

CUMI AMERICA, INC.
(A SUBSIDIARY)

FINANCIAL STATEMENTS

For the Years Ended March 31, 2016 and 2015

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS	1
FINANCIAL STATEMENTS	
Balance Sheets	3
Statements of Operations and Retained Earnings	4
Statements of Stockholders' Equity	5
Statements of Cash Flows	6
Notes to Financial Statements	7-11



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of CUMI America, Inc.

We have audited the accompanying financial statements of CUMI America, Inc. (a Subsidiary, a Kentucky corporation), which comprise the balance sheets as of March 31, 2016 and 2015, and the related statements of operations and retained earnings, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility 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.

Auditor's Responsibility

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

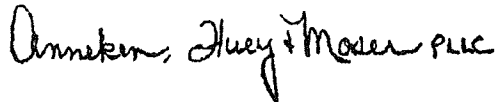
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CUMI America, Inc. (a Subsidiary) as of March 31, 2016 and 2015, and the results 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.

Anneken, Huey & Moser, PLLC

A handwritten signature in black ink that reads "Anneken, Huey & Moser PLLC". The signature is written in a cursive, flowing style.

Fort Wright, Kentucky

April 7, 2016

CUMI AMERICA, INC. (A SUBSIDIARY)
BALANCE SHEETS
 March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 182,960	\$ 213,049
Trade accounts receivable, less allowance for doubtful accounts of \$0 in 2016 and \$0 in 2015	1,269,019	943,983
Inventory	4,545,347	4,606,348
Prepaid expenses	34,470	13,740
Other current assets	24,700	9,138
TOTAL CURRENT ASSETS	<u>6,056,496</u>	<u>5,786,258</u>
PROPERTY AND EQUIPMENT		
Automobile	88,789	88,789
Furniture and fixtures	139,712	99,286
Equipment	214,541	195,195
Leasehold improvements	4,157	-
	<u>447,199</u>	<u>383,270</u>
Less: accumulated depreciation	121,011	83,016
TOTAL PROPERTY & EQUIPMENT	<u>326,188</u>	<u>300,254</u>
OTHER		
Deferred tax asset	820,300	584,000
TOTAL OTHER ASSETS	<u>820,300</u>	<u>584,000</u>
	<u>\$7,202,984</u>	<u>\$ 6,670,512</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities:		
Accounts payable	\$3,041,309	\$ 2,016,184
Line of credit	4,490,000	4,170,000
TOTAL CURRENT LIABILITIES	<u>7,531,309</u>	<u>6,186,184</u>
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock	1,850,000	1,850,000
Retained earnings (deficit)	(2,178,325)	(1,365,672)
TOTAL STOCKHOLDERS' EQUITY	<u>(328,325)</u>	<u>484,328</u>
	<u>\$7,202,984</u>	<u>\$ 6,670,512</u>

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
SALES		
Bonded abrasives	\$ 2,645,038	\$ 2,492,920
Industrial ceramics	2,444,761	1,965,891
Freight	143,867	96,946
Sales discounts	(6,475)	(5,849)
TOTAL SALES	<u>5,227,191</u>	<u>4,549,908</u>
COST OF SALES		
Bonded abrasives	2,147,740	1,788,584
Industrial ceramics	2,048,999	1,553,966
Freight, import and duties	188,238	185,790
Warehouse	46,700	133,234
TOTAL COST OF SALES	<u>4,431,677</u>	<u>3,661,574</u>
GROSS PROFIT	795,514	888,334
OPERATING EXPENSES		
Advertising	6,476	3,527
Bank charges	27,090	21,549
Commission and fees	210,702	152,083
Depreciation expenses	40,413	36,144
Employee benefits	78,920	49,647
Exhibition expenses	21,658	22,436
Office expenses	6,175	4,931
Other	75,585	94,604
Outward freight	192,884	230,878
Payroll and payroll taxes	633,675	506,377
Postage, courier, communication	35,616	30,288
Professional expenses	49,314	65,366
Rent	259,232	227,295
Repairs	4,938	6,839
Travel	93,581	128,457
Utilities	19,735	26,190
TOTAL OPERATING EXPENSE	<u>1,755,994</u>	<u>1,606,611</u>
OTHER INCOME (EXPENSE)		
Gain on sale	586	-
Interest income	94	-
Interest expense	(89,153)	(70,671)
TOTAL OTHER INCOME (EXPENSE)	<u>(88,473)</u>	<u>(70,671)</u>
NET LOSS BEFORE TAXES	(1,048,953)	(788,948)
INCOME TAX (BENEFIT)		
Federal	(190,600)	(145,100)
State	(45,700)	(33,900)
TOTAL INCOME TAX (BENEFIT)	<u>(236,300)</u>	<u>(179,000)</u>
NET LOSS	<u>\$ (812,653)</u>	<u>\$ (609,948)</u>

