QEI, LLC

FINANCIAL STATEMENTS

For the Fiscal Years Ended March 31, 2022 and 2021
(With Independent Auditor's Report)

QEI, LLC

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Independent Auditor's Report

To the Members
of QEI, LLC

Opinion

We have audited the accompanying financial statements of QEI, LLC (a limited liability company) (the "Company"), which comprise the balance sheets as of March 31, 2022 and 2021 and the related statements of operations and changes in member's equity, and cash flows for the fiscal years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of QEI, LLC as of March 31, 2022 and 2021, and the results of its operations and its cash flows for the fiscal years ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Auditor's Responsibilities for the Audits of the Financial Statements (continued)

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- 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. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Spielman Koenigsberg & Parker LLP

New York, NY
April 27, 2022

QEI, LLC
Balance sheets
March 31, 2022 and 2021

	2022	2021
ASSETS		
Current		
Cash	$ 3,799,605	$ 10,612,336
Restricted cash	1,500,000	1,500,000
Accounts receivable, net of allowance	1,261,982	1,143,183
Inventories, net of allowance	1,101,958	1,028,624
Contract assets	1,511,780	819,138
Loan to affiliates	10,979,595	2,784,595
Due from affiliates	337,369	305,845
Prepaid expenses	146,558	174,076
Other assets	-	2,368
Total current assets	20,638,847	18,370,165
Plant, property, and equipment, net	12,617	15,555
Intangible assets, net	902,504	1,161,616
Security deposits	97,847	97,847
Total assets	$ 21,651,815	$ 19,645,183
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 958,933	$ 631,266
Contract liabilities	6,042,051	6,992,304
Paycheck protection program loan	-	549,338
Total current liabilities	7,000,984	8,172,908
Due to affiliate	100,000	100,000
Total liabilities	7,100,984	8,272,908
Member's equity	14,550,831	11,372,275
Total liabilities and member's equity	$ 21,651,815	$ 19,645,183

QEI, LLC
Statements of operations and
changes in member's equity
Fiscal years ended March 31, 2022 and 2021

	2022	2021
Revenues		
Systems	$ 6,524,809	$ 5,057,401
Hardware	1,640,406	1,884,234
Automation	244,038	205,302
Field service	1,741,633	1,913,721
Customer repairs	180,228	111,469
Total revenues	10,331,114	9,172,127
Cost of sales		
Materials	2,605,091	2,158,988
Labor	910,562	832,148
Overhead	1,034,032	830,220
Total cost of sales	4,549,685	3,821,356
Gross profit	5,781,429	5,350,771
Selling, general, and administrative expenses		
Salaries and fringes	1,712,795	1,430,077
General and administrative	520,914	392,968
Product development projects	589,992	726,229
Total selling, general, and administrative expenses	2,823,701	2,549,274
Earnings before interest, taxes, depreciation and amortization	2,957,728	2,801,497
Operating expenses		
Depreciation and amortization	348,277	412,487
Miscellaneous taxes	7,398	5,159
Total operating expenses	355,675	2,966,920
Operating income	2,602,053	2,383,851
Other income (expense)		
Paycheck Protection Program loan forgiveness	549,359	-
Interest income	29,155	42,180
Other income (expense), net	(2,007)	20,459
Total other income, net	576,507	62,639
Net income	3,178,560	2,446,490
Member's equity, beginning of year	11,372,271	8,925,785
Member's equity, ending of year	$ 14,550,831	$ 11,372,275

