

LIDSTECH HOLDINGS LTD.

FINANCIAL STATEMENTS

(Unaudited)

YEAR ENDED JULY 31, 2016

LIDSTECH HOLDINGS LTD.
INDEX TO FINANCIAL STATEMENTS
(Unaudited)
YEAR ENDED JULY 31, 2016

Review Engagement Report

Balance Sheet

Statement of Retained Earnings

Shawnigan Village Waterworks - Statement of Loss

Statement of Income

Statement of Cash Flows

Notes to Financial Statements

Schedule 1 - Deferred Capacity Trust Fund

Schedule 2 - Replacement Reserve Trust Fund

McAVOY RULE & COMPANY

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REVIEW ENGAGEMENT REPORT

To the Shareholders of Lidstech Holdings Ltd.

We have reviewed the balance sheet of Lidstech Holdings Ltd. as at July 31, 2016 and the statements of retained earnings, of loss for the Shawnigan Village Waterworks, of income for the company, and of cash flows, and the Schedules 1 and 2 for the year then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the company.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian accounting standards for private enterprises.

Victoria, B.C.
November 21, 2016

McAvoy Rule & Company
McAvoy Rule & Company
Chartered Professional Accountants

LIDSTECH HOLDINGS LTD.

BALANCE SHEET - JULY 31, 2016

(Unaudited)

ASSETS				
	Shawnigan Village Waterworks	Lidstech Holdings Ltd.	2016	2015
CURRENT				
Cash	\$ 841	\$ -	\$ 841	\$ 9,381
Accounts receivable (Note 3)	74,651	7,949	82,600	102,391
Prepaid expenses	-	804	804	8,425
Current portion of housing loan (Note 7)	-	7,398	7,398	7,325
Income taxes receivable	-	6,324	6,324	2,261
	75,492	22,475	97,967	129,783
PROPERTY, PLANT AND EQUIPMENT (Notes 2b, 4)	33	560	593	812
TRUST FUNDS (Note 5)	200,156	-	200,156	118,356
GOODWILL (Notes 2c, 6)	-	42,581	42,581	42,581
HOUSING LOAN (Note 7)	-	112,849	112,849	120,318
	\$ 275,681	\$ 178,465	\$ 454,146	\$ 411,850

LIABILITIES				
CURRENT				
Bank indebtedness (Note 8)	\$ 35,000	\$ 5,225	\$ 40,225	\$ 6,409
Accounts payable and accrued liabilities (Note 9)	9,488	15,000	24,488	57,571
Due to Replacement Reserve Trust Fund	5,991	-	5,991	24,951
	50,479	20,225	70,704	88,931
FUTURE INCOME TAX LIABILITY (Note 2d)	-	1,981	1,981	1,948
TRUST LIABILITY (Note 5)	200,156	-	200,156	118,356
	250,635	22,206	272,841	209,235

SHAREHOLDERS' EQUITY				
SHARE CAPITAL (Note 10)	-	40	40	40
RETAINED EARNINGS	25,046	156,219	181,265	202,575
	25,046	156,259	181,305	202,615
	\$ 275,681	\$ 178,465	\$ 454,146	\$ 411,850

APPROVED ON BEHALF OF THE BOARD:

Director

See accompanying notes to financial statements

LIDSTECH HOLDINGS LTD.

STATEMENT OF RETAINED EARNINGS (Unaudited)

YEAR ENDED JULY 31, 2016

	Shawnigan Village Waterworks	Lidstech Holdings Ltd.	2016	2015
RETAINED EARNINGS, beginning of the year	\$ 78,671	\$ 123,904	\$ 202,575	\$ 201,257
NET INCOME (LOSS) FOR THE YEAR	(53,625)	54,227	602	8,149
REFUNDABLE TAXES ON THE CAPITAL GAIN (Note 12)	-	6,324	6,324	3,416
DIVIDENDS PAID	-	(28,236)	(28,236)	(10,247)
RETAINED EARNINGS, end of the year	\$ 25,046	\$ 156,219	\$ 181,265	\$ 202,575

See accompanying notes to financial statements

LIDSTECH HOLDINGS LTD.

