

CUMI AMERICA, INC.
(A SUBSIDIARY)

FINANCIAL STATEMENTS

For the Years Ended March 31, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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

Anneken, Huey & Moser, PLLC
Highland Heights, Kentucky
April 7, 2020

CUMI AMERICA, INC. (A SUBSIDIARY)
BALANCE SHEETS
March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
NON-CURRENT ASSETS		
Net property and equipment	\$ 175,939	\$ 213,008
Deferred tax asset	820,300	820,300
Operating lease right-of-use asset	527,108	-
TOTAL NON-CURRENT ASSETS	<u>1,523,347</u>	<u>1,033,308</u>
CURRENT ASSETS		
Inventory	4,615,878	3,944,756
Financial assets		
Trade receivables	1,555,355	1,405,239
Cash	313,601	282,469
Other financial assets	9,627	38,180
Other current assets	21,588	39,479
TOTAL CURRENT ASSETS	<u>6,516,049</u>	<u>5,710,123</u>
TOTAL ASSETS	<u>\$ 8,039,396</u>	<u>\$ 6,743,431</u>
 STOCKHOLDERS' EQUITY AND LIABILITIES		
STOCKHOLDERS' EQUITY		
Equity share capital	\$ 4,850,000	\$ 4,850,000
Other equity excluding non-controlling interest	<u>(4,247,612)</u>	<u>(4,497,279)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>602,388</u>	<u>352,721</u>
LIABILITIES		
NON-CURRENT LIABILITIES		
Financial liabilities		
Operating lease liabilities	347,420	
Other financial liabilities measured at fair value	791	-
TOTAL NON-CURRENT LIABILITIES	<u>348,211</u>	<u>-</u>
CURRENT LIABILITIES		
Financial liabilities		
Borrowings	3,740,000	3,740,000
Trade payables	3,144,827	2,646,788
Operating lease liabilities	179,688	
Other financial liabilities measured at fair value	4,745	-
Other current liabilities	19,537	3,922
TOTAL CURRENT LIABILITIES	<u>7,088,797</u>	<u>6,390,710</u>
TOTAL LIABILITIES & EQUITY	<u>\$ 8,039,396</u>	<u>\$ 6,743,431</u>

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
STATEMENTS OF OPERATIONS
 March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CONTINUING OPERATIONS		
Revenue from operations	\$ 9,860,632	\$ 9,056,579
TOTAL REVENUE	<u>9,860,632</u>	<u>9,056,579</u>
EXPENSES		
Purchases of finished, semi-finished and other products	8,093,300	7,003,920
Changes in stock of finished goods	(671,122)	(55,039)
Employee benefit expense	1,027,374	1,003,436
Finance costs	120,378	150,341
Depreciation expense	32,941	29,051
Impairment of financial asset	959	37,000
Other expenses	1,007,135	1,234,409
TOTAL EXPENSES	<u>9,610,965</u>	<u>9,403,118</u>
PROFIT/(LOSS) FROM CONTINUING OPERATIONS FOR THE PERIOD ATTRIBUTABLE TO:		
Owners of the Company	<u>\$ 249,667</u>	<u>\$ (346,539)</u>

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
STATEMENTS OF STOCKHOLDERS' EQUITY
 March 31, 2020 and 2019

	COMMON STOCK ISSUED		RETAINED	
	SHARES	AMOUNT	EARNINGS	Total
			(DEFICIT)	
Balance, March 31, 2018	48,500	\$ 4,850,000	\$ (4,150,740)	\$ 699,260
Net Loss	-	-	(346,539)	(346,539)
Balance, March 31, 2019	48,500	4,850,000	(4,497,279)	352,721
Net Income	-	-	249,667	249,667
Balance, March 31, 2020	48,500	4,850,000	\$ (4,247,612)	\$ 602,388

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
STATEMENTS OF CASH FLOWS
 March 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
NET INCOME(LOSS)	\$ 249,667	\$ (346,539)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	32,941	29,051
Loss on sale of assets	17,797	-
(Increase) Decrease in:		
Trade receivables	(150,116)	(20,673)
Inventory	(671,122)	55,039
Other financial assets	28,553	(2,152)
Other current assets	17,889	26,797
Increase (Decrease) in:		
Trade payables	498,039	240,896
Other current liabilities	15,616	3,922
NET CASH PROVIDED BