

**CUMI AMERICA, INC.**  
**(A SUBSIDIARY)**

**FINANCIAL STATEMENTS**

For the Years Ended March 31, 2019 and 2018

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**Anneken, Huey & Moser** PLLC  
Certified Public Accountants  
*Engaged. Responsive. Future-focused.*

## 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, 2019 and 2018, and the related statements of operations, 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.

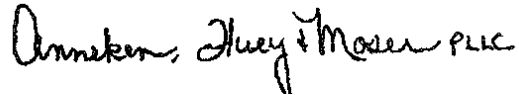
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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, 2019 and 2018, 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 8, 2019

**CUMI AMERICA, INC. (A SUBSIDIARY)**  
**BALANCE SHEETS**  
 March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
<b>NON-CURRENT ASSETS</b>		
Net property and equipment	\$ 213,008	\$ 215,508
Deferred tax asset	820,300	820,300
<b>TOTAL NON-CURRENT ASSETS</b>	<u>1,033,308</u>	<u>1,035,808</u>
<b>CURRENT ASSETS</b>		
Inventory	3,944,756	3,999,795
Financial assets		
Trade receivables, less allowance for doubtful accounts of \$37,000 in 2019 and \$0 in 2018	1,405,239	1,384,566
Cash	282,469	322,679
Other financial assets	38,180	36,028
Other current assets	39,484	66,281
<b>TOTAL CURRENT ASSETS</b>	<u>5,710,128</u>	<u>5,809,349</u>
<b>TOTAL ASSETS</b>	<u>\$ 6,743,436</u>	<u>\$ 6,845,157</u>
 <b>STOCKHOLDERS' EQUITY AND LIABILITIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Equity share capital	\$ 4,850,000	\$ 4,850,000
Other equity excluding non-controlling interest	(4,497,274)	(4,150,735)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>352,726</u>	<u>699,265</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Financial liabilities		
Borrowings	3,740,000	3,740,000
Trade payables	2,646,788	2,405,892
Other current liabilities	3,922	-
<b>TOTAL CURRENT LIABILITIES</b>	<u>6,390,710</u>	<u>6,145,892</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u>\$ 6,743,436</u>	<u>\$ 6,845,157</u>

See accompanying notes to financial statements.

**CUMI AMERICA, INC. (A SUBSIDIARY)**  
**STATEMENTS OF OPERATIONS**  
 March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>CONTINUING OPERATIONS</b>		
Revenue from operations	<u>\$ 9,056,579</u>	<u>\$ 7,291,887</u>
TOTAL REVENUE	9,056,579	7,291,887
<b>EXPENSES</b>		
Purchases of finished, semi-finished and other products	7,003,920	5,577,835
Changes in stock of finished goods	(55,039)	129,396
Employee benefit expense	1,003,436	999,798
Finance costs	150,341	116,556
Depreciation expense	29,051	27,108
Impairment of financial asset	37,000	13,460
Other expenses	<u>1,234,409</u>	<u>934,766</u>
TOTAL EXPENSES	<u>9,403,118</u>	<u>7,798,919</u>
<b>PROFIT/(LOSS) FROM CONTINUING OPERATIONS FOR THE PERIOD ATTRIBUTABLE TO:</b>		
Owners of the Company	<u><u>\$ (346,539)</u></u>	<u><u>\$ (507,032)</u></u>

See accompanying notes to financial statements.

**CUMI AMERICA, INC. (A SUBSIDIARY)**  
**STATEMENTS OF STOCKHOLDERS' EQUITY**  
 March 31, 2019 and 2018

	<b>COMMON STOCK ISSUED SHARES</b>	<b>AMOUNT</b>	<b>RETAINED EARNINGS (DEFICIT)</b>	<b>Total</b>
Balance, March 31, 2017	<u>48,500</u>	<u>\$ 4,850,000</u>	<u>\$ (3,643,703)</u>	<u>\$ 1,206,297</u>
Net Loss	<u>-</u>	<u>-</u>	<u>(507,032)</u>	<u>(507,032)</u>
Balance at March 31, 2018	<u>48,500</u>	<u>4,850,000</u>	<u>(4,150,735)</u>	<u>\$ 699,265</u>
Net Loss	<u>-</u>	<u>-</u>	<u>(346,539)</u>	<u>(346,539)</u>
Balance at March 31, 2019	<u><u>48,500</u></u>	<u><u>4,850,000</u></u>	<u><u>\$ (4,497,274)</u></u>	<u><u>\$ 352,726</u></u>

See accompanying notes to financial statements.

**CUMI AMERICA, INC. (A SUBSIDIARY)**  
**STATEMENTS OF CASH FLOWS**  
March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
NET LOSS	\$ (346,539)	\$ (507,032)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	29,051	27,108
Gain or Loss on sale	-	(11,076)
(Increase) Decrease in:		
Trade receivables	(20,673)	310,499
Inventory	55,039	(129,396)
Other financial assets	(2,152)	16,856
Other current assets	26,797	(30,364)
Increase (Decrease) in:		
Trade payables	240,896	501,958
Other current liabilities	3,922	(6,953)
 NET CASH USED BY OPERATING ACTIVITIES	 (13,659)	 171,600
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from sale of equipment	-	11,076
 NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	 -	 11,076
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment	(26,551)	(43,262)
 NET CASH USED BY INVESTING ACTIVITIES	 (26,551)	 (43,262)
 <b>DECREASE IN CASH</b>	 (40,210)	 139,414
 CASH AT BEGINNING OF PERIOD	 322,679	 183,265
 CASH AT END OF PERIOD	 <u>\$ 282,469</u>	 <u>\$ 322,679</u>

See accompanying notes to financial statements.