The accompanying notes are an integral part of these financial statements

QEI, LLC
Statements of cash flows
Fiscal years ended March 31, 2022 and 2021

	2022	2021
Cash flows from Operating Activities		
Net income	$ 3,178,560	$ 2,446,490
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation of plant, property, and equipment	2,938	38,229
Amortization of intangible assets	345,339	374,258
Forgiveness of debt - Paycheck Protection Program Loan	(549,338)	-
Change in provision for inventory	(9,441)	145,255
Bad debt written off / provision for bad debts	8,269	10,000
Changes in operating assets and liabilities		
Accounts receivable	(127,068)	877,879
Inventories	(63,893)	18,633
Contract assets	(692,642)	(290,012)
Due from affiliate	(31,524)	(545,779)
Prepaid expenses	27,518	(80,650)
Other assets	2,364	22,318
Accounts payable and accrued liabilities	327,667	(58,675)
Contract liabilities	(950,253)	946,393
Net cash provided by operating activities	1,468,496	3,904,339
Cash used in investing activities:		
Purchase of intangible assets	(86,227)	(10,300)
Cash (used in) provided by financing activities:		
Payments for loans with related parties	(8,195,000)	-
Proceeds from Paycheck Protection Program loan	-	549,338
Net cash (used in) provided by financing activities	(8,195,000)	549,338
Net change in cash	(6,812,731)	4,443,377
Cash and restricted cash at the beginning of the year	12,112,336	7,668,959
Cash and restricted cash at the end of the year	$ 5,299,605	$ 12,112,336
Supplemental Disclosures of Cash Flow Information		
Taxes paid	$ 7,398	$ 5,159
Supplemental Disclosures of Non-Cash Flow Financing Activities:		
Forgiveness of debt - Paycheck Protection Program Loan	$ 549,338	-

1. Description of Organization

QEI, LLC (the "Company") was formed under the laws of the State of Delaware on April 15, 2015 and maintains its headquarters in Springfield, New Jersey. The Company is a wholly-owned subsidiary of CG Power Americas, LLC (the "Parent" or the "Parent Company") operating in multiple markets and business sectors within and relating to distribution control, load management control, and supervisory control and data acquisition systems.

2. Summary of significant accounting policies

The significant accounting policies followed in preparing the accompanying financial statements are set forth below:

Basis of presentation

The Company prepared the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The financial statements include the operations, assets, and liabilities of the Company. In the opinion of the Company's management, the accompanying financial statements contain all adjustments, consisting of normal recurring accruals, necessary to fairly present the accompanying financial statements.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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, and certain financial assets and liabilities.

Revenue recognition

The Company complies with the Financial Accounting Standards Board’s (FASB) Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers, which provides a five-step model to determine when and how revenue is recognized. The core principle of the guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Company generates revenue from the sale of both services and products. The Company has three broad categories of revenues: System projects, Hardware sales, and Services (See Note 11).

The Company determines revenue recognition by applying the following 5-step model:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations; and
5. Recognize revenue as the performance obligations are satisfied.

2. Summary of significant accountingpolicies (continued)

Revenue recognition (continued)

The Company recognizes as performance obligations are satisfied by transferring control of the performance obligation to a customer. Control of a performance obligation may transfer to the customer either at a point in time or over time depending on an evaluation of the specific facts and circumstances for each contract, including the terms and conditions of the contract as agreed with the customer, as well as the nature of products or services to be provided.

Cash and restricted cash

For the purposes of the statement of cash flows, substantially all amounts reported as cash on the Company's balance sheet represents bank balances and cash on hand, which are available on demand. Restricted cash pertains to a collateral service agreement between the Company and Hanover Insurance Group regarding necessary collateral for performance bonds being utilized by the Company (see Note 4).

The following table provides a reconciliation of cash and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

	2022	2021
Cash	3,799,605	10,612,336
Restricted cash	1,500,000	1,500,000
	5,299,605	12,112,336

Accounts receivable and allowance for doubtful accounts

Accounts receivable are stated at the amount the Company expects to collect and have an interest-bearing provision in the event the Company chooses to enforce it. The Company maintains allowances for credit losses for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer creditworthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. Past due balances over 90 days and other higher risk amounts are reviewed individually for collectability. If the financial condition of the Company’s customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management’s assessment, the Company provides for estimated uncollectible amounts through a charge to bad debt expense and a credit to a valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts to be $1,731 and $10,000 as of March 31, 2022 and 2021, respectively.

