BUTLER AMERICA AEROSPACE, LLC

Financial Statements

Years Ended March 31, 2023, and March 31, 2022

With Report of Independent Auditors

BUTLER AMERICA AEROSPACE, LLC

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Independent Auditor's Report

To the Board of Directors and Member
Butler America Aerospace, LLC.

Opinion

We have audited the financial statements of Butler America Aerospace, LLC. (the "Company"), which comprise the balance sheets as of March 31, 2023, and March 31, 2022, and the related statements of income member's equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2023, and March 31, 2022, and the result of its operations and its cash flows for the years then 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 audit 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 these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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 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.

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 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.

KNAV P.A.

Atlanta, Georgia
June 28, 2023

Financial Statements

BUTLER AMERICA AEROSPACE, LLC

Balance Sheets

As at March 31, 2023 and March 31, 2022

(All amounts are in United States Dollars, unless otherwise stated)

Assets		**2023**	**2022**
Current assets:			
Cash and cash equivalents		3,573,309	6,500,413
Accounts receivable, net		8,250,924	7,120,410
Unbilled revenue		3,077,567	2,234,918
Receivable from Parent		3,680,852	-
Prepaid expenses and other current assets		971,993	724,694
Total current assets	$	**19,554,645**	**16,580,435**
Property and equipment, net		335,926	651,364
Deferred compensation plan assets		871,110	1,081,309
Deferred taxes, net		766,654	588,853
Operating lease, right of use assets		1,125,386	-
Security deposits		14,013	14,013
Total assets	$	**22,667,734**	**18,915,974**
Liabilities and member's equity			
Current liabilities:			
Accounts payable		138,794	99,426
Accrued employee cost		730,108	1,386,716
Payable to Parent		-	1,844,521
Operating lease liabilities, current portion		918,222	-
Accrued liabilities		2,578,651	630,769
Total current liabilities	$	**4,365,775**	**3,961,432**
Operating lease liabilities excluding current portion		185,472	-
Other noncurrent liabilities		731,432	922,294
Total liabilities	$	**5,282,679**	**4,883,726**
Member's contribution		17,385,055	14,032,248
Total liabilities and member's equity	$	**22,667,734**	**18,915,974**

See notes to financial statements

BUTLER AMERICA AEROSPACE, LLC

Statements of Income

For the years ended March 31, 2023 and March 31, 2022

(All amounts are in United States Dollars, unless otherwise stated)

		2023	2022
Revenue, net		58,000,317	51,667,927
Cost of revenue		45,846,384	41,659,684
Gross profit	$	**12,153,933**	**10,008,243**
Selling, general and administrative expenses		9,905,271	10,784,737
Depreciation expense		339,527	493,847
Other expense, net		2,276,850	72,758
Operating loss	$	**(367,715)**	**(1,343,099)**
Interest income, net		4,163	689
Other income		4,985,494	1,998,352
Income before income taxes	$	**4,621,942**	**655,942**
Provision for income tax		1,269,135	174,360
Net income	$	**3,352,807**	**481,582**

See notes to financial statements

BUTLER AMERICA AEROSPACE, LLC

Statements of Member's Equity

For the Years Ended March 31, 2023 and March 31, 2022

(All amounts are in United States Dollars, unless otherwise stated)

		Amount
Balance at March 31, 2021		15,550,666
Net income for the year		481,582
Dividend distributed to Parent		(2,000,000)
Balance at March 31, 2022	$	**14,032,248**
Net income for the year		3,352,807
Balance at March 31, 2023	$	**17,385,055**

See notes to financial statements

BUTLER AMERICA AEROSPACE, LLC
Statements of Cash Flows
For the Years Ended March 31, 2023 and March 31, 2022
(All amounts are in United States Dollars, unless otherwise stated)

