Consolidated financial statements

# CG Power USA Inc.

March 31, 2017

# Report of independent auditors

To the Board of Directors of
**CG Power USA Inc.**

**Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of **CG Power USA Inc.**, which comprise the consolidated balance sheets as of March 31, 2017 and 2016, and the related consolidated statements of operations, stockholder's equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

**Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free of material misstatement, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **CG Power USA Inc.** at March 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP
Chartered Professional Accountants

Winnipeg, Canada
May 18, 2017

**CG Power USA Inc.**
**Consolidated balance sheet as at March 31, 2017**

| | Notes | March 31, 2017 $ | March 31, 2016 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash | | 2,389,255 | 8,854,981 |
| Restricted cash | | 148,217 | 397,517 |
| Accounts receivable, less allowance for doubtful accounts | 3 | 18,823,147 | 23,020,691 |
| Inventories | 4 | 15,201,128 | 21,668,024 |
| Excess of costs and estimated earnings over billings on uncompleted contracts | 17 | 692,536 | 901,375 |
| Due from / loans to affiliates | 10 | 29,456,942 | 6,664,554 |
| Income taxes receivable | | 777,239 | - |
| Other current assets | 11 | 748,633 | 2,310,580 |
| Current assets held for sale | 18 | 1,882,653 | 6,514,413 |
| **Total current assets** | | **70,119,750** | **70,332,135** |
| Plant, property and equipment, net | 5 | 24,200,487 | 26,212,238 |
| Goodwill | 6 | 5,857,784 | 12,357,784 |
| Intangible and other assets | 6 | 8,210,737 | 9,673,241 |
| Investments in bonds | | 569,300 | 637,700 |
| Other assets | | 838,570 | 56,718 |
| | | **109,796,628** | **119,269,816** |
| **LIABILITIES AND STOCKHOLDER'S EQUITY** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | | 16,348,450 | 15,175,942 |
| Deferred revenue | 7.1 | 2,137,371 | 2,078,419 |
| Borrowings | 8 | 14,489,305 | 1,391,541 |
| Short - term pension liability | | 157,957 | 116,695 |
| Excess of billings over costs and estimated earnings on uncompleted contracts | 17 | 5,329,114 | 2,618,784 |
| Due to / loans from affiliates | 10 | 20,157,345 | 19,500,283 |
| Income taxes payable | 9 | - | 843,842 |
| Other liabilities | 7 | 33,162,655 | 15,203,731 |
| Current liabilities held for sale | 18 | 1,888,327 | 9,930,654 |
| **Total current liabilities** | | **93,670,524** | **66,859,891** |
| Deferred revenue | 7.1 | 2,522,356 | 2,408,835 |
| Borrowings | 8 | 591,259 | 15,066,798 |
| Deferred tax liabilities | 9 | - | 399,602 |
| Long-term pension liability | | 34,592 | 230,761 |
| **Total liabilities** | | **96,818,731** | **84,965,887** |
| *Commitments and contingencies* | 14 | | |
| **Stockholder's equity** | | | |
| Common stock | | - | - |
| Additional paid-in capital | | 20,340,327 | 20,340,327 |
| Retained earnings/(deficit) | | (7,362,430) | 13,963,602 |
| **Total stockholder's equity** | | **12,977,897** | **34,303,929** |
| | | **109,796,628** | **119,269,816** |

See accompanying notes

**CG Power USA Inc.**
**Consolidated statement of operations for the year ended March 31, 2017**

| | Notes | March 31, 2017<br>$ | March 31, 2016<br>$ |
|---|---|---|---|
| Net sales | | 147,447,837 | 156,759,935 |
| Cost of sales | | (140,436,167) | (138,841,094) |
| **Gross profit** | | **7,011,670** | **17,918,841** |
| Selling, general and administrative expenses | | (21,107,168) | (16,713,248) |
| Income/(loss) from operations | | **(14,095,498)** | **1,205,593** |
| | | | |
| **Other income (expenses)** | | | |
| Interest income | | 221,105 | 73,813 |
| Interest expense | | (1,681,165) | (1,433,693) |
| Impairment of goodwill | 6 | (6,500,000) | (6,163,000) |
| Intercompany loan recoveries, net | 10 | - | 24,066,813 |
| Insurance claim | 11 | 2,343,179 | 1,000,000 |
| Other income, net | | 1,161,562 | 790,827 |
| | | **(4,455,319)** | **18,334,760** |
| Income from continuing operations before tax | | **(18,550,817)** | **19,540,353** |
| Recovery of (provision for) taxes | 9 | **914,644** | **(7,850,241)** |
| Income/(loss) from continuing operations | | **(17,636,173)** | **11,690,112** |
| Discontinued operations | 18 | | |
| Loss on discontinued operations before taxes | | **(3,290,257)** | **(8,377,008)** |
| Income tax benefit (expense) | | **(399,602)** | **(1,929,676)** |
| Loss on discontinued operations | | **(3,689,859)** | **(10,306,684)** |
| | | | |
| **Net income (loss) for the year** | | **(21,326,032)** | **1,383,428** |

See accompanying notes

**CG Power USA Inc.**
**Consolidated statement of stockholder's equity for the year ended March 31, 2017**

| | Common stock | | | | |
|---|---|---|---|---|---|
| | Shares issued | Par value $ | Additional paid-in capital $ | Retained earnings / (deficit) $ | Total stockholder's equity $ |
| **Balance, March 31, 2015** | **100** | **-** | **20,340,327** | **12,580,174** | **32,920,501** |
| Additional paid-in capital | **-** | | **-** | - | **-** |
| Net income for the year | - | | - | 1,383,428 | **1,383,428** |
| **Balance, March 31, 2016** | **100** | **-** | **20,340,327** | **13,963,602** | **34,303,929** |
| Additional paid-in capital | **-** | | **-** | **-** | |
| Net loss for the year | **-** | | **-** | (21,326,032) | (21,326,032) |
| **Balance, March 31, 2017** | **100** | **-** | **20,340,327** | **(7,362,430)** | **12,977,897** |

The Company has issued 100 common stock with no par value and accordingly the common stock is carried at nil value.