D.B.A. SHAWNIGAN VILLAGE WATERWORKS

STATEMENT OF LOSS (Unaudited)

YEAR ENDED JULY 31, 2016

	2016	2015
REVENUE		
Customer billings - water	\$ 263,965	\$ 265,129
Funds transferred out of trust	5,250	125,206
Customer billings - other charges	5,098	13,976
	274,313	404,311
EXPENSES		
Amortization	8	10
Bad debts	1,768	-
Bank charges and interest	2,383	2,790
Bookkeeping fees	16,579	19,800
Chlorine	4,917	5,596
Insurance, licenses and fees	7,899	9,242
Management fees	46,394	41,220
Office rental	7,687	6,257
Office supplies	4,298	16
Operator/meter reader fees	55,361	24,720
Postage	2,335	1,966
Professional fees	11,354	11,354
Promotion	250	250
Property taxes	76	184
Replacement Reserve Trust Fund provision	66,051	67,951
Repairs and maintenance	22,279	25,902
Storage rental	4,489	4,674
Subcontractors	28,184	121,354
Utilities and telephone	22,822	21,392
Vehicle lease and maintenance	8,719	6,077
Wage benefits	9,085	9,085
Weir management	5,000	5,000
	327,938	384,840
NET INCOME (LOSS) FOR THE YEAR	\$ (53,625)	\$ 19,471

See accompanying notes to financial statements

LIDSTECH HOLDINGS LTD.

STATEMENT OF INCOME (Unaudited)

YEAR ENDED JULY 31, 2016

	2016	2015
REVENUE		
Shawnigan Village Waterworks	\$ 164,668	\$ 128,187
Other	1,164	1,166
	165,832	129,353
EXPENSES		
Amortization	211	351
Automotive and travel	8,678	8,702
Bank charges and interest	4,490	3,788
Office	8,123	2,728
Professional fees	14,493	15,372
Promotion	596	1,208
Rent	18,328	18,328
Repairs and maintenance and utilities	3,231	12,749
Wages and benefits	53,422	76,170
	111,572	139,396
INCOME (LOSS) BEFORE INCOME TAXES	54,260	(10,043)
INCOME TAXES - Current	-	1,155
- Future	33	124
	33	1,279
NET INCOME (LOSS) FOR THE YEAR	\$ 54,227	\$ (11,322)

See accompanying notes to financial statements

LIDSTECH HOLDINGS LTD.

STATEMENT OF CASH FLOWS

(Unaudited)

YEAR ENDED JULY 31, 2016

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	\$ 602	\$ 8,149
Items not requiring an outlay of funds		
Amortization	219	361
	821	8,510
Changes in non-cash working capital		
Accounts receivable	19,791	3,766
Prepaid expenses	7,621	658
Accounts payable and accrued liabilities	(33,083)	(471)
Income taxes receivable	(4,063)	2,497
Due to Deferred Capacity Trust Fund	-	(23,052)
Due to Replacement Reserve Trust Fund	(18,960)	42,804
Future income taxes	33	124
	(27,840)	34,836
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in housing loan	7,396	7,322
Refundable income taxes	6,324	3,416
Dividends paid	(28,236)	(10,247)
	(14,516)	491
NET INCREASE (DECREASE) IN CASH FOR THE YEAR	(42,356)	35,327
CASH (DEFICIENCY), beginning of the year	2,972	(32,355)
CASH (DEFICIENCY), end of the year	\$ (39,384)	\$ 2,972
REPRESENTED BY:		
Cash	\$ 841	\$ 9,381
Bank indebtedness	(40,225)	(6,409)
	\$ (39,384)	\$ 2,972

See accompanying notes to financial statements

LIDSTECH HOLDINGS LTD.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

YEAR ENDED JULY 31, 2016

1. NATURE OF BUSINESS

Lidstech Holdings Ltd. was incorporated on August 18, 1993 under the Company Act of the Province of British Columbia and has operated a water utility in the Shawnigan Lake and surrounding areas as the Shawnigan Village Waterworks. Various trust funds required in the course of the operation, maintenance, and expansion of the utility have been detailed in Schedules 1 and 2.