**CUMI AMERICA, INC. (A SUBSIDIARY)**  
**NOTES TO FINANCIAL STATEMENTS**  
 March 31, 2019 and 2018

**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, flooring and industrial ceramics marketed in the Americas.

Revenue Recognition

Revenue is measured based on a consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

Taxes assessed by governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue.

Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for in cost of sales.

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>2019</u>	<u>2018</u>
Cash paid during the year:		
Interest	<u>\$ 150,341</u>	<u>\$ 116,556</u>

Accounts Receivable

The Company extends unsecured credit to its customers in the ordinary course of business. Trade accounts receivable are 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, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Trade accounts receivable	\$1,442,239	\$1,384,566
Allowance for doubtful accounts	(37,000)	-
Trade accounts receivable, net	<u>\$1,405,239</u>	<u>\$1,384,566</u>

**CUMI AMERICA, INC. (A SUBSIDIARY)**  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2019 and 2018

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 \$29,051 and \$27,108 in 2019 and 2018, respectively. Expenditures for maintenance, repairs, renewals and betterments, which do not materially extend the useful lives of the assets, are expensed as incurred.

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, 2019 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.

Risks and Uncertainties

As shown in the accompanying financial statements, the Company incurred net losses of \$346,539 and \$507,032 during the years ended March 31, 2019 and 2018. The parent company is committed to investing additional capital as needed until the Company achieves profitable operations. The Company's current plan is to augment sales of both Abrasives and Industrial Ceramics by expanding the product range and resource so as to achieve profitable operations beginning in the year ended March 31, 2020.

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, 2019. The Company policy with regard to interest or penalties on such items is to record them as part of tax expense.

**CUMI AMERICA, INC. (A SUBSIDIARY)**  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2019 and 2018

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Major Customers

For the year ended March 31, 2019, three customers had sales in excess of five percent of sales and accounted for 20% of the total revenue. At March 31, 2019 accounts receivable included \$302,589 due from these customers. No allowance was considered necessary.

For the year ended March 31, 2018, four customers had sales in excess of five percent of sales and accounted for 25% of the total revenue. At March 31, 2018 accounts receivable included \$436,091 due from these customer and no allowance was considered necessary.

**NOTE B – LINES OF CREDIT**

The Company maintains a line of credit for \$4,500,000 with Citi Bank. The line expired March 31, 2019 and the Company expects the line to be renewed by April 30, 2019. The interest rate is the BBA LIBOR daily floating rate plus 1.75%. The interest rate at March 31, 2019 was 4.13%. The line is guaranteed by Carborundum Universal Ltd. The Company had \$760,000 available for borrowing against the line at March 31, 2019.

**NOTE C – OPERATING LEASES**

The Company has three operating leases. A five-year warehouse lease entered into in April 2015, a three year and three-month warehouse lease entered into in November 2016 and a 36-month truck lease entered into in June 2017. Expenses included \$172,378 and \$168,274 for years ending March 31, 2019 and 2018 respectively. The following is a schedule of non-cancellable minimum lease payments:

For the Year Ended	
March 31, 2020	164,804
March 31, 2021	19,442
	<u>\$ 184,247</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, 2019 and 2018, were \$2,456,516 and \$2,202,594, respectively.

**CUMI AMERICA, INC. (A SUBSIDIARY)**  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2019 and 2018

**NOTE D – RELATED PARTY TRANSACTIONS (continued)**

Receivables

The Company was owed \$1,230 and \$2,408 by members of the Carborundum Universal Ltd. Group at March 31, 2019 and 2018.

Reimbursements

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

**NOTE E – COMMON STOCK**

Common stock consists of 70,000 authorized shares with a \$100 par value per share. There were 48,500 and 48,500 shares issued and outstanding respectively at March 31, 2019 and 2018.

**NOTE F – INCOME TAXES**

There is no tax expense recorded for the year ended March 31, 2019. The Company currently has net operating losses totaling \$5,000,000 that will carryforward indefinitely with a related deferred tax benefit of \$820,300. Until the Company can achieve profitable operations and predict utilization of current loss carryforwards, no net tax benefit and related net deferred tax asset will be recorded for losses incurred subsequent to March 31, 2016.

	<u>2019</u>	<u>2018</u>
Current Deferred Tax Asset	\$ -	\$ -
Long-term Deferred Tax Asset	\$ 975,480	\$ 975,480
Less: Valuation Allowance	<u>(155,180)</u>	<u>\$ (155,180)</u>
	<u>\$ 820,300</u>	<u>\$ 820,300</u>

**NOTE G – MANAGEMENT REVIEW**

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through April 8, 2019, the date the financial statements were available to be issued.