See accompanying notes

**CG Power USA Inc.**
**Consolidated Cash Flow for the year ended**

| | March 31, 2017<br>$ | March 31, 2016<br>$ |
|---|---|---|
| **Cash Flow from Operating Activities** | | |
| **Net income (loss) for the year from continuning operations** | **(17,636,173)** | **11,690,112** |
| ***Adjustment for:*** | | |
| Depreciation of plant, property and equipment | 2,355,459 | 2,220,298 |
| Amortization of intangible assets | 1,516,480 | 1,627,024 |
| Impairment of goodwill | 6,500,000 | 6,163,000 |
| (Gain) / loss on sale of fixed assets | - | (5,125) |
| Change in warranty provision | 384,678 | 75,132 |
| Change in provision for inventory | 161,844 | 1,085,564 |
| Intercompany loans from and amount due to affliated companies recovered | - | (25,448,524) |
| Intercompany loans to and amount due from affliated companies waived | | 1,252,224 |
| Bad debts written off / provision for bad debts | 610,877 | 120,613 |
| Deferred tax | (399,602) | 6,774,788 |
| Amounts written back | (142,000) | - |
| Unrealised foreign exchange gain (loss) | (344,128) | (52,579) |
| Repaid to vendors on behalf of the discontinued operations | (7,130,815) | (6,818,262) |
| **Changes in non-cash working capital** | | |
| Accounts receivable | 3,311,665 | 3,922,575 |
| Inventories | 6,305,052 | (1,889,464) |
| Due from affiliates | 2,212,068 | 4,090,518 |
| Due to affiliates | (606,919) | 27,372,401 |
| Accounts payable and accrued liabilities | 1,346,086 | (4,606,213) |
| Other assets | (601,757) | (193,072) |
| Other liabilities | 20,271,037 | 7,371,863 |
| **Net Cash generated from (used in) continuing operations** | **18,113,852** | **34,752,873** |
| **Net Cash generated from (used in) discontinuing operations** | (866,455) | (611,797) |
| **Net Cash generated from (used in) operating activities** | **17,247,397** | **34,141,076** |
| | | |
| **Cash Flow from Investing Activities:** | | |
| Purchase of plant, property and equipment | (343,708) | (1,256,971) |
| Proceeds from sale of plant, property and equipment | - | 9,740 |
| Purchase of intangible assets | (351,475) | (363,335) |
| Proceeds from redemption of bonds | 68,400 | 54,800 |
| Increase / (decrease) in restricted cash | 249,300 | 87,162 |
| Loans given to affiliated companies | (24,927,546) | (3,077,571) |
| Loans repaid by affiliated companies | 495,592 | 10,371,491 |
| **Net Cash used in Investing Activities, continuing operations** | **(24,809,437)** | **5,825,316** |
| **Net Cash used in Investing Activities, discontinuing operations** | - | (124,401) |
| **Net Cash used in Investing Activities** | **(24,809,437)** | **5,700,915** |
| | | |
| **Cash Flow from Financing Activities:** | | |
| Loan taken from banks and other financial institutions | - | 11,234,980 |
| Loan repaid to banks and other financial institutions | (1,377,775) | (19,464,017) |
| Loans advanced from affiliated companies | 1,607,634 | - |
| Loans repaid to affiliated companies | - | (13,147,329) |
| Loan paid to banks on behalf of discontinued operations | - | (21,020,000) |
| **Net Cash generated from / (used in) Financing Activities, continuing** | **229,859** | **(42,396,366)** |
| **Net Cash generated from / (used in) Financing Activities, discontinuing** | 803,245 | - |
| **Net Cash generated from / (used in) Financing Activities** | **1,033,104** | **(42,396,366)** |
| | | |
| **Net decrease in cash** | (6,528,936) | (2,554,376) |
| Cash at the beginning of the year | 9,290,998 | 11,845,374 |
| **Cash at the end of the year** | **2,762,062** | **9,290,998** |
| | | |
| **Cash represented by** | | |
| Cash for continuing operations | 2,389,255 | 8,854,981 |
| Cash for discontinued operations | 372,807 | 436,017 |
| | **2,762,062** | **9,290,998** |
| | | |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | |
| Interest paid | 1,508,541 | 1,375,732 |
| Income taxes refunded | 202,292 | 83,784 |

See accompanying notes

**CG Power USA Inc.**
**Notes to consolidated financial statement**
**March 31, 2017**

## 1. Nature of business

CG Power USA Inc. [the "Company"] is a wholly owned subsidiary of CG Holdings Belgium NV [the "Parent" or the "Parent Company"] with facilities in various locations in the United States, operating in multiple markets and business sectors within and relating to electrical power generation and transmission.

The Company reports all figures in U.S. dollars.

## 2. Summary of significant accounting policies

### Basis of presentation

The accompanying financial statements are consolidated financial statements, prepared in accordance with accounting principles generally accepted in the United States [“US GAAP”] and after consolidation of wholly owned subsidiary QEI LLC. All intercompany balances and transactions have been eliminated upon consolidation.

### Use of estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates.

The Company has applied significant estimates in relation to its assessment for valuation allowance in relation to deferred tax assets, impairment testing of goodwill, fair valuation of derivative financial instruments and certain financial assets and liabilities.

### Revenue recognition

The Company recognizes revenues based on products or services offered, as stated below:

*Sale of manufactured goods*

Revenue is recorded when the following criteria are met: persuasive evidence of an agreement exists, delivery has occurred or services have been rendered, the price to the buyer is fixed and determinable and collectability is reasonably assured. Delivery occurs when the customer assumes the risks and rewards of ownership upon shipment of internally produced products, with the exception of those products that are shipped free on board ["FOB"] destination, for which revenues and the related direct costs are recognized when the shipments are delivered. The Company records the cost of all materials consumed in the manufacturing process within cost of sales. The revenue is accounted net of taxes.

Amounts received upon the sale of scrap material are recognized as part of other income.

*Construction and other contracts*

The Company's work is performed under fixed price and cost-plus-fee contracts.

The Company records revenue from fixed price construction contracts on the percentage-of-completion basis whereby revenues earned are based on management's estimates of the percentage-of-completion of each project. Percentage of completion is determined based on the relationship of actual costs to total estimated costs. The method of estimating completion by comparing actual costs to estimated total costs is used because management considers this as the best available measurement of progress for those projects. Changes in estimated profits on contracts are reflected during the period in which the changes in estimates are made. The asset, “Excess of costs and estimated earnings over billings on uncompleted contracts", represents revenues recognized in excess of amounts billed. The liability, “Excess of billings over costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. The Company does not record revenue for additional compensation on contracts until a change order is executed to reflect the amount to be paid.

The length of the Company's contracts varies but is typically less than one year.

Revenues from time-and-material contracts are recognized as the work is performed. Other indirect costs that are not specific to a contract such as insurance, rent, depreciation and office expenses are allocated to contracts based on an estimated overhead rate, which is applied based on actual labor cost. General and administrative costs are expensed as incurred.

Revenues on maintenance contracts are recognized pro rata over the terms of the contracts. Deferred revenue consists of the portion of maintenance contracts billed but not earned at year-end.

**Principal/agent activities**

In the case of trading activities, the Company records sales and cost of sales when products are shipped to the customer by group companies, with the exception of those products that are shipped FOB destination for which revenues and the related direct costs are recognized when the customer receives the products.

**Cash**

Substantially all amounts reported as cash on the Company's consolidated balance sheet represents bank balances and cash on hand, which is available on demand to the Company.

**Restricted cash**

Restricted cash represents cash whose use is restricted for specific purposes bound by virtue of contractual agreements.

**Accounts receivable**

Accounts receivable are stated net of an allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts based upon estimated losses that could result from a customer's inability to pay for services provided. This allowance is based on a combination of historical losses, aging of receivables and the financial condition of a particular customer. The allowance for doubtful accounts provision is recorded as an element of selling, general and administrative expenses in the period when the collection of such accounts is determined to be doubtful. If, in a subsequent year, the write-off is recovered, the recovery is recognized in the consolidated statement of operations.