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
STATEMENTS OF STOCKHOLDERS' EQUITY
 March 31, 2016 and 2015

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance March 31, 2014	\$ 1,850,000	\$ (755,724)	\$ 1,094,276
Net Loss	-	(609,948)	(609,948)
Balance March 31, 2015	1,850,000	(1,365,672)	484,328
Net Loss	-	(812,653)	(812,653)
Balance at March 31, 2016	<u>\$ 1,850,000</u>	<u>\$(2,178,325)</u>	<u>\$ (328,325)</u>

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
STATEMENTS OF CASH FLOWS
 March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
NET LOSS	\$ (812,653)	\$ (609,948)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on sale of asset	(586)	
Deferred income taxes	(236,300)	(179,000)
Depreciation	40,413	36,144
(Increase) Decrease in:		
Trade accounts receivable	(325,036)	(335,462)
Inventory	61,001	(135,128)
Prepaid expenses	(20,730)	4,167
Other current assets	(15,562)	(2,422)
Increase (Decrease) in:		
Accounts payable	<u>1,025,125</u>	<u>551,178</u>
NET CASH USED BY OPERATING ACTIVITIES	(284,328)	(670,471)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (payments) on line of credit	320,000	920,000
Proceeds from sale of equipment	<u>6,849</u>	<u>-</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	326,849	920,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	<u>(72,610)</u>	<u>(52,353)</u>
NET CASH USED BY INVESTING ACTIVITIES	(72,610)	(52,353)
INCREASE (DECREASE) IN CASH	(30,089)	197,176
CASH AT BEGINNING OF PERIOD	<u>213,049</u>	<u>15,873</u>
CASH AT END OF PERIOD	<u>\$ 182,960</u>	<u>\$ 213,049</u>

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
 March 31, 2016 and 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

CUMI America, Inc. (a Subsidiary) was incorporated May 4, 1998, in the Commonwealth of Kentucky. The Company is an import and sales firm wholly owned by CUMI International Ltd., Limassol Cyprus which is a 100% owned subsidiary of Carborundum Universal Ltd., Chennai, India. The Company is a wholesaler, and primarily sells abrasive grinding wheels and industrial ceramics marketed in the Americas.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all temporary cash investments purchased with a maturity of three months or less to be cash equivalents.

Supplemental Disclosures of Cash Flow information

	<u>2016</u>	<u>2015</u>
Cash paid for interest during the year	\$ 89,153	\$ 70,671

Accounts Receivable

The Company extends unsecured credit to its customers in the ordinary course of business. Trade accounts receivable is recorded net of an allowance for possible losses. Management estimates these possible losses based on a review of the financial condition and payment history of specific customers having significant accounts receivable balance. Trade accounts receivable and the allowance for doubtful accounts as of March 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Trade accounts receivable	\$ 1,269,019	\$ 943,983
Allowance for doubtful accounts	-	-
Trade accounts receivable, net	<u>\$ 1,269,019</u>	<u>\$ 943,983</u>

Inventory

Inventory is valued at the lower of cost or market. Cost is determined using the first-in, first-out method.

Fixed Assets

Fixed assets are stated at cost. Depreciation is computed using accelerated methods over the estimated useful lives of the assets. The income statement reflects depreciation expense of \$40,413 and \$36,144 in 2016 and 2015, respectively. Expenditures for maintenance, repairs, renewals and betterments, which do not materially extend the useful lives of the assets, are expensed as incurred.

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
March 31, 2016 and 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 period. Actual results could differ from those estimates. Significant estimates include the collectability of accounts receivable.

Fair Value

The Company has a number of financial instruments, none of which are held for trading purposes. The Company estimates that the fair value of all financial instruments at March 31, 2016 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due or refundable, overpayments to be applied in subsequent tax returns, and deferred tax assets or liabilities related to temporary differences.

The Company is not aware of any tax positions that require recording of unrecognized tax benefits along with related interest or penalties as of March 31, 2016. The Company policy with regard to interest or penalties on such items is to record them as part of tax expense. Tax returns for 2011-2015 remain subject to Federal examination as of March 31, 2016. The tax returns for 2010-2015 remain subject to examination by the State of Kentucky as of March 31, 2016.