2. SIGNIFICANT ACCOUNTING POLICIES

a Basis of presentation

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

b Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are amortized using the declining balance method over the estimated useful lives of the assets at the following rates:

Tools	20%
Office equipment and tools	20%
Computer hardware	45%, 55%
Computer software	100%

In the year of acquisition, amortization is recorded at one half of the above rates.

c Goodwill

The excess of the purchase price of acquiring Shawnigan Village Waterworks over the fair values that were assigned to identifiable assets acquired is recognized as goodwill.

d Income Taxes

Income taxes are accounted for using the asset future income tax method in accordance with Canadian generally accepted accounting principals. Under this method, temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount are used to calculate future income tax assets or liabilities, and are measured using substantially enacted income tax rates expected to apply to taxable income in the years in which such temporary differences are expected to be recovered or settled.

e Financial instruments

In accordance with the CPA handbook, disclosures for financial assets and liabilities includes disclosure as to risks associated with financial instruments and how these risks are managed by management's use of objectives, policies and processes. Where practicable the fair value of financial instruments have been determined and disclosed.

LIDSTECH HOLDINGS LTD.

NOTES TO FINANCIAL STATEMENTS (Unaudited)

YEAR ENDED JULY 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f Use of estimates

In preparing the financial statements, management relies on estimates and assumptions that effect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. Significant areas of estimation include allowance for doubtful accounts, prepaid expenses, estimated useful lives of property, plant and equipment, accrued liabilities, and future income tax liability.

g Revenue recognition

The company recognizes revenue when earned, specifically when all the following conditions are met:

- Services are provided to customers.
- There is clear evidence that an arrangement exists.
- Amounts are fixed or can be determined.
- The ability to collect is reasonably assured.

3. ACCOUNTS RECEIVABLE

	2016	2015
Shawnigan Village Waterworks:		
Trade accounts receivable	\$ 68,735	\$ 67,338
GST rebate receivable	5,916	8,322
Receivable from Lidstech Holdings Ltd.	-	26,731
	74,651	102,391
Lidstech Holdings Ltd.:		
Receivable from Shawnigan Village Waterworks	7,949	-
	\$ 82,600	\$ 102,391

LIDSTECH HOLDINGS LTD.

NOTES TO FINANCIAL STATEMENTS (Unaudited)

YEAR ENDED JULY 31, 2016

4. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2016	2015
Shawnigan Village Waterworks:				
Land	\$ 1	\$ -	\$ 1	\$ 1
Tools	3,639	3,607	32	40
	3,640	3,607	33	41
Lidstech Holdings Ltd.:				
Office equipment and tools	2,868	2,382	486	607
Computer hardware (45%)	260	259	1	2
Computer hardware (55%)	3,063	2,990	73	162
Computer software	4,072	4,072	-	-
	10,263	9,703	560	771
	\$ 13,903	\$ 13,310	\$ 593	\$ 812

5. TRUST FUNDS

The Trust Funds have been presented in Schedules 1 and 2 of the Financial Statements.

6. GOODWILL

	Cost	Accumulated Amortization	2016	2015
Goodwill	\$ 66,499	\$ 23,918	\$ 42,581	\$ 42,581

7. HOUSING LOAN

1% employee housing loan, receivable in yearly installments of \$8,589 including principal and interest. Due August 11, 2016.

The current portion of the housing loan receivable designates the principal due within twelve months plus accrued interest receivable.

	2016	2015
Housing loan receivable	\$ 119,092	\$ 126,417
Accrued interest receivable	1,155	1,226
	120,247	127,643
Less: current portion of housing loan receivable	7,398	7,325
	\$ 112,849	\$ 120,318

LIDSTECH HOLDINGS LTD.

NOTES TO FINANCIAL STATEMENTS (Unaudited)

YEAR ENDED JULY 31, 2016

8. BANK INDEBTEDNESS

	2016	2015
Outstanding cheques in excess of bank balance	\$ 5,225	\$ 6,409
P + 1.75% line of credit	35,000	-
	\$ 40,225	\$ 6,409

Security for the line of credit includes a General Security Agreement over the assets of the company and a personal guarantee by a shareholder.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016	2015
Shawnigan Village Waterworks:		
Trade payables	\$ 1,539	\$ 8,434
Shawnigan Station funds	-	7,406
Payable to Lidstech Holdings Ltd.	7,949	-
	9,488	15,840
Lidstech Holdings Ltd.:		
Accrued liabilities	15,000	15,000
Payable to Shawnigan Village Waterworks	-	26,731
	15,000	41,731
	\$ 24,488	\$ 57,571