Contract receivable from performing engineering, procurement and construction services are based on contracted prices. Contract retentions are generally due 180 days after completion of the project and acceptance by the owner. Contract receivables are written off when deemed uncollectible. Recoveries of contract receivables previously written off are recorded when received / recovered.

**Inventories**

The Company's inventories are comprised primarily of raw materials, work in process and finished goods. Inventories are stated at the lower of cost and market value and are valued using the average cost method. Inventory manufactured by the Company includes the cost of materials, labor and manufacturing overhead. The Company writes down its inventories for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions.

Substantially all work in process relates to customer contracts, which require completion and customer acceptance and approval.

**Derivative instruments**

The Company, along with group companies of the Parent Company ("the Group"), periodically enter into forward contracts and interest rate swaps to manage fluctuations in foreign currency exchange rates, commodity rates and interest rates. During the current and prior year, only amounts related to foreign currency exchange derivatives were outstanding. The Company recognizes the change in fair value associated with these derivative instruments on the consolidated statement of operations in other income, net as a result of mark-to-market adjustments which resulted in an aggregate gain of $283,069 for the year ended March 31, 2017 [aggregate gain of $228,553 for the year ended March 31, 2016]. Details of unrealized mark-to-market adjustments accrued for in the consolidated financial statements and the method adopted for the valuation of financial assets and liabilities are stated in Note 12. The Group on behalf of the Company had outstanding derivative contracts with notional values of $1,415,864 at March 31, 2017 [$4,659,440 at March 31, 2016].

**Plant, property and equipment**

Plant, property and equipment are stated at cost, net of accumulated depreciation. Expenditures for maintenance and repairs that do not add to the original value of the related assets or materially extend their original lives are expensed as incurred.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. The estimated lives for computing depreciation on plant, property and equipment are as follows:

| | |
|---|---|
| Buildings and improvements | 10 - 35 years |
| Machinery and equipment | 7 - 12 years |
| Furniture and fixtures | 4 - 10 years |
| Office equipment | 5 years |
| Vehicles | 3 - 5 years |
| Tooling | 5 years |
| Computer equipment | 3 - 5 years |

Leasehold improvements and leased equipment are amortized on a straight-line basis over the lesser of the lease term or useful life of the underlying asset, of which the maximum duration is 10 years, and are included in discontinued operations.

The carrying value of plant, property and equipment is assessed for recoverability by management based on analysis of future expected cash flows from the underlying operations of the Company. Management believes there has been no impairment at March 31, 2017 and March 31, 2016.

**Leasing arrangements**

The Company follows ASC 840, “Leases”, which requires companies to assess the classification of the leases they enter into as either a capital lease or an operating lease. The Company accounts for its operating leases in accordance with the authoritative accounting standard on leases, which requires, among other things, accounting for the straight-line effect of escalating rents during the lease term and recognizing the effect of rent holidays over the related lease terms.

**Investment in bonds**

In February 2010, the Company purchased $1,041,000 of BUILD Missouri Revenue Bonds in connection with receiving funding in the same amount from the Missouri Development Finance Board. These bonds are accounted for at amortized cost under the held-to-maturity model. The Company receives semi-annual interest payments at 5% plus a portion of the principal. The final payment will be received in December 2024.

At March 31, 2017, the fair value approximates amortized cost.

**Insurance recoveries**

Insurance proceeds are collected on business interruption and property insurance policies. When losses are sustained in one accounting period and the amounts to be recovered are collected in a subsequent accounting period, management uses estimates and judgment to determine the amounts that are probable of recovery.

During the previous year, the test bay at one of the Company's plants was inoperative for approximately three months resulting in business interruption losses. The Company raised a claim with its insurer for these losses and accordingly has recognized the balance of the insurance recovery of $1,917,070 in the current year as income in the consolidated statement of operations. An amount of $1,000,000 towards business interruption was recognized in the year ended March 31, 2016.

During the previous year, one of the Company's products was damaged while being shipped to the customer resulting in losses. The Company had raised a claim with its insurer claiming insurance for these losses and accordingly has recognized the balance of the insurance recovery of $425,159 in the current year under the head insurance claim in the consolidated statement of operations. An amount of $572,340 towards the damaged unit was recognized in the year ended March 31, 2016 and was adjusted against the cost of sales.

**Warranties**

The Company generally warrants its products against defects for a period of one year. Provisions for estimated future costs and estimated returns for credit relating to warranties are accrued when revenue is recognized. Such accruals are based upon historical experience and management's estimate of the level of future claims. Additionally, the Company offers extended warranties.

The Company services and supports customers by providing warranties for its automation systems and the standard warranty is 12 months from the date of installation.

The revenue related to these extended warranties is deferred and recognized over the term of the warranty and included in net sales.

**Goodwill and intangible assets**

ASC 805, “Business Combinations”, requires that the purchase method of accounting be used for all business combinations. The guidance specifies criteria as to intangible assets acquired in a business combination that must be recognized and reported separately from goodwill. Under ASC 350, “Intangibles, Goodwill and Other”, all assets and liabilities of the acquired businesses, including goodwill, are assigned to reporting units.

Goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed. Goodwill is not amortized but subject to an annual impairment test. The Company is required to perform a two-step process in its impairment assessment of goodwill. Step one is to test for the potential of impairment. If the potential for impairment is identified by step one then step two is undertaken to measure the amount of impairment loss.

The fair value of the reporting unit, meaning the business enterprise value of the automation division, has been determined using the Market Multiple Approach. Based on the fair value determined, it was concluded that fair value of the unit was lower than its carrying value indicating that the goodwill may be impaired.
On existence of the indicators of impairment, the amount of the impairment loss is measured by comparing the implied fair value of business to its carrying value. The fair value of goodwill is determined in the same manner that goodwill is calculated in a business combination assuming the fair value of unit is the purchase price.

As a result of a decrease in revenue over the past several fiscal years, the Company has lowered its forecast of revenue growth for the automation division, leading to a decrease in the estimated business enterprise value of this reporting unit. As a result of using the above methodology, the Company, during the year has recognized an impairment loss of $6,500,000 (March 31, 2016: $ 6,163,000).

Intangible assets deemed to have finite lives are amortized over their estimated useful lives and are evaluated for impairment as long-lived assets. Intangible assets that have finite lives are amortized using accelerated and straight-line methods over their estimated useful lives, which range from three to fifteen years. An intangible asset that is subject to amortization is reviewed for impairment in accordance with the authoritative accounting standard on impairment.

**Income taxes**

The Company accounts for income taxes in accordance with ASC 740, “Income Taxes”, which requires the use of the liability method of accounting for income taxes. The current and deferred tax consequences of a transaction are measured by applying the provisions of enacted tax laws to determine the amount of taxes payable currently or in future years. Deferred income taxes are provided for temporary differences between income tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. A valuation allowance reduces deferred tax assets when management determines it is "more likely than not" that some portion or all of the deferred tax assets will not be realized. As of March 31, 2017, management has taken a full valuation allowance on remaining deferred tax assets as a result of the discontinued operations and the uncertainty surrounding the realization of those assets.