Major Customers

For the year ended March 31, 2016, three customers had sales in excess of five percent of sales and accounted for 34% of the total revenue. At March 31, 2016 accounts receivable included \$470,835 due from these customers. No allowance was recorded relative to their account.

For the year ended March 31, 2015, five customers had sales in excess of five percent of sales and accounted for 38% of the total revenue. At March 31, 2015 accounts receivable included \$293,681 due from these customer and no allowance was recorded relative to their accounts.

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
March 31, 2016 and 2015

NOTE B – LINES OF CREDIT

The Company maintains a line of credit for \$4,500,000 with Bank of America. The line was obtained December 23, 2009 and expires December 31, 2016. The interest rate is the BBA LIBOR daily floating rate plus 1.75%. The interest rate at March 31, 2016 was 2.13%. The line is guaranteed by Carborundum Universal Ltd. The Company had \$10,000 available for borrowing against the line at March 31, 2016.

NOTE C – OPERATING LEASES

The Company has three operating leases. A warehouse lease entered into in February of 2012 has a term of three years; rent expense for this was \$0 and \$71,042 for 2016 and 2015 respectively. In December 2013 the Company entered into a three year lease for warehouse space; rent expense recorded for this location was \$83,070 and \$79,560 for 2016 and 2015 respectively. In February 2015, the Company entered into a one year rental agreement for a cushion gas truck at the Oakdale, PA location with the option to purchase after one year which the Company did exercise in February 2016. In April 2015 the Company entered into a five year lease for warehouse space in Oakdale, PA; rent expense recorded for this location was \$83,750 and \$0 for 2016 and 2015 respectively. In September 2015 the Company entered into a 24 month phone system lease; the expense recorded for this was \$1,228 and \$0 for 2016 and 2015 respectively. The following is a schedule of non-cancellable minimum lease payments:

For Year Ended	
March 31, 2017	\$ 159,895
March 31, 2018	103,228
March 31, 2019	103,800
March 31, 2020	105,600
March 31, 2021	17,650
	<u>\$ 490,173</u>

NOTE D – RELATED PARTY TRANSACTIONS

Purchases

The Company purchases 100% of its inventory from members of the Carborundum Universal Ltd. Group. Accounts payable due to the members of the group, as of March 31, 2016 and 2015, were \$2,818,681 and \$1,922,366, respectively.

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
March 31, 2016 and 2015

NOTE D – RELATED PARTY TRANSACTIONS (continued)

Receivables

The Company was owed \$8,308 and \$1,231 by members of the Carborundum Universal Ltd. Group at March 31, 2016 and 2015.

Reimbursements

Carborundum Universal Ltd. reimburses the Company for 100% of insurance costs.

CUMI (Australia) Pty Ltd.

Beginning October 1, 2014, CUMI Australia Pty Ltd. took over the accounting responsibilities for the Industrial Ceramics division of the Company. Expenses related to this take over included consultancy and travel in the amount of \$11,153 and \$49,451 for 2016 and 2015 respectively. Industrial Ceramics was still a division of the Company at March 31, 2016.

NOTE E – COMMON STOCK

Common stock consists of 19,000 authorized shares with a \$100 par value per share. There were 18,500 and 500 shares issued and outstanding respectively at March 31, 2016 and 2015.

NOTE F – INCOME TAXES

The Company incurred federal and state income tax benefit of \$236,300 for 2016 and benefit of \$179,000 for 2015. Income taxes are provided for the tax effects of transactions reported in the financial statements as follows:

	<u>2016</u>	<u>2015</u>
Deferred		
Federal	\$ (190,600)	\$ (145,100)
State	(45,700)	(33,900)
	<u>\$ (236,300)</u>	<u>\$ (179,000)</u>

The tax provision does bear the usual relationship to the pre-tax loss due to the use of tax rates applicable to taxable income under \$100,000 in computing deferred tax benefits of net operating loss carryforward.

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
March 31, 2016 and 2015

NOTE F – INCOME TAXES (continued)

Deferred taxes are provided for the tax benefits expected to be realized from net operating loss carry forward:

	<u>2016</u>	<u>2015</u>
Deferred Tax Asset	<u>\$ 820,300</u>	<u>\$ 584,000</u>

The Company's deferred tax assets arise from net operating loss carryforwards approximating \$2,800,000 expiring from 2033-2036. The company does not believe any allowance is needed.

NOTE G – MANAGEMENT REVIEW

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through April 7, 2016, the date the financial statements were available to be issued.

NOTE H – RECLASSIFICATIONS

Amounts shown for 2015 Statement of Operations and Retained Earnings have been reclassified to conform to classifications used in 2016.