2. Summary of significant accountingpolicies (continued)

Inventories

Inventories consists of raw materials, work-in-process, and finished goods. Raw materials are valued using a weighted cost average. Work-in-process and finished goods which include the cost of raw materials, labor, and overhead are valued at the lower of cost or net realizable value (NRV), with cost determined by the average cost method. The Company complies with the guidance from Accounting Standards Update (ASU) 2015-11, Simplifying the Measurement of Inventory (ASU 2015-11). Inventory is presented net of any allowances for obsolete inventory; changes in the provision for obsolete inventory is included in costs of goods sold. Obsolete inventory items are written off against the allowance when identified. As of March 31, 2022 and 2021, the reserve for obsolescence was $26,504 and $17,063, respectively.

Contract Assets

Contract assets arise when the Company transfers goods or performs services in advance of receiving consideration from the customer as agreed upon. A contract asset becomes a receivable once the entity's right to the receive consideration becomes unconditional and the customer is properly invoiced. As of March 31, 2022 and 2021, the Company has recorded an asset of $1,511,780 and $819,138, respectively, which the Company expects to recognize as a receivable over the next twelve months.

Leasing arrangements

The Company follows ASC Topic 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.

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 (See Note 8).

Prepaid expenses

Prepaid expenses comprise of insurance payments, annual software subscriptions, and future events.

2. Summary of significant accounting policies (continued)

Property, plant and equipment

Property and equipment are stated at net cost (cost less accumulated depreciation). Significant additions or improvements extending asset lives are capitalized; normal maintenance and repair costs are expensed as incurred. When items are disposed of, the cost and accumulated depreciation are eliminated from the accounts and any gain or loss is included as other income (expense). Property and equipment are depreciated over their estimated useful lives using the straight-line method of depreciation 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

Long-lived Asset

The Company evaluates all long-lived assets for impairment. Long-lived assets and intangibles assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the carrying amount is not fully recoverable, an impairment loss is recognized to reduce the carrying amount to fair value, and is charged to expense in the period of impairment. At March 31, 2022 and 2021, management has determined that these assets are not impaired.

Intangible assets

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.

Contract liabilities

Upon receipt of a prepayment from a customer, the Company recognizes a contract liability in the amount of the prepayment for its performance obligation to transfer goods and services in the future. At March 31, 2022 and 2021, the Company has recorded liabilities of $6,042,051 and $6,992,304, which the Company expects to recognize as revenue within the next twelve months.

Product development

The expenditures on product development by the Company for the fiscal years ended March 31, 2022 and 2021 was $589,992 and $726,229, respectively. Costs that have alternative future uses are capitalized and costs related to specific software enhancements and maintenance are expensed as incurred.

2. Summary of significant accounting policies (continued)

Income Taxes

The Company is a limited liability company, which has elected to be treated as a partnership for Federal and New Jersey income taxes and therefore is not liable for Federal and New Jersey income taxes. All items of income and expense are reflected on the income tax return of the sole members. The Company accounts for taxes under the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial statement and tax return bases on assets and liabilities. Any resulting future tax benefits are recognized to the extent that realization of such benefits is more likely than not.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases under the asset and liability method. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Deferred tax assets are required to be reduced by a valuation allowance to the extent that, based on the weight of available evidence, it is more likely than not the deferred tax assets will not be realized. As of March 31, 2022 and 2021, there are no temporary differences and deferred taxes.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The new guidance establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. For private companies, as amended by ASU 2020-05, the new guidance is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022 for all entities that have not yet issued financial statements. The Company is currently evaluating the impact of the adoption of ASU No. 2016-02 on its financial statements and disclosures.

In June, 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326). ASU 2016-13 changes the impairment model for most financial assets and will require the use of an "expected loss" model for instruments measured as amortized cost. For trade receivables, ASU 2016-13 eliminates the probable initial recognition threshold in current generally accepted accounting standards, and, instead, requires an entity to reflect its current estimate of all expected credit losses. This pronouncement is effective for fiscal years beginning after December 15, 2022. The Company is currently in the process of evaluating the impact of this guidance on the financial statements.