The Company follows the provisions of authoritative accounting guidance that prescribes a recognition threshold and a measurement attribute for the recognition and measurement of uncertain tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax expense. To the extent accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision in the period that such determination is made.

**Advertising expense**
The Company expenses costs of advertising and promotion as incurred. Advertising expense totaled $4,424 and $31,316 during the years ended March 31, 2017 and March 31, 2016, respectively.

**Segment accounting and disclosures**
The Company operates under the power system segment. As the Company's business falls within a single business segment, there are no additional disclosures to be provided under Financial Accounting Standards - 131: "Disclosures about Segments of an Enterprise and Related Information" [ASC 280-10], other than those already provided for in the consolidated financial statements.

**Discontinued operations**
A disposal group qualifies as discontinued operations if it is a component of an entity that either has been disposed of, or is classified as held for sale, and,

1. Represents a separate major line of business or geographical area of operations;
2. Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
3. Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit and loss after tax from discontinued operations in the consolidated statement of operations as well as being excluded from note disclosure except as specifically noted. Additional disclosures are provided in Note 18.

**Recent accounting pronouncements**
In May 2014, the Financial Accounting Standards Board ["FASB"] issued an accounting standard update on revenue recognition from contracts with customers that is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. The standard can be adopted for annual periods beginning after December 15, 2016 at the earliest. In August 2015, the FASB issued an accounting standard update to delay the effective date of the revenue recognition standard update by one year to annual reporting periods beginning after December 15, 2018 and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company has not yet selected a transition method nor has it determined the effect of the standard on its consolidated financial statements.

In February 2015, the FASB issued an accounting standard update on consolidation. Under the amendments in this update, the evaluation of whether an entity must be consolidated has been modified. This update will become effective for annual and interim periods beginning after December 15, 2016. Upon adoption, the Company does not expect this standard to have a material impact on its financial condition or results of operations.

In April 2015, the FASB issued ASU 2015-03, 'Simplifying the Presentation of Debt Issuance Costs', which requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. Application of the standard, which is required to be applied retrospectively, is required for the annual and interim periods beginning after December 15, 2015 with early application permitted. Upon adoption it did not have a material impact on the disclosure for debt issuance cost as there are no debt issuance costs as at March 31, 2017 or as at March 31, 2016. Outstanding debt issuance cost was charged to the consolidated statement of operations in the year 2016-17 on account of repayment of the corresponding debt.

In July 2015, the FASB issued an accounting standard update to simplify the measurement of inventory. Under the amendments in this update, inventory is required to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predicable costs of completion, disposal and transportation. This update will become effective for annual periods beginning after December 15, 2016 and interim periods within annual periods beginning after December 15, 2017. Early adoption is permitted. Upon adoption, the Company does not expect this standard to have a material impact on its financial condition or results of operations.

In August 2015, the FASB issued an accounting standard update to clarify the presentation and subsequent measurement of debt issuance costs associated with lines of credit. This update will become effective for annual periods beginning after December 15, 2015 and interim periods within annual periods beginning after December 15, 2016. Upon adoption, the Company does not expect this standard to have a material impact on its financial condition or results of operations.

In September 2015, the FASB issued an accounting standard update to simplify the accounting for measurement period adjustments. Under the amendments in this update, provisional amounts identified during the measurement period will be calculated as if they were known at the acquisition date but recognized in the reporting period in which they occur. The portion of the amount that is recorded in earnings in the current period that would have been recorded in previous reporting periods must be disclosed on the statement of operations or in a footnote. This update will become effective for annual periods beginning after December 15, 2016 and interim periods within annual periods beginning after December 15, 2017. Upon adoption, the Company does not expect this standard to have a material impact on its financial condition or results of operations.

In November 2015, the FASB issued an accounting standard update to simplify the accounting for deferred income taxes. Under the amendments in this update, deferred tax liabilities and assets must be classified as non-current in the balance sheet. This update will become effective for annual periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. The Company elected to early adopt this standard for the period ended March 31, 2016 on a prospective basis and the prior periods were not retrospectively adjusted.

In August 2016, the FASB issued ASU 2016-15, 'Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments', which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This update is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company does not expect that the adoption of this ASU will have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350) – 'Simplifying the Test for Goodwill Impairment ("ASU 2017-04")'. This ASU eliminates Step 2 of the goodwill impairment test and requires a goodwill impairment to be measured as the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of its goodwill. The ASU is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019 and must be applied prospectively. Early adoption is permitted and the Company expects to early adopt ASU 2017-04 as of December 31, 2017. The Company is currently analyzing the potential impact of adoption of this standard on the Company's consolidated financial statements.

**CG Power USA Inc.**
**Notes to consolidated financial statement**
**March 31, 2017**

### 3. Accounts receivable, less allowance for doubtful accounts

| | March 31, 2017<br>$ | March 31, 2016<br>$ |
|---|---|---|
| Accounts receivable | 19,989,408 | 24,250,318 |
| Less: allowance for doubtful accounts | (1,166,261) | (1,229,627) |
| | 18,823,147 | 23,020,691 |

### 4. Inventories

| | March 31, 2017<br>$ | March 31, 2016<br>$ |
|---|---|---|
| Raw materials | 9,310,065 | 13,086,191 |
| Work-in-process | 7,029,453 | 8,589,083 |
| Finished goods | 2,625,196 | 3,594,492 |
| | **18,964,714** | **25,269,766** |
| Less: provision for obsolescence | (3,763,586) | (3,601,742) |
| | **15,201,128** | **21,668,024** |

**CG Power USA Inc.**
**Notes to consolidated financial statement**
**March 31, 2017**

**5. Plant, property and equipment, net**

The carrying amounts of tangible assets at March 31, 2017 and March 31, 2016 are as follows:

| Particulars | Gross carrying value as at March 31, 2016 | Current year additions / (deletions), net | Gross carrying value as at March 31, 2017 | Accumulated depreciation as at March 31, 2016 | Current year depreciation | Disposal | Accumulated depreciation as at March 31, 2017 | Carrying Value as at March 31, 2017 | Carrying Value as at March 31, 2016 |
|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Land | 1,342,048 | - | 1,342,048 | - | - | - | - | 1,342,048 | 1,342,048 |
| Buildings and improvements | 19,191,269 | - | 19,191,269 | 7,378,967 | 542,384 | - | 7,921,351 | 11,269,918 | 11,812,302 |
| Machinery and equipment | 28,700,246 | 472,370 | 29,172,616 | 16,147,847 | 1,672,065 | - | 17,819,912 | 11,352,704 | 12,552,399 |
| Office equipment | - | - | - | - | - | - | - | - | - |
| Furniture and fixtures | 1,067,646 | 99,146 | 1,166,792 | 915,322 | 79,622 | - | 994,944 | 171,848 | 152,324 |
| Vehicles | 307,220 | 46,477 | 353,697 | 302,054 | 7,489 | - | 309,543 | 44,154 | 5,166 |
| Tooling | - | - | - | - | - | - | - | - | - |
| Computer equipment | 814,034 | - | 814,034 | 740,320 | 53,899 | - | 794,219 | 19,815 | 73,714 |
| Leased equipment | - | - | - | - | - | - | - | - | - |
| Construction-in-process | 274,285 | (274,285) | - | - | - | - | - | - | 274,285 |
| | **51,696,748** | **343,708** | **52,040,456** | **25,484,510** | **2,355,459** | **-** | **27,839,969** | **24,200,487** | **26,212,238** |

Depreciation expense incurred during the years ended March 31, 2017 and March 31, 2016 totalled $ 2,355,459 and $ 2,220,298, respectively.