10. SHARE CAPITAL

Authorized:

Unlimited Class "A" Voting, non-dividend bearing Common shares without par value
 Unlimited Class "B" Voting, non-dividend bearing Common shares without par value
 Unlimited Class "C" Non-voting, dividend bearing Common shares without par value
 Unlimited Class "D" Non-voting, dividend bearing Common shares without par value
 Unlimited Class "E" Non-voting redeemable, retractable Preferred shares without par value

	2016	2015
Issued:		
195 Class "B" shares	\$ 20	\$ 20
50 Class "C" shares	5	5
55 Class "D" shares	5	5
9,550 Class "E" shares	10	10
	\$ 40	\$ 40

The redemption value of the outstanding Class "E" shares is \$336,160.00.

LIDSTECH HOLDINGS LTD.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

YEAR ENDED JULY 31, 2016

11. FINANCIAL INSTRUMENTS

The Company's financial instruments consists of cash, accounts receivables, housing loan receivable, and line of credit, and accounts payable and accrued liabilities. It is management's objective to engage in policies and processes for managing risks which controls the risk exposure associated with its financial instruments.

Unless otherwise noted, it is management's opinion that the Company has identified objectives and implemented policies and processes for managing risks arising from financial instruments and as such the Company is not exposed to significant credit, interest rate, liquidity, loans payable, market risk or other price risk arising from these financial instruments. The fair values of financial assets and liabilities approximates their carrying values, unless otherwise noted.

Credit risk

The credit risk derives principally from the accounts receivable.

The company's services are provided to a wide range of customers; therefore, there is no particular concentration of credit risk. There is no customer comprising more than 10% of the total trade accounts receivable. When the amounts are not collectable an allowance for doubtful accounts is established.

Interest rate risk

Exposure to interest risk exists with respect to the bank credit facility which bears interest at floating rates. Fluctuations in the rate of interest could impact the company's cost of financing in future years.

Liquidity risk

Liquidity risk is dependent on receipt of funds from the waterworks' customer billings and trust funds and continued access to sufficient credit facilities to be able to pay liabilities as they become due.

12. REFUNDABLE INCOME TAXES

Refundable income taxes are paid on investment income. These taxes are recoverable on payment of taxable dividends by the corporation to the shareholders at the rate of \$1.00 for every \$3.00 paid in taxable dividends. The balance of the Refundable Dividend Tax on Hand at July 31, 2016 is nil (2015 - \$6,324).

13. COMPARATIVE FIGURES

Certain 2015 comparative figures have been reclassified to conform with the current year's presentation.

LIDSTECH HOLDINGS LTD.

Schedule 1

DEFERRED CAPACITY TRUST FUND (Unaudited)

YEAR ENDED JULY 31, 2016

	2016	2015	2014
Balance, beginning of the year	\$ 41,178	\$ 65,495	\$ 60,018
Additions during the year	21,000	77,000	35,000
Receivable from the General Fund			
Current year	-	-	23,052
Interest received	15	117	145
Withdrawals during the year	(5,250)	(101,434)	(52,720)
Balance, end of the year	\$ 56,943	\$ 41,178	\$ 65,495

REPRESENTED BY:

Cash	\$ 56,943	\$ 41,178	\$ 42,443
Receivable from General Fund	-	-	23,052
	\$ 56,943	\$ 41,178	\$ 65,495

LIDSTECH HOLDINGS LTD.

Schedule 2

REPLACEMENT RESERVE TRUST FUND (Unaudited)

YEAR ENDED JULY 31, 2016

	2016	2015	2014
Balance, beginning of the year	\$ 77,178	\$ 32,896	\$ 73,677
Additions during the year	84,951	50,198	85,000
Interest received	44	103	150
Receivable from the General Fund			
Current year	5,991	24,951	(17,854)
Prior year	(24,951)	17,854	(23,741)
Withdrawals during the year	-	(48,824)	(84,336)
Balance, end of the year	\$ 143,213	\$ 77,178	\$ 32,896

REPRESENTED BY:

Cash	\$ 137,222	\$ 52,227	\$ 50,750
General Fund - receivable	5,991	24,951	(17,854)
	\$ 143,213	\$ 77,178	\$ 32,896