3. Concentrations of credit risk

Cash

The Company maintains its cash balances in financial institutions which are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor. Deposits within the financial institutions amounting to $5,299,605 and $12,112,336 as of March 31, 2022 and 2021. No losses have been incurred to date.

3. Concentrations of credit risk (continued)

Customer concentration

For the fiscal years ended March 31, 2022 and 2021, the Company had sales to its four largest customers of $2,529,541 and $3,013,046 which makes up 24.5% and 32.9% of gross sales, respectively. Accounts receivable for these four customers as of March 31, 2022 and 2021 are $41,369 and $431,445 which account for 3.3% and 37.4% of the total accounts receivable balance, respectively. The loss of such clients may have a material impact on the Company however management regularly assesses the creditworthiness of these customers and has not experienced any credit issues with them.

4. Restricted cash - Collateral service agreement

During 2020, the Company supplied their Surety, Hanover Insurance Group Insurance, $1,500,000 in cash under a collateral agreement in exchange to secure a line of bonding. Collateral is in a non-interest bearing account and will remain as long as QEI is in need of bonding.

5. Inventories

Inventories consists of the following on March 31, 2022 and 2021:

	2022	2021
Raw Materials	$ 813,434	$ 781,118
Work-in-process	159,965	150,405
Finished Assemblies	155,063	114,164
	1,128,462	1,045,687
Less: provision for inventory obsolescence	(26,504)	(17,063)
	$ 1,101,958	$ 1,028,624

6. Plant, property and equipment, net

Plant, property, and equipment consists of the following on March 31, 2022 and 2021:

	2022	2021
Furniture and fixtures	$ 127,794	138,094
Vehicles	7,334	7,334
Building Imrprovements	10,300	-
	145,428	145,428
Less: accumulated depreciation	(132,811)	(129,873)
Property and equipment, net	$ 12,617	$ 15,555

Depreciation expense incurred during the fiscal years ended March 31, 2022 and 2021 totaled $2,938 and $38,229, respectively.

7. Intangible assets

Intangible assets consists of the following on March 31, 2022 and 2021:

	Estimated useful life	2022	2021
Customer relationships	15 years	$ 7,185,000	$ 7,185,000
Technology & Software	7 years	2,590,836	2,590,836
Tradename	3 years	191,000	191,000
Non-compete agreements	3 years	20,000	20,000
Product Development	5 years	3,341,128	3,341,128
Product Development in progress		86,227	-
		13,414,191	13,327,964
Less: accumulated depreciation		(12,511,687)	(12,166,348)
Intangible assets, net		$ 902,504	$ 1,161,616

Amortization expense incurred during the fiscal years ended March 31, 2022 and 2021 totaled $345,339 and $374,258, respectively. At March 31, 2022 and 2021, management has evaluated the estimated useful lives and assessed impairment indicators of the intangible and other assets.

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

Fiscal years ending March 31,	Total
2023	$ 304,895
2024	168,704
2025	124,131
2026	124,131
2027	94,418
Total	$ 816,279

8. 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 and adjusted monthly using a historical percentage of actual warranty costs incurred compared to total sales for hardware, automation, and closed system sales.

The information in the table below is represented in the accounts payable and accrued liabilities section of the balance sheet.