Depreciation expense included in cost of sales during the years ended March 31, 2017 and March 31, 2016 totalled $ 2,245,390 and $ 2,192,581, respectively.

**CG Power USA Inc.**
**Notes to consolidated financial statement**
**March 31, 2017**

**6. Intangible and other assets**

The carrying amounts of intangible assets at March 31, 2017 and March 31, 2016 are as follows:

| Particulars | Estimated useful life | Gross carrying value as at March 31, 2016 | Current year additions / (deletions), net | Gross carrying value as at March 31, 2017 | Accumulated amortization / impairment as at March 31, 2016 | Current year amortization / impairment | Disposals | Accumulated Amortization as at March 31, 2017 | Carrying Value as at March 31, 2017 | Carrying Value as at March 31, 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Customer relationships | 15 years | 10,671,000 | - | 10,671,000 | 3,516,082 | 700,000 | - | 4,216,082 | 6,454,918 | 7,154,918 |
| Technology | 7 years | 2,995,700 | - | 2,995,700 | 2,424,506 | 257,143 | - | 2,681,649 | 314,051 | 571,194 |
| Tradename | 3 years | 191,000 | - | 191,000 | 191,000 | - | - | 191,000 | - | - |
| Non-compete agreements | 3 years | 20,000 | - | 20,000 | 20,000 | - | - | 20,000 | - | - |
| Product development | 5 years | 2,235,090 | - | 2,235,090 | 1,131,747 | 405,636 | - | 1,537,383 | 697,707 | 1,103,343 |
| Capitalized software | 5 years | 1,183,178 | (506,769) | 676,409 | 642,178 | 153,701 | (227,501) | 568,378 | 108,031 | 541,000 |
| Product development in progress | | 302,786 | 333,244 | 636,030 | - | - | - | - | 636,030 | 302,786 |
| **Total Intangibles Assets** | | **17,598,754** | **(173,525)** | **17,425,229** | **7,925,513** | **1,516,480** | **(227,501)** | **9,214,492** | **8,210,737** | **9,673,241** |
| Goodwill | | 18,520,784 | - | 18,520,784 | 6,163,000 | 6,500,000 | - | 12,663,000 | 5,857,784 | 12,357,784 |
| **Total** | | **18,520,784** | **-** | **18,520,784** | **6,163,000** | **6,500,000** | **-** | **12,663,000** | **5,857,784** | **12,357,784** |

Amortization expense incurred during the years ended March 31, 2017 and March 31, 2016 totalled $ 1,516,480 and $ 1,627,024, respectively.

Amortization expense included in cost of sales during the years ended March 31, 2017 and March 31, 2016 totalled $ 153,701 and $ 159,445, respectively.

Expected amortization expense for the next 5 years is as follows:

| | $ |
|---|---|
| 2018 | 1,410,542 |
| 2019 | 1,084,775 |
| 2020 | 714,534 |
| 2021 | 700,000 |
| 2022 | 703,155 |
| | 4,613,006 |

As at March 31, 2017, management has evaluated the estimated useful lives and assessed impairment indicators of the intangible and other assets and did not identify indicators leading to impairment or change in their estimated useful lives, except for goodwill.

**Assumptions for goodwill**
Represents Goodwill accounted on the acquisition of the QEI automation solution business.

The recoverable amount of this business is determined using the Market Multiple Approach. Based on this, it was concluded that fair value of the unit was lower than its carrying value leading to indicators that the goodwill may be impaired. As a result, the Company, during the year has recognized an impairment loss of $6,500,000 (March 31, 2016: $ 6,163,000). Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

**Assumptions for customer relationship**
Represents customer relationship accounted on the acquisition of the QEI automation solution business.
The Company believes the carrying value of customer relationship equals to recoverable amount on account of following:
1. The automation business has continued flow of direct and indirect revenue from identified customers.
2. The automation business has sufficient order backlog and is able to obtain fresh orders from the identified customers to continue flow of revenue on a continuing basis.
3. There are no indicators of change in useful lives of customer relationship.

### 7. Other liabilities

| | March 31, 2017 $ | March 31, 2016 $ |
|---|---|---|
| Customer advances [refer to Note 7.3] | 32,359,028 | 14,320,561 |
| Provision for warranties [refer to Note 7.2] | 803,627 | 418,949 |
| Other current liabilities | - | 464,221 |
| | **33,162,655** | **15,203,731** |

### 7.1. Deferred Revenue

| | Non-Current | | Current | |
|---|---|---|---|---|
| | **March 31, 2017 $** | **March 31, 2016 $** | **March 31, 2017 $** | **March 31, 2016 $** |
| Relating to maintenance contract | 159,350 | - | 980,349 | 958,040 |
| Relating to extended warranty | 2,363,006 | 2,408,835 | 1,157,022 | 1,120,379 |
| **Deferred revenue, end of year** | **2,522,356** | **2,408,835** | **2,137,371** | **2,078,419** |

### 7.2. Provision for warranties

The Company generally provides warranty on its products against defects for a period of one year. Provisions for estimated future costs and estimated returns for credit relating to warranties are accrued when products are shipped and revenue is recognized.

| General product warranty | March 31, 2017 $ | March 31, 2016 $ |
|---|---|---|
| **Balance, beginning of year** | 418,949 | 343,816 |
| Accruals for warranties issued during the year | 2,795,086 | 2,627,232 |
| Settlements made / reversal of excess accruals during the year | (2,410,408) | (2,552,099) |
| **Balance, end of year** | **803,627** | **418,949** |

Extended warranty options ranging from two to four years are also available for purchase. These amounts are recorded as deferred revenue and recognized on a straight-line basis over the term of the warranty.

| Extended warranty | March 31, 2017 $ | March 31, 2016 $ |
|---|---|---|
| **Deferred revenue, beginning of year** | 3,529,214 | 3,868,013 |
| Additions for extended warranties issued during the year | 1,130,970 | 1,154,396 |
| Amortization of deferred revenue for the year | (1,140,156) | (1,493,195) |
| **Deferred revenue, end of year** | **3,520,028** | **3,529,214** |
| Less: current portion | (1,157,022) | (1,120,379) |
| **Long-term portion of deferred revenue** | **2,363,006** | **2,408,835** |

### 7.3. Customer advances

During the year, the Company has received advance from one of its customers aggregating to $24,154,528 (representing 70% to 75% of the order value). The Company has obtained extention of delivery from the customer and is expected to supply the products by end of the calender year 2017. The Company does not expect any liquidating damages on these orders since it belives it would be able to fulfill the order within the extentded period.