		2023	2022
Operating activities:			
Net income		**3,352,807**	**481,582**
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation expense		339,527	493,847
Allowance for doubtful debts		(1,382)	922,243
Deferred taxes		(177,801)	174,360
Loss on asset disposal		-	6,471
Changes in assets and liabilities:			
Accounts receivables and unbilled revenue		(1,971,781)	2,486,507
Prepaid expenses and other current assets		(247,299)	(3,965)
Other noncurrent assets		-	8,192
Operating lease right-of-use assets		(21,692)	-
Accounts payable		39,368	(10,937)
Accrued employee costs		(656,608)	(924,208)
Receivable from Parent		(5,525,373)	(2,594,373)
Accrued liabilities		1,968,966	(999,875)
Other noncurrent liabilities		(122,870)	(783,943)
Net cash used in operating activities	$	**(3,024,138)**	**(744,099)**
Investing activities:			
Purchase of property and equipment		(24,091)	(13,485)
Investments in deferred compensation plan assets		(20,366)	(699,056)
Proceeds from sale of deferred compensation plan assets		141,491	1,526,223
Net cash provided by investing activities	$	**97,034**	**813,682**
Financing activities:			
Dividend distributed to Parent		-	(2,000,000)
Net cash used in financing activities	$	**-**	**(2,000,000)**
Net change in cash and cash equivalents	$	**(2,927,104)**	**(1,930,417)**
Cash and cash equivalents, at the beginning of the year		6,500,413	8,430,830
Cash and cash equivalents, at the end of year	$	**3,573,309**	**6,500,413**

(1) Organization and Nature of Operations

Butler America Aerospace, LLC (hereinafter referred to as the “Company”) serves customers primarily in the aerospace and defense industries in the United States of America, to whom it provides engineering and design services in the areas of mechanical and structural design, electrical design, tool design, and aftermarket engineering services. The Company was incorporated, in Delaware, on June 22, 2016.

The Company was acquired by HCL America Inc. on January 3, 2017, and it is a wholly–owned wholly subsidiary of HCL America Inc. (the “Parent” or “Member”).

(2) Summary of Significant Accounting Policies

(a) Basis of Preparation

The accompanying financial statements are prepared under the historical cost convention on the accrual basis of accounting in accordance with the accounting and reporting requirements of generally accepted accounting principles in the United States of America (‘US GAAP’) to reflect the financial position, results of operation, statement of member’s equity and cash flows.

The financial statements are presented for the years ended March 31, 2023, and March 31, 2022.

All amounts are stated in United States Dollars, except as otherwise specified.

(b) Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The management’s estimates for the realization of deferred tax assets, the useful life of property and equipment, revenue recognition, accrued liabilities, and allowance for doubtful debts at the balance sheet dates represent certain of these particularly sensitive estimates. These estimates are based on management’s best knowledge of current events, historical experience, actions that the Company may undertake in the future, and various other assumptions that are believed to be reasonable under the circumstances. Changes in estimates are reflected in the financial statements in the period in which the changes are made. Actual results could differ from those estimates.

(c) Revenue Recognition and Trade Accounts Receivable

The Company derives revenue from engineering and design services to its customers. The Company recognizes revenue when it satisfies performance obligations under the terms of its contracts, and control is transferred to its customers in an amount that reflects the consideration the Company expects to receive from its customers in exchange for those services or goods. This process involves identifying the customer contract, determining the performance obligations in the contract, determining the transaction price, allocating the contract price to the distinct performance obligations in the contract, and recognizing revenue when or as the performance obligations have been satisfied. A performance obligation is considered distinct from other obligations in a contract when it (a) provides a benefit to the customer either on its own or together with other resources that are readily available to the customer and (b) is separately identified in the contract. The Company considers a performance obligation satisfied once it has transferred control over the goods or services to a customer, meaning the customer has the ability to use and obtain the benefit of the goods or services.

The Company’s revenue is generated from engineering and design services provided through time-and-material or fixed-price contracts with its customers. The Company does not act as an agent in any of its revenue arrangements. Contracts with customers include the price, which is either fixed or represents the hourly billing rate for time-and-material arrangements. If the consideration promised in a contract includes a variable amount, the company estimates the amount to which it expects to be entitled using either the expected value or most likely amount method. The company’s contracts may include terms that could cause variability in the transaction price, including, rebates and volume discounts. Payment terms and conditions vary by contract, although terms generally include a requirement of payment within 30 to 90 days once invoiced. As a result, the contracts do not include a significant financing component.

Revenue from time-and-materials service arrangements is recognized as invoiced on the basis of the price multiplied by the labor hours incurred for the project.

Fixed price contracts range from single or multi-year, subject to termination clauses. Revenue from fixed price contracts is recognized over time as the customer simultaneously receives and consumes the benefits provided by the Company's performance as the entity performs engineering labor services or as the Company's performance creates or enhances a work product that the customer controls as the product is created or enhanced. Revenue is recognized based on a time elapsed or labor hours expended measure of progress based on the Company's efforts toward satisfying the performance obligation relative to the total expected efforts or inputs to the satisfaction of the performance obligation. These methods correspond with and best depict the transfer of services to the customer.

Unbilled revenue primarily represents revenue earnings over time that are not yet billable based on the terms of the contracts. As the Company has an unconditional right to consideration, it does not recognize contract assets. Revenue recognized but not billed to customers is classified as unbilled revenue on the balance sheets.

Deferred revenue consists of fees invoiced or paid by the Company's customers for which the associated performance obligations have not been satisfied, and revenue has not been recognized based on the Company's revenue recognition criteria described above. The Company does not receive upfront consideration for its arrangements nor has an unconditional right to consideration based on customer contract terms and accordingly has not recognized contract liabilities.

Accounts receivables are recorded at the invoiced amount and do not bear interest. Amounts collected on accounts receivable are included in net cash provided by operating activities in the statements of cash flows. The Company makes judgments as to the collectability of accounts receivable based on historical trends and future expectations. Management estimates an allowance for doubtful accounts, which represents the collectability of accounts receivable. The allowance adjusts gross accounts receivable downward to its estimated net realizable value. To determine the allowance for doubtful accounts, management reviews customer-specific risks and the Company's accounts receivable aging. Management considers accounts past due on a customer-by-customer basis. The resulting provision for doubtful accounts is recorded within selling, general and administrative expenses on the statements of income. The accounts receivable write-offs were immaterial for the years ended March 31, 2023, and March 31, 2022.

(d) Property and Equipment

Property and equipment are recorded at historical cost, less accumulated depreciation. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense. When equipment is retired or sold, the cost and related accumulated depreciation are eliminated from the accounts, and the resultant gain or loss is reflected in the statements of income. Depreciation is provided using the straight-line method based on the useful lives of the assets, which are as follows:

Asset Description	Asset Life (Years)
Computer Hardware	3 to 10
Office Equipment	5
Software	2 to 7
Furniture and Fixtures	7

Leasehold improvements are amortized on a straight-line basis over the shorter of the lease period or the estimated useful life of the asset.

(e) Cash and Cash Equivalents

The Company considers all highly liquid investments with maturity, when purchased, of three months or less to be cash equivalents. Cash and cash equivalents comprise cash at the bank, which are subject to an insignificant risk of changes in value. Cash balances in bank accounts are insured by Federal Deposit Insurance Corporation up to an aggregate of $ 250,000 per depositor at each financial institution.

(f) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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 income in the period that includes the enactment date. Deferred tax assets are reduced by valuation allowances when in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company is a single-member limited liability company and is disregarded for federal income tax purposes. The Company's results of operations as a disregarded entity are included in HCL America Inc’s consolidated / combined federal, state, and local tax returns. Current and deferred taxes are allocated to the Company under the "separate-return" method. Under this method, the Company is assumed to file a separate return with the taxing authority, thereby reporting its taxable income or loss and paying the applicable tax to, or receiving the appropriate refund from, HCL America Inc. as if the Company was a separate taxpayer.

The Company recognizes tax positions in the statements of income only when it is more likely than not that the position will be sustained upon examination by relevant taxing authorities based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized upon settlement. A liability is established for differences between positions taken in a tax return and amounts recognized in the balance sheet, including related interest and penalties. Interest and penalties, if any, are included in operating expenses.

(g) Compensated Absences

The employees of the Company are entitled to compensated absences. The employees are allowed to carry forward a specified portion of the unutilized accumulated compensated absences and utilize it in future periods or receive cash at retirement or termination of employment. The Company recognizes its liabilities for compensated absences depending on whether the obligation is attributable to employee services already rendered, rights to compensated absences vest or accumulate, and payment is probable and estimable.

(h) Corporate-owned life insurance

The Company maintains corporate-owned life insurance for a group of executives, which is recorded at their cash surrender value as determined by the insurance carrier. These life insurance policies are utilized as a funding source for nonqualified deferred compensation plans. As of March 31, 2023, and March 31, 2022, the carrying values associated with these life insurance policies are $850,705 and $1,081,309, respectively, and are recorded as deferred compensation plan assets in the balance sheets as per Accounting Standard Codification (‘ASC”) 325-30-35 “Accounting for Purchases of Life Insurance.”

(i) Leases

On April 1, 2022, the Company adopted Accounting Standards Codification 842 and all the related amendments ("ASC 842") using the modified retrospective method. As a result, financial statements for reporting periods after March 31, 2022, are presented in accordance with ASC 842, and those prior to April 1, 2022, are presented under ASC 840. The new lease standard requires all leases to be reported on the balance sheet as lease right-of-use assets and lease obligations. The Company elected to utilize the available practical expedients in the ASC 842 and did not reassess the existence of leases, classification of leases, or initial direct costs in existing or expired contracts. Additionally, the Company elected the package of practical expedients to not allocate contract consideration between a lease and non-lease components.

The Company's leases are classified as operating leases, which include lease right-of-use assets and lease liabilities in the Company's balance sheets. Right-of-use assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date for leases exceeding 12 months. Minimum lease payments include only the fixed lease component of the agreement, as well as any variable rate payments that depend on an index, initially measured using the index at the lease commencement date. Lease terms may include options to renew when it is reasonably certain that the Company will exercise that option.

The incremental borrowing rate is used as the discount rate to calculate the present value of lease payments and determine lease assets and liabilities, as the rate implicit in the lease is not determinable. The incremental borrowing rate represents the rate of interest the Company would have to pay to borrow on a collateralized loan over a similar term, an amount equal to the lease payments in a similar economic environment. Lease expense is recognized on a straight-line basis over the lease term and is included in the cost of revenue or selling, general and administrative expense. Leases with a lease term of 12 months or less from the commencement date that do not contain a purchase option are recognized as an expense on a straight-line basis over the lease term. The Company notes that adopting ASC 842 resulted in recording a right-of-use asset and lease liability associated with the Company's lease agreement totaling $2,178,021 and $2,090,076, respectively, as of April 01, 2022.

(j) Commitments and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. Contingent liabilities are not recognized but are disclosed in the notes. Contingent assets are neither recognized nor disclosed in the financial statements.

(k) Recently Issued Accounting Standards

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," or ASU No. 2016-13. The amendments in ASU No. 2016-13 introduce an approach based on expected losses to estimated credit losses on certain types of financial instruments, modify the impairment model for available-for-sale debt securities and provide for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The new standard requires financial assets measured at amortized cost to be presented at the net amount expected to be collected through an allowance for credit losses that is deducted from the amortized cost basis. The standard will be effective for the Company for the annual period beginning from April 1, 2023, with early application permitted.

(3) Cash and cash equivalents

Cash and cash equivalents consist of the following:

	March 31, 2023	March 31, 2022
Balance with banks	3,573,309	6,500,413
Cash and cash equivalents	**3,573,309**	**6,500,413**

(4) Accounts receivables, net

Accounts receivables, net, consist of the following:

	March 31, 2023	March 31, 2022
Due from customers	9,171,785	8,042,653
Less: allowances for doubtful debts	(920,861)	(922,243)
Accounts receivables, net	**8,250,924**	**7,120,410**

The movement in allowance for doubtful debts during the year is as under:

	March 31, 2023	March 31, 2022
Beginning balance	922,243	-
Add: additional allowance for doubtful debts.	-	922,243
Less: reversal of allowance for doubtful debts	(1,382)	-
Closing balance	**920,861**	**922,243**

(5) Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition. Subsequently, the FASB issued various updates related to ASC Topic 606 in 2016. Revenue recognition policies under ASC Topic 606 are described in Note 2(c).

The disaggregated revenue from contracts with customers for the years ended March 31, 2023, and March 31, 2022, by contract type is presented below.

