \$6,500,000 USD, of which \$396,521 CAD (2025 - \$181,569) and USD \$nil (2025 - \$437,035) was utilized (denominated in Canadian dollars). Advances under the USD facility bear interest at the Wall Street Journal Prime Rate + 1.00% with a floor of 5.25%. Advances under the CAD facility bear interest at the Canadian Dollar Prime Rate (as determined by CIBC) + 2.00% with a floor of 5.25%. The Pathward, National Association Facility is secured by a perfected security interest in all assets including a first security interest in Accounts Receivable and Inventory.

The agreements governing the Pathward, National Association revolving line of credit loan contain certain financial covenants which must be maintained by The Hi-Tech Gears Canada Inc. together with certain affiliated entities that are party to the lending arrangement (collectively, the "Hi-Tech Gears Group of Companies"). The Hi-Tech Gears Group of Companies on a consolidated basis must maintain a minimum Tangible Net-Worth ("TNW") at all times. The basis of the TNW is to be ascertained at the TNW as at July 31, 2022 on the consolidated balance sheet basis minus \$1,250,000 as a cushion for additional liability.

Interest paid on short term debt during the year was \$113,577 (2025 - \$410,734), which has been included in finance expenses on the non-consolidated statement of earnings.

THE HI-TECH GEARS CANADA INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2026

8. LONG TERM DEBT

	2026	2025
CIBC mortgage, due May 2030, repayable in monthly instalments of \$7,856 principal plus variable interest charged at 3.79%, secured by real property with a carrying value of \$1,720,015	\$ 1,136,345	\$ 1,194,458
Bank of Nova Scotia equipment facility loan, due January 2027, repayable in blended monthly instalments of \$119,857, interest charged at 4.85%, secured by equipment with a carrying value of \$3,576,806 (i)	<u>1,162,304</u>	<u>2,496,577</u>
	2,298,649	3,691,035
Less current portion:		
Cash repayments required within 12 months	<u>1,214,738</u>	<u>1,392,386</u>
	<u>\$ 1,083,911</u>	<u>\$ 2,298,649</u>

Future minimum payments on long term debt are as follows:

2027	\$ 1,214,738
2028	54,440
2029	56,522
2030	58,685
2031	<u>914,264</u>
	<u>\$ 2,298,649</u>

Interest paid on long term debt during the year was \$124,325 (2025 - \$230,091), which has been included in finance expenses on the non-consolidated statement of earnings.

(i) The company has entered into an equipment credit facility agreement of \$6,000,000 with The Bank of Nova Scotia of which \$1,162,304 (2025 - \$2,496,577) 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.

9. COMMITMENTS

The company has rental operating lease commitments as follows:

2027	\$ 1,632,874
2028	1,665,369
2029	1,698,270
2030	1,732,390
2031	1,766,916
Thereafter	<u>5,041,599</u>
	<u>\$ 13,537,418</u>

THE HI-TECH GEARS CANADA INC.**NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED MARCH 31, 2026**

10. ECONOMIC DEPENDENCE

The company has one major client (2025 - two) which accounts for 76% (2025 - 84%) of its sales for the year. The company has one major supplier (2025 - one) which accounts for 55% (2025 - 53%) of its purchases for the year. The company would have difficulty replacing the sales and purchasing volume from these clients or supplier 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.

11. FUTURE INCOME TAX ASSET

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

	2026	2025
Property, plant and equipment	\$ (576,400)	\$ (1,083,700)
Deferred gain on sale of property, plant and equipment	2,241,000	2,509,900
Unused tax losses	213,000	462,300
Deferred rent	<u>59,100</u>	<u>0</u>
	<u>\$ 1,936,700</u>	<u>\$ 1,888,500</u>

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

	2026	2025
Future income tax asset	\$ 2,513,100	\$ 2,972,200
Future income tax liability	<u>(576,400)</u>	<u>(1,083,700)</u>
	<u>\$ 1,936,700</u>	<u>\$ 1,888,500</u>

12. MATERIAL UNCERTAINTY RELATED TO TARIFFS

As of the date of these non-consolidated financial statements, the company faces material uncertainty regarding the potential impact of tariffs and trade restrictions on its operations, cost structure, and profitability. Ongoing changes in tariffs and international trade policies, particularly those implemented by major trading partners, create uncertainty around pricing strategies, supply chain logistics, and future demand for the company's products.

The company recognizes that the outcome of ongoing tariff-related uncertainties and trade negotiations may materially affect its operations, financial position, and cash flows in the future if tariffs or other new trade barriers are imposed. This includes potential increases in production costs, delays in the supply chain, disruptions in global trade, or changes in consumer demand resulting from increased prices. As of now, the current line of products qualified to be exempt under USMCA, which protects the impact of Tariff, however as such, there remains a material uncertainty regarding the financial impact of these tariffs, and the full extent of the potential effects on the company cannot be reasonably estimated at this time. Further, the US Tariff and counter retaliation on/by other countries may also open new doors for new business avenues for the company. The company continues to monitor and assess the evolving trade environment and is taking steps to mitigate the risks related to these potential tariffs.

THE HI-TECH GEARS CANADA INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2026

13. EXPENSES BY NATURE

The below outlines the main categories of expenses of the company during the year:

	2026	2025
Materials and shop supplies	\$ 21,508,607	\$ 24,503,508
Employee salaries and benefits	7,934,180	8,604,692
Amortization of property, plant and equipment	3,341,393	3,385,893
Other	3,978,654	4,542,614