### 8. Borrowings

| | Non-Current | | Current | |
|---|---|---|---|---|
| | **March 31, 2017 $** | **March 31, 2016 $** | **March 31, 2017 $** | **March 31, 2016 $** |
| Debt outstanding [refer to Note 8.1] | 591,259 | 15,066,798 | 14,489,305 | 1,391,541 |
| | **591,259** | **15,066,798** | **14,489,305** | **1,391,541** |

### 8.1. Debt outstanding

Debt outstanding consists of the following:

| | March 31, 2017 $ | March 31, 2016 $ |
|---|---|---|
| BUILD Missouri revenue bonds, Series 2010 with interest payable semi-annually at a fixed rate 5.00% on June 1 and December 1, respectively, principal payments ranging from $24,500 to $47,700 through maturity on December 1, 2024. | 637,700 | 702,900 |
| Wells Fargo equipment loan payable with monthly installments of $122,541 with an annual interest rate of 4.35% through maturity on June 15, 2019. | 3,146,430 | 4,449,157 |
| Wells Fargo equipment lease payable with monthly installment of $2,174 with a term of 48 months, expiring in January 2019. | 46,434 | 71,302 |
| Axis Bank working capital facility up to $12,500,000 to meet the long-term working capital requirement of the Company. Interest only is paid quarterly at a rate of 3-month LIBOR plus 2.15%. Principal is due 24 months from the date of disbursement. Current balance is due in August 2017. | 11,250,000 | 11,234,980 |
| **Total debt** | **15,080,564** | **16,458,339** |
| Less: current portion of maturities | (14,489,305) | (1,391,541) |
| **Debt, net of current maturities** | **591,259** | **15,066,798** |

During the previous year, on account of proposed sale of the power and transformer businesses outside India, it was management's intention to repay all the debt of the Company before March 31, 2017. However, since the sale could not materilaize the borrowings were not repaid and the repayment is happening as per the original repayment schedule. Accordingly, the borrowings for the previous year have been restated.

The maturities of debt based on scheduled repayment terms are as follows:

| | March 31, 2017 $ |
|---|---|
| 2018 | 14,489,303 |
| 2019 | 93,860 |
| 2020 | 75,500 |
| 2021 | 79,400 |
| 2022 | 83,400 |
| Thereafter | 259,100 |
| | **15,080,563** |

At March 31, 2017, the Company was in violation of a loan covenant under its debt agreements with Axis Bank and Wells Fargo. Pursuant to the violation of the loan covenant, the lender reserves all rights and remedies which could include accelerating the balance due. Accordingly, the loan from Wells Fargo for installment due after one year from the consolidated balance sheet date has been considered as current. Loan from Axis Bank is due within one year from the consolidated balance sheet date and is treated as current. As at March 31, 2016, the Company was in violation of a loan covenant under its debt agreements with Axis Bank and had obtained a waiver.

With the exception of the BUILD Missouri revenue bonds and Axis Bank loan, all bonds are secured by all of the Company's plant, property and equipment of the Company not otherwise encumbered. Axis Bank loan is secured by a corporate guarantee of CG Holdings Belgium NV [holding company of the Company's holding company] and Crompton Greaves Limited ["Ultimate Parent Company" of the Company].

### 9. Provision for income taxes

The components of the provision for income taxes from continuing operations are summarized as follows:

| | March 31, 2017<br>$ | March 31, 2016<br>$ |
|---|---|---|
| **Current** | | |
| Federal | (150,000) | 355,639 |
| State | (365,042) | 719,814 |
| | **(515,042)** | **1,075,453** |
| **Deferred** | | |
| Federal | (259,552) | 5,707,795 |
| State | (140,050) | 1,066,993 |
| | **(399,602)** | **6,774,788** |
| **Total provision for income taxes** | **(914,644)** | **7,850,241** |

For 2017, the Company's effective income tax rate is lower than the statutory federal income tax rate principally due to the effect of state taxe true-up's, Missouri bond credits, Goodwill Impairment and providing for a full valuation allowance.

The tax years ending March 31, 2014 onwards are open to audit by the Internal Revenue Service. The Company is open to various state taxing jurisdictions ranging from 3 to 5 years depending on the state.

The components of the Company's deferred tax assets and liabilities as at March 31st are as follows:

| | March 31, 2017<br>$ | March 31, 2016<br>$ |
|---|---|---|
| **Deferred tax assets** | | |
| UNICAP | 196,381 | 289,788 |
| Reserve for inventory obsolescence | 1,332,834 | 971,472 |
| Warranty reserve | 1,631,871 | 1,503,550 |
| Compensated absences | 434,781 | 677,650 |
| Accrued expenses | 328,282 | 264,201 |
| Net operating loss carryforward | 4,671,805 | 92,702 |
| ATM tax credit carryforwards | 550,688 | 551,490 |
| Research and development credit carryforward | 12,130 | 12,130 |
| Capitalized expenses | 172,044 | 206,350 |
| Intercompany Interest expense | - | 41,039 |
| Other | 207,771 | 396,811 |
| **Total current deferred tax assets before valuation allowance** | **9,538,587** | **5,007,183** |
| **Valuation allowance** | **(4,327,067)** | **-** |
| **Deferred tax liabilities** | | |
| Deferred tax liabilities - plant, property and equipment | (2,923,715) | (2,779,220) |
| Deferred tax liabilities - intangibles | (2,274,125) | (2,627,565) |
| Deferred tax liabilities - other | (13,680) | - |
| **Total deferred tax liabilities** | **(5,211,520)** | **(5,406,785)** |
| **Net deferred tax asset/(liability)** | **-** | **(399,602)** |

The amounts recorded as deferred tax assets as of March 31, 2017 represent the tax benefits of existing deductible temporary differences as well as net operating losses. Realization of deferred tax assets is dependent upon the generation of sufficient taxable income prior to expiration of any loss carryforwards. Management reviews the recoverability of deferred tax assets during each reporting period. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

For the year ended March 31, 2017, the Company has decided to close down a division as outlined in Note 18. That entity therefore, is considered discontinued for financial reporting purposes. In addition, management has determined that a full valuation allowance on remaining deferred tax assets will be recorded, as these assets cannot be reasonably assured for future use. At March 31, 2017, the Company had federal net operating loss carryforwards of approximately $18,463,560, which will start to expire on March 31, 2034. The Company also has $502,050 of alternative minimum tax credits, which are carried forward indefinitely and $12,130 of research and development credits which are carried forward for 20 years.

A reconciliation of the Company's unrecognized tax benefits is as follows:

| | **March 31, 2017** | **March 31, 2016** |
|---|---|---|
| | **$** | **$** |
| Unrecognized tax benefits at beginning of year | 150,000 | 150,000 |
| Increases as a result of tax positions taken during a prior year | - | - |
| Increases as a result of tax positions taken during the current year | - | - |
| Decreases due to lapse of the applicable statute of limitations | (150,000) | - |
| Decreases due to settlements with taxing authorities | - | - |
| Unrecognized tax benefits at end of year | $ - | $ 150,000 |

The Company's policy is to record interest and penalties as part of the tax provision. As of March 31, 2017 and 2016 the interest and penalties amounted to nil.