	March 31, 2022	March 31, 2022
Fixed Price	5,363,049	8,403,378
Time & Material	52,637,268	43,264,549
Revenue, net	**58,000,317**	**51,667,927**

The following table presents revenue disaggregated by the timing of recognition:

	March 31, 2023	March 31, 2022
Service transferred over time	58,000,317	51,667,927
Total	**58,000,317**	**51,667,927**

<u>Contract balances</u>
The following table provides information about contract assets and liability balances as follows:

	March 31, 2023	March 31, 2022
Accounts receivable, net	8,250,924	7,120,410
Unbilled receivables	3,077,567	2,234,918

(6) Income Taxes

The components of the provision for income taxes are as follows:

	March 31, 2023	March 31, 2022
Current taxes	1,446,936	-
Deferred taxes	(177,801)	174,360
Provision for income taxes	**1,269,135**	**174,360**

For the years ended March 31, 2023, and March 31, 2022, the difference between the actual tax expense and the expected tax expense, computed by applying the applicable U.S. corporate tax rate of 21% to income before income taxes, is primarily attributable to state taxes.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31 are presented below:

	March 31, 2023	March 31, 2022
Deferred tax assets:		
Accrued payroll and vacation	83,147	248,957
Net operating losses	-	226,858
Accrued expenses	701,643	170,497
Total deferred tax assets	**784,790**	**646,312**
Deferred tax liabilities:		
Leases	(5,880)	-
Properly and equipment	(12,256)	(57,459)
Total deferred tax liabilities	**(18,136)**	**(57,459)**
Net deferred tax assets	**766,654**	**588,853**

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that all or a portion of deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the expected availability of future taxable income during the periods in which those temporary differences become deductible and prior to the expiration of the deferred tax assets as governed by the Internal Revenue Code. The Company has not recorded any valuation allowance as of March 31, 2023, and March 31, 2022.

(7) Concentration of Credit Risk

The Company's customers are concentrated in the aerospace and defense industry. The Company's largest customer accounted for approximately 38% and 51% of revenues for the years ended March 31, 2023, and March 31, 2022, respectively, and approximately 20% and 36% of accounts receivable at March 31, 2023 and March 31, 2022, respectively.

(8) Property and Equipment

Property and equipment consist of the following:

	March 31, 2023	March 31, 2022
Leasehold Improvements	404,704	402,326
Computer hardware	2,012,813	2,004,084
Computer software	1,286,548	1,375,558
Office equipment	86,507	86,507
Furniture and fixtures	524,501	524,501
	4,315,073	4,392,976
Less: accumulated depreciation and amortization	(3,979,147)	(3,741,612)
Property and equipment, net	**335,926**	**651,364**

Depreciation expense for the years ended March 31, 2023, and March 31, 2022, was $ 339,527 and $ 493,847, respectively. During the years ended March 31, 2023, and March 31, 2022, the Company has written off fixed assets with a gross block value of $ 101,992 and $ 1,473,303, respectively, and recorded a loss amounting to $ Nil and $6,471, respectively.

(9) Accrued Liabilities

Accrued liabilities consist of the following:

	March 31, 2023	March 31, 2022
Warranty claim accrual*	2,200,000	-
Accrual for rebates and discounts	26,820	219,854
Audit fee accrual	75,421	142,450
Other accruals	276,410	268,465
	2,578,651	**630,769**

*During the year ended March 31, 2023, the Company was notified by a customer regarding issues with certain engineering and design services provided by the Company, as a result of which the Customer voluntarily recalled its product. The Company is contractually obligated to cover all costs incurred in administering the product recall. As of March 31, 2023, the estimated costs are expected to be $2,200,000, for which a provision is created. The Company maintains errors and omissions ('E&O') insurance policy and aircraft liability insurance with third party insurance providers. The Company notified its insurance providers during the year ended March 31, 2023. As of the date the financial statements are available to be issued, the insurance providers have agreed to reimburse the legal costs, while the claim is being reviewed by them.