	2022	2021
Balance, beginning of the fiscal year	$ 13,132	$ 21,386
Accruals for warranty issues during the period	10,877	20,710
Settlements made/reversal of excess accruals during the year	(13,082)	(28,964)
Balance, end of the fiscal year	$ 10,927	$ 13,132

9. Paycheck protection program loan

On April 9, 2020, the Company borrowed proceeds of $549,338 from a Small Business Administration ("SBA") approved bank, J.P. Morgan, established through the Coronavirus Aid, Relief, and Economic Security ("CARES") Act – Paycheck Protection Program (PPP). The loan was subject to a promissory note and certain qualifications as set out by the SBA lending program. The PPP loan bears interest at a rate of 1% and is payable in monthly installments of principal and interest over 24 months beginning 6 months from the date of the note. The loan may be repaid at any time with no prepayment penalty and is recorded using guidance within Topic 470, *Debt*. As of June 22, 2021, the loan had been forgiven in full by the SBA approved bank and recorded as other income within fiscal year ended March 31, 2022.

10. Loans to and Due from/to affiliates

In the normal course of business, the Company loaned money to its affiliates for business operations and to pay their share of income taxes. Affiliates include CG Power Americas, LLC and its parent, CG Power and Industrial Solutions Limited and fellow subsidiaries. All material affiliated transactions are disclosed below.

The Company has $1,780,984 within a cash pooling arrangement as of March 31, 2022 and 2021 for expenses incurred on behalf of its affiliates which accrue interest at the 1-month LIBOR rate plus 100 basis points. As of March 31, 2022 and 2021, $316,262 and $296,256, respectively, of interest has been accrued and included in due from affiliate as interest is calculated on the principal balance only.

The Company provides various 12-month loans to CG Power Americas, LLC in the amount of $1,659,630 and $964,630 as of March 31, 2022 and 2021, respectively, which accrue interest at the monthly short term federal rate. As of March 31, 2022 and 2021, $11,973 and $9,322, respectively, of interest has been accrued and included in due from affiliate as interest is calculated on the principal balance only.

10. Loans to and Due from/to affiliates (continued)

The Company provides various 12-month loans to CG International BV – Netherlands in the amount of $7,538,981 and $38,981 as of March 31, 2022 and 2021, respectively, which accrue interest at the monthly short term federal rate. As of March 31, 2022 and 2021, $9,134 and $267, respectively, of interest has been accrued and included in due from affiliate as interest is calculated on the principal balance only.

Additionally, the Company has $100,000 due to affiliates as of March 31, 2022, relating to a cash infusion by CG Power Solutions USA, Inc.

The following represents a summary of the outstanding balances as of March 31, 2022:

	Loan to affiliates	Due from affiliates	Due to affiliate
CG International BV - Cash pooling	$ 1,780,984	$ 316,262	$ -
CG Powers Americas, LLC	1,659,630	11,973	-
CG International BV - Netherlands	7,538,981	9,134	-
CG Power Solutions USA Inc.	-	-	100,000
	$ 10,979,595	$ 337,369	$ 100,000

The following represents a summary of the outstanding balances as of March 31, 2021:

	Loan to affiliates	Due from affiliates	Due to affiliate
CG International BV - Cash pooling	$ 1,780,984	$ 296,256	$ -
CG Powers Americas, LLC	964,630	9,322	-
CG International BV - Netherlands	38,981	267	-
CG Power Solutions USA Inc.	-	-	100,000
	$ 2,784,595	$ 305,845	$ 100,000

11. Revenue from contracts with customers

Revenue is recognized on a contract-by-contract basis as costs are incurred, over a contractual period, or when promised goods are delivered to the Company's customers. As the Company completes its performance obligation which are identified below by revenue category, it has an unconditional right to consideration as outlined in the Company's contracts or agreements. Generally, the Company's accounts receivables are expected to be collected within 30 days in accordance with the underlying payment terms. The Company includes verbiage within its agreements stipulating that interest will be assessed if not paid within the agreed upon term.

The Company generates contract revenue through its fully integrated SCADA systems, master station and control centers, distribution management applications, substation automation systems and products, feeder automation systems and products, and system installation and integrated services. The Company operates in two reportable operating segments, electric utilities and electrified transit operators and sells its products mostly within the United States of America.