## 10. Related party transactions

In the normal course of business, the Company engages in a number of transactions with its affiliates at negotiated prices. Affiliates include the Parent Company and its parent, CG Holdings Belgium NV and fellow subsidiaries. All material related party transactions are disclosed below.

Sales to affiliated companies totalled approximately $963,511 and $606,306 during the years ended March 31, 2017 and March 31, 2016 respectively.

Purchases from affiliated companies totaled approximately $19,769,329 and $24,371,953 during the years ended March 31, 2017 and March 31, 2016 respectively.

The affiliates provide various management, general and administrative services for the Company. During the years ended March 31, 2017 and March 31 2016, the Company has recorded charges from the affiliates of $5,171,782 and $2,507,283, respectively, to cover these expenses.

During the years ended March 31, 2017 and March 31 2016, the Company has recorded income from the affiliates of $154,331 and $25,811, respectively, as interest charged by the Company on loans advanced to its affiliates bearing interest at the 1 month LIBOR rate plus 200 basis points.

The Company has, during the prior year recorded a recovery amounting to $25,448,524 for amounts that were due to affiliated companies since these were forgiven. Also during the prior year the Company has written off $1,381,711 of amounts due from affiliates. The net amount of $24,066,813 is recorded in the consolidated statements of operations. There were no recoveries or write-back in the current year.

The Company has $2,940,195 and $4,579,761 due from the affiliates at March 31, 2017 and March 31, 2016 respectively, for expenses incurred on behalf of the affiliates and receivable under normal trade terms or within one year.

Additionally, the Company has $12,002,717 and $12,953,289 due to affiliates at March 31, 2017 and March 31, 2016 respectively, for expenses incurred by the affiliates. These items are also payable under normal trade terms or within one year.

The Company has $26,516,747 and $2,084,793 receivable as at March 31, 2017 and March 31, 2016 respectively, related to loans given to the affiliates.

The Company has $8,154,628 and $6,546,994 payable as at March 31, 2017 and March 31, 2016 respectively, related to loans received from the affiliates, out of which loans worth $6,546,994 bearing interest at the 1 month LIBOR rate plus 175 basis points and the balance loans worth of $1,607,634 bearing interest at the 1 month LIBOR rate plus 200 basis points. The said loans have no fixed terms of repayment and therefore are classified as current.

The following represents a summary of the outstanding balances of the Parent and affiliates as of March 31, 2017 and March 31, 2016:

| | **March 31, 2017**<br>**$** | **March 31, 2016**<br>**$** |
|---|---|---|
| Due from affiliates | 2,940,195 | 4,579,761 |
| Loans to affiliates | 26,516,747 | 2,084,793 |
| | **29,456,942** | **6,664,554** |
| | | |
| Due to affiliates | 12,002,717 | 12,953,289 |
| Loans from affiliates | 8,154,628 | 6,546,994 |
| | **20,157,345** | **19,500,283** |

**11. Other current assets**

| | March 31, 2017<br>$ | March 31, 2016<br>$ |
|---|---|---|
| Prepaid expenses and other current assets | 748,633 | 738,240 |
| Insurance receivable | - | 1,572,340 |
| | **748,633** | **2,310,580** |

As at March 31, 2016, insurance receivable consisted of amounts owing from the Company's insurer towards claims raised by the Company for business interruption of $1,000,000 relating to an inoperative test bay during three months of the previous year and for loss of goods of $572,340 relating to a unit damaged while in transit in the previous year. During the current year, the Company has received from the Company's insurer a total of $2,917,070 for business interruption and $998,449 for a unit damaged in transit.

**12. Fair value of financial instruments**

The Company has established a process for determining fair value of its financial assets and liabilities using available market information or other appropriate valuation methodologies. Fair value is based upon quoted market prices, where available. If such valuation methods are not available, fair value is based on internally or externally developed models using market-based or independently-sourced market parameters, where available. Fair value may be subsequently adjusted to ensure that those assets and liabilities are recorded at fair value. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value estimate as of the Company's reporting date.

Fair value guidance establishes a three-level hierarchy for disclosure of fair value measurements, based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date, as follows:

• Level 1 - Inputs to the valuation methodology are quoted prices [unadjusted] for identical assets or liabilities in active markets.
• Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
• Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table presents assets and liabilities measured at fair value on a recurring basis at March 31, 2017:

| | Fair value as at March 31, 2017 | | | |
|---|---|---|---|---|
| | Level 1<br>$ | Level 2<br>$ | Level 3<br>$ | **Total**<br>**$** |
| **Other liabilities** | | | | |
| Loss / (Gain) on open forward contracts | - | (35,756) | - | **(35,756)** |

The following table presents assets and liabilities measured at fair value on a recurring basis at March 31, 2016:

| | Fair value as at March 31, 2016 | | | |
|---|---|---|---|---|
| | Level 1<br>$ | Level 2<br>$ | Level 3<br>$ | **Total**<br>**$** |
| **Other liabilities** | | | | |
| Loss / (Gain) on open forward contracts | - | 464,221 | - | **464,221** |

Other financial assets and liabilities which include cash, restricted cash, accounts receivable, and accounts payable are stated at carrying values which approximate the fair values. Investment in bonds and borrowings approximate their fair value based on floating rates or fixed rates that approximate current rates for similar investments.

**13. Retirement plan**

The Company has a retirement plan pursuant to Section 401(K) of the Internal Revenue Code, whereby eligible participants, as defined by the plan, may contribute by deferring a percentage of their compensation, but not in excess of the maximum allowed under the code. The plan provides for a matching contribution by the Company.

The Company matched contributions of $247,761 and $252,384 to the life savings plan for the years ended March 31, 2017 and March 31, 2016, respectively.

The Company elected to discontinue its participation in the AFL-CIO multi-employer defined contribution pension plan in September 2008 and recognized a withdrawal liability of approximately $1,200,000. Required quarterly payments of $41,750 began in January 2009 and will continue through 2018, at which time the Company's obligations will be met.

As of September 2008, as a part of the Company's collective bargaining agreement with their production, maintenance and delivery employees, who are represented by the International Union of Communication Workers of America, AFL-CIO union employees became eligible to participate in the IUE-CWE 401(k) retirement plan, to which the Company contributes $0.36 per employee service hour. Beginning September 20, 2009, employees may contribute up to 25% of their pre-tax earnings to the retirement plan subject to certain Internal Revenue Service regulations. The Company will match $0.01 for every $0.01 per hour of employee contribution up to a maximum of $0.14 per compensated hour. The Company contributed $320,628 and $351,675 to the 401(k) retirement plan for the years ended March 31, 2017 and March 31, 2016, respectively. The current collective bargaining agreement expires on September 23, 2017 and the Company feels that the risks of participating in this plan differ from single-employer plans.

**14. Commitments and contingencies**

As at March 31, 2017, commitments of $7,327,241 [March 31, 2016: $15,921,838] for raw material purchases and services existed. As at March 31, 2017 and March 31, 2016, there were no other outstanding commitments on these purchase orders.