(10) Other Income

Other income consists of the following:

	March 31, 2023	March 31, 2022
Miscellaneous income *(refer Note 13)*	$ 3,250,000	$ -
Recovery of bad debts written off	1,735,494	1,998,352
Other income	**$ 4,985,494**	**$ 1,998,352**

(11) Lease

- ***First-time adoption of ASC 842***

General description of the lease:

The Company leases various office premises and facilities under non-cancelable operating leases that expire at various dates through January 2025. Some of the Company's leases contain one or more options to extend or terminate. The Company considers options to extend or terminate the lease in determining the lease term.

Package of practical expedients: The Company will not reassess whether any expired or existing contracts are leases or contain leases, the lease classification for any expired or existing leases, or any initial direct costs for any expired or existing leases as of April 01, 2022.

The Company used the following policies and/or assumptions in evaluating the lease population:
Lease determination: The Company considers a contract to be or to contain a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.

Discount rate: The lease contracts do not provide a readily determinable implicit rate. Hence, the Company uses the estimated incremental borrowing rate based on the existing borrowings of the entity.

Variable payments: The Company does not include payments that are based on an index or rate within the calculation of right of use leased assets and lease liabilities, initially measured at the lease commencement date.

Residual value guarantees, restrictions, or covenants: The lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Operating lease expense for the year ended March 31, 2023, amounted to $1,340,270, which includes the variable component of lease expense worth $287,543 and fixed lease rental worth $1,052,727. The Company records operating lease expenses in the statements of income within 'selling, general, and administrative expense.'

On adoption of ASC 842 “Leases,” supplemental balance sheet information as of March 31, 2023, related to operating leases is shown below:

	As at March 31, 2023
Assets	
Operating lease right-of-use assets	1,125,386
Total lease assets	**1,125,386**
Liabilities	
Current Operating lease liabilities	918,222
Non-current Operating lease liabilities	185,472
Total lease liabilities	**1,103,694**

Supplemental cash flow information related to operating leases was as follows:

Particulars	**For year ended March 31, 2023**
Cash paid for amounts included in the measurement of lease liabilities	1,024,444
Lease assets obtained in exchange for new operating lease liabilities	2,178,021

Maturities of lease liabilities ending are as follows:

Year ended March 31	**Amount**
2024	931,945
2025	186,410
Total minimum lease payments	**1,118,355**
Less: Interest	(14,661)
Total operating lease liability	**1,103,694**

	For year ended March 31, 2023
Weighted average remaining lease term (years) – Operating lease	1.08 years
Weighted average – discount rate	2.46 %

(12) Fair Value Measurements

The Company’s financial instruments include cash and cash equivalents and investments in mutual funds (reported under ‘deferred compensation plan assets' on the balance sheets). These financial instruments potentially subject the Company to concentrations of credit risk. To minimize the risk of credit loss, these financial instruments are primarily held with accredited financial institutions. The carrying value of the Company’s financial instruments approximates their fair value. The fair value of financial instruments is generally determined by reference to market values resulting from trading on a national securities exchange or in an over-the-counter market. In cases where quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques.

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, the Company considers the principal or most advantageous market in which the Company would transact and also considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.

Level 2: Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3: Pricing inputs that are generally unobservable and may not be corroborated by market data.

Financial Assets and Liabilities Measured on a Recurring Basis

The Company's financial assets and liabilities are measured and recorded at fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The Company's assessment of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The following table summarizes the valuation of the Company's financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2023, and March 31, 2022:

	March 31, 2023	**Level 1**	**Level 2**	**Level 3**
Assets				
Plan assets for deferred compensation plan (Mutual funds)	$ 20,405	$ 20,405	-	-

	March 31, 2022	**Level 1**	**Level 2**	**Level 3**
Assets				
Plan assets for deferred compensation plan (Mutual funds)	$ -	-	-	-

(13) Related Party Transactions

The Company provides and obtains certain subcontracting consulting services with its Parent. During the years ended March 31, 2023, and March 31, 2022, the Company provided subcontracting services to its Parent amounting to $2,477,155 and $678,593, respectively. During the years ended March 31, 2023, and March 31, 2022, the Company obtained subcontracting services from its Parent amounting to $955,147 and $239,083.