11. Revenue from contracts with customers (continued)

Systems sales

Supervisory Control and Data Acquisition (SCADA) systems are used in a variety of industries and applications to provide the automaton of their respective processes. SCADA system can be found in the industrial market, including food, freight, beverage and almost anything else that involves processing and production of a product. QEI's primary market is the control and management of power in the utility and transportation markets. Utilities include everything from municipal, cooperative and Investor-Owned Utilities (IOUs) for electric transmission and distribution, water and waste/water.

Systems sales are quoted based on the customer's needs and the transaction price is readily available within the contract as it is fixed for each solution. Revenue is recognized as costs are incurred. The typical length of a contract can vary based on customer and the complexity of the solution. The contract performance obligation is satisfied through the effort expended to construct, customize, install, train, and test the products for each customer's individual needs and the control of the solution is transferred to the customer. Management believes this approach reasonably reflects the transfer of the custom solution it provides for its customers.

Revenue is determined based on the relationship of actual costs to total estimated costs to complete. 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 projects. Changes in estimated profits on contracts are reflected during the period in which the changes in estimates are made. The contract 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 cost incurred and 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. Additional revenue per the change order will be recognized until costs are incurred to complete the added scope of work.

Contracts are performed over a period of time and they typically range from 2 months to upwards of 5 years. Revenue is recognized as cost is incurred and each month the project is evaluated and estimated to ensure that cost to complete is accurately accounted for. Billings are mutually exclusive of revenue recognition and are established at the commencement of the contract with a predetermined payment schedule of values based on project milestones. Upon completion of the milestone, the predetermined value of the milestone is invoiced.

11. Revenue from contracts with customers (continued)

The following represents revenue disaggregated based on the timing of satisfaction of performance obligations for the fiscal years ended March 31, 2022 and 2021:

	2022	2021
Performance obligations satisfied over time:		
Systems	$ 6,524,809	$ 5,057,401
Field service	1,741,633	1,913,721
Performance obligations satisfied at a point in time:		
Hardware	1,640,406	1,884,234
Automation	244,038	205,302
Customer repairs	180,228	111,469
TOTAL	$ 10,331,114	$ 9,172,127

Hardware Sales

Hardware sales are generated from customer purchase orders who require hardware components for repairs, replacements, or spare parts. A price list exists where customers can order specific components at a fixed price. Hardware is typically manufactured in-house and when completed, are placed into finished goods inventory for resale.

Hardware revenue is recognized when all of the following occur: evidence of an agreement exists, the performance obligation has occurred, and the price to the buyer is fixed. Performance obligations are satisfied, and revenues and the related direct costs are recognized when the products are delivered free on board ("FOB") destination. The Company records the cost of all materials consumed in the manufacturing process within cost of sales. The revenue is accounted for net of taxes.

Service revenue is separated into three categories, automation, field service and customer repairs.

Automation sales

Automation sales pertain to specific "plug and play" products designed and manufactured by the Company which allows customers the ability to automate the monitoring and data collection of system processes. A majority of the products have a fixed price and are listed on the Company's price list. QEI offers a one year warranty where it will repair or replace any malfunctioning product.

Field Service

Field service revenue consists of maintenance contracts where QEI performs field services on previously installed systems in order to ensure they are operating efficiently. Contracts are billed and fees are collected upfront upon signing the agreement. The fees collected are initially recorded as deferred revenue with revenue being recognized pro rata over the terms of the contracts which is typically 12 months.

11. Revenue from contracts with customers (continued)

Customer Repairs

Customer repair service revenue consists of individual one-time repair jobs or training typically out in the field dealing directly with the customer. The customer will submit a purchase order containing requests and the Company will review to assess its costs and complexity. QEI will then quote the job at a fixed price or time and material depending on the customer request and the type of job to be performed. Once an agreement is reached, QEI will provide the requested service and separately invoice for the service provided. Revenue is recognized when the job is complete, and the invoice has been sent to the customer.