The Company has entered into operating leases for office space, vehicles and various equipment with varying terms. In addition to the base rent for office space, the Company is required to pay additional rent for the pro-rata share of any increase in the cost of maintaining and operating the building and increases in property taxes. Future minimum lease payments under lease agreements with non-cancelable terms in excess of one year at March 31, 2017 and March 31, 2016 are as follows:

| | **March 31, 2017**<br>$ | **March 31, 2016**<br>$ |
|---|---|---|
| 2017 | - | 501,390 |
| 2018 | 533,740 | 385,300 |
| 2019 | 431,615 | 336,328 |
| 2020 | 62,673 | 23,341 |
| 2021 | 45,398 | 7,150 |
| 2022 | 16,497 | - |
| | **1,089,923** | **1,253,509** |

Total lease expense under all leases was $788,662 and $909,603 for the years ended March 31, 2017 and March 31, 2016, respectively. Rental expense is recorded on a straight-line basis in accordance with the guidance for accounting for leases.

As at March 31, 2016, the Company had provided standby letters of credit totaling $360,000 which expired on May 1, 2016 in connection with the balances outstanding for the industrial development revenue bonds as well as certain insurance policies. As at March 31, 2017, Company has given letters of credit amounting to $24,154,528 against advances received from one of the customers. The unused letters of credit outstanding as at year ended March 31, 2017 is $845,472.

In the ordinary course of business there are various legal proceedings pending against the Company. The Company evaluates the likelihood of an unfavorable outcome for each claim, and records provisions for specific claims where it has been determined that a loss is probable and estimable, the Company does not expect the outcome of these matters, either individually or in aggregate, to have a material adverse effect on the Company’s consolidated financial position.

### 15. Concentration of credit risk

The Company sells its products and services to a wide range of companies in the electrical power generating, utility distribution networks and electrified transit systems. The Company maintains reserves for potential credit losses and, historically, such losses have been within management's expectations. For the year ended March 31, 2017, the Company had sales to its four largest customers of $33,055,198 [March 31, 2016: $27,545,146] which make up 22.42% [March 31, 2016: 17.57%] of gross sales. The amount receivable from these four customers as at March 31, 2017 is $7,014,354 [March 31, 2016: $3,280,092] which accounts for 35.65% of accounts receivable as at March 31, 2017 [March 31, 2016: 14.25%]. The Company regularly assesses the creditworthiness of these customers and has not experienced any credit issues with them.

Considering the business activity and industry in which the Company operates, management believes there are no significant concentrations of risks involved.

### 16. Research and development expenses

The expenditure by the Company during the year on research and development was $ 776,729 (March 31, 2016: $898,614).

### 17. Costs, estimated earnings and billings on uncompleted contracts

At March 31, 2017 and March 31, 2016, costs, estimated earnings and billings on uncompleted contracts consisted of the following:

| | March 31, 2017<br>$ | March 31, 2016<br>$ |
|---|---|---|
| Costs incurred to date on uncompleted contracts | 3,169,861 | 2,948,920 |
| Estimated earnings | 2,644,608 | 2,509,511 |
| | 5,814,469 | 5,458,431 |
| Less billings to date | (10,451,047) | (7,175,840) |
| | (4,636,578) | (1,717,409) |

The balance is included in the accompanying consolidated balance sheet under the following captions:

| | March 31, 2017<br>$ | March 31, 2016<br>$ |
|---|---|---|
| Excess of costs and estimated earnings over billings on uncompleted contracts | 692,536 | 901,375 |
| Excess of billings over costs and estimated earnings on uncompleted contracts | (5,329,114) | (2,618,784) |
| | (4,636,578) | (1,717,409) |

### 18. Discontinued operations

During the previous year, the Ultimate Parent Company had initiated an active process to identify buyers for its automation and power solution businesses and a restructuring process to carve out its trading activities into another group company. This was triggered by acceptance of a binding offer from First Reserve to sell its power and distribution transformer businesses outside of India. During the current year, the deal with First Reserve fell through and hence the automation and trading businesses have been reconsidered as continuing operations of the Company. Previous year’s numbers for automation and trading businesses have also been restated to be comparable with the amounts for the current year.

Power Solution business of the Company, have been considered as discontinued operations in the current year due to management’s decision to close down the division.

The results of operations and cash flows related to the power solutions business was classified as discontinued operations in the consolidated statements of operations and consolidated cash flows as follows:

**Statement of loss on discontinued operations**

| | March 31, 2017 $ | March 31, 2016 $ |
|---|---|---|
| Revenue | 8,967,054 | 15,301,707 |
| Cost of sales | (8,841,623) | (17,347,422) |
| Selling, general and administrative expenses | (3,336,072) | (5,753,021) |
| Loss from operations before the following | **(3,210,641)** | **(7,798,736)** |
| Intercompany loan recovery | - | (803,896) |
| Other income (expenses), net | (68,851) | 109,674 |
| Net realized gain (loss) on foreign currency | - | 146,586 |
| Interest income | - | 50,831 |
| Interest expense | (10,765) | (81,467) |
| | **(79,616)** | **(578,272)** |
| Loss on discontinued operations before taxes | **(3,290,257)** | **(8,377,008)** |
| Income tax benefit (expense) | **(399,602)** | **(1,929,676)** |
| **Loss on discontinued operations** | **(3,689,859)** | **(10,306,684)** |

| | March 31, 2017 $ | March 31, 2016 $ |
|---|---|---|
| **Carrying amounts of major classes of assets included as part of discontinued operations** | | |
| Cash | 372,807 | 436,017 |
| Accounts receivable, less allowance for doubtful accounts | 886,935 | 3,055,240 |
| Inventories | - | 50,847 |
| Excess of costs and estimated earnings over billings on uncompleted contracts | 488,097 | 1,567,737 |
| Due from / loans to affiliates | - | 29,509 |
| Plant, property and equipment, net | 130,387 | 378,056 |
| Deferred tax assets | - | 399,602 |
| Other assets | 4,427 | 597,405 |
| **Total assets of the disposal group classified as held for sale in the consolidated balance sheet** | **1,882,653** | **6,514,413** |
| **Carrying amounts of major classes of liabilities included as part of discontinued operations** | | |
| Accounts payable and accrued liabilities | 1,077,819 | 7,078,448 |
| Excess of billings over costs and estimated earnings on uncompleted contracts | - | 2,588,927 |
| Due to / loans from affiliates | 810,508 | 259,125 |
| Other liabilities | - | 4,154 |
| **Total liabilities of the disposal group classified as held for sale in the consolidated balance sheet** | **1,888,327** | **9,930,654** |

As the divisions representing the discontinued operations were carved out at book values effective March 31, 2017 and management identified no indicators of impairment beyond those disclosed elsewhere, there was no loss recognized upon recognition of these divisions as discontinued operations.

**Statement of cash flows from discontinued operations**

| | March 31, 2017 $ | March 31, 2016 $ |
|---|---|---|
| Cash flows related to operating activities | (866,455) | (611,797) |
| Cash flows related to investing activities | - | (124,401) |
| Cash flows related to financing activities | 803,245 | - |
| **Cash flows used in discontinued operations** | **(63,210)** | **(736,198)** |

**19. Subsequent events**

Subsequent events have been evaluated through May 18, 2017 which is the date on which the consolidated financial statements were approved for issuance.