In October 2022, the Parent received proceeds from the settlement of a representation and warranties ("R&W") insurance claim, amounting to $3,250,000. The insurance was obtained by the Parent to safeguard against potential losses resulting from the violation of certain representations and warranties made by the erstwhile shareholders of the Company (sellers). The claim was raised by the Parent for the below matters as of January 3, 2017 (date of acquisition)

- Company's failure to write off certain billed accounts receivable.
- Overstatement of certain unbilled accounts receivable.
- Understatement of accounts payables and accruals.

The management of the Parent decided to allocate the claim settlement received to the Company as it pertained to the assets of the Company. Accordingly, the Company recognized an income of $3,250,000 and reported a corresponding receivable from the Parent,

The net outstanding balance receivable from Parent as of March 31, 2023, and March 31, 2022, was $9,219,327 and $2,247,018, respectively.

As of March 31, 2023, and March 31, 2022, the Company has a payable balance to its Parent amounting to \$5,538,475 and \$4,091,539, respectively, towards income taxes pertaining to the Company. (Refer note 6 for further information).

Net receivable and payable balance, with respect to the Parent, as of March 31, 2023, and March 31, 2022, is \$3,680,852 and \$1,844,521, respectively.

(14) Employee benefit plans

401(k) Defined Contribution Plan.

The Company maintains a 401 (k) retirement plan ('the Plan') for eligible employees and also maintains a deferred compensation plan for certain management employees or independent contractors in order to provide retirement and other benefits. Eligible employees may elect to have up to the maximum amount allowable out of their compensation deferred under the terms of the Plan, which is consistent with Section 401(k) of the Internal Revenue Code. The Company may make a discretionary matching contribution to the Plan. The Company did not make any matching contributions for the years ended March 31, 2023, and March 31, 2022.

Deferred Compensation Plan.

The Company maintains a deferred compensation plan under the name of "Butler America Aerospace, LLC Deferred Compensation Plan" ("DCP") for certain management and highly compensated employees in order to provide retirement and other benefits.

DCP, a nonqualified deferred compensation plan, became effective on January 1, 2017. Under DCP, a deferred compensation account means the account is maintained with respect to each participant under the DCP. The deferred compensation account shall be credited with participant deferral credits and employer contributions, credited or debited for deemed investment gains or losses, and adjusted for payments in accordance with the rules of the plan document. Under DCP, the participant shall elect to defer a maximum of 50% of his/her base salary and defer a maximum of 100% of all other types of compensation. Employer credits are discretionary credits as determined by the employer. Employer credits are vested after 1 year of service. Notwithstanding any other vesting schedule, all employer credits shall become 100% vested upon the first to occur of the following events while the participant is actively employed:

A) Death of the participant while actively employed.
B) Disability of the participant
C) Change in control event.

The Company has formed a Rabbi trust, with the intention of making cash contributions to this trust, as required, to provide the Rabbi trust source of funds to assist in meeting its liabilities under DCP.

During the years ended March 31, 2023, and March 31, 2022, contributions were made to the extent of \$ Nil and \$ Nil, respectively, to the life insurance contract and \$ 20,366 and \$ 53,827 to mutual fund plan assets.

The cash surrender value of the life insurance contract and mutual fund assets as of March 31, 2023, amounts to \$850,705 and \$20,405, respectively. (March 31, 2022: \$1,081,309 and \$Nil) Correspondingly, a deferred compensation liability as of March 31, 2023, and March 31, 2022, payable amounted to \$ 731,432 and \$ 922,294, respectively.

(15) Risk and uncertainties

The Company's future results of operations involve a number of risks and uncertainties. Factors that could affect the Company's future operating results and cause actual results to vary materially from expectations include, but are not limited to, deterioration in general economic conditions; the Company's ability to effectively manage operating costs and increase operating efficiencies; declines in sales; competitive factors, including but not limited to pricing pressures; technological and market changes; the ability to attract and retain qualified employees and the Company's ability to execute on its business plan.

(16) Subsequent Events

The Company has evaluated subsequent events through June 28, 2023, the date the Company's financial statements were available to be issued. Based on the evaluation, the Company is not aware of any events or transactions that would require recognition or disclosure in the financial statements.