Contract Balances

The timing of revenue recognition, billings, and cash collections results in billed accounts receivables, contract assets (reported as excess of costs and estimated earnings over billings on uncompleted contracts) and contract liabilities (reported as excess of billings over costs and estimated earnings on uncompleted contracts) on the Company's balance sheet. Excess of costs and estimated earnings over billings are a contract asset for revenue that has been recognized in advance of billing the customer, resulting from costs incurred that the Company expects and is entitled to receive as consideration under the contract terms and conditions. Billing requirements vary by contract but substantially all unbilled revenues are billed within one year.

When the Company receives consideration from a customer prior to incurring costs or transferring services to the customer under the terms of the contracts, it records a contract liability (reported as excess of billings over costs and estimated earnings on uncompleted contracts) on the Company's balance sheet. The Company recognizes the contract liabilities as revenues when it incurs costs or transfers control of the solution to the customer and satisfies the performance obligation which it determines utilizing a portfolio approach.

As of March 31, 2022 and 2021, costs, estimated earnings and billings on uncompleted contracts consisted of the following:

	2022	2021
Costs incurred to date on uncompleted contracts	$ 7,405,432	$ 6,206,942
Estimated earnings	10,226,648	3,712,995
	17,632,080	9,919,937
Less: Billings - Contract life to date	(15,052,103)	(15,303,678)
	$ 2,579,976	$ (5,383,741)

11. Revenue from contracts with customers (continued)

Contract Balances (continued)

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

	Balances as of		
	March 31, 2022	March 31, 2021	April 01, 2020
Contract asset	$ 1,511,780	$ 819,138	$ 529,126
Contract liabilities	(6,042,051)	(6,992,304)	(5,250,113)
Accounts Receivable from contracts with customers	716,962	890,245	1,863,828
	$ (3,813,309)	$ (5,282,921)	$ (2,857,159)

12. Retirement plan

The Company has a retirement plan (the "Plan") pursuant to Section 401(K) of the Internal Revenue Code (the "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 Company provides a 25% matching contribution for its employees up to 6% of the employee's total compensation. The Company matched contributions of $26,435 and $21,986 to the Plan for the fiscal years ended March 31, 2022 and 2021, respectively.

13. Commitments and contingencies

Operating leases

In October 2018, the Company has entered into an operating lease for office space with an expiration date of October 31, 2028. Total lease expense under this lease was $305,401 and $299,413, respectively, for the fiscal years ended March 31, 2022 and 2021, respectively. Rental expense is recorded on a monthly basis and future minimum lease payments under this lease agreement with non-cancelable terms in excess of one year as of March 31, 2022 are as follows:

Fiscal years ending March 31,	Total
2023	$ 307,946
2024	314,105
2025	320,387
2026	326,795
2027	333,331
Thereafter	540,624
Total	$ 2,143,188

13. Commitments and contingencies

In October 2021, the company has entered into an operating lease for a copier machine with an expiration date of October 2025. Total lease expenses under this lease was $5,127 for the fiscal year ended March 31, 2022. Rental expenses is recorded on a monthly basis with future minimum lease payments under this lease agreement with non-cancelable terms in excess of one year as of March 31, 2022 are as follows:

Fiscal years ending March 31,		Total
2023	$	12,306
2024		12,306
2025		12,306
2026		7,179
	$	44,097

Legal

In the ordinary course of business, there is the potential for various legal proceedings to be filed against the Company. When necessary, 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 the aggregate, to have a material adverse effect on the Company's financial position as of March 31, 2022 and 2021.

COVID-19 Pandemic

The Company may continue to be affected by the events of the global health pandemic – Covid-19. The conditions of this event are uncertain in nature, fluid and changing daily. The effects of this event can cause supply chain logistics issues, worker stoppages as a result of government intervention and significant sales reductions due to a worldwide economic slowdown. The financial statements have not been adjusted to reflect the condition of these events as they are uncertain in nature.

14. Subsequent events

The Company has evaluated subsequent events through April 27, 2022, the date on which the financial statements were available to be issued and determined that there were no events which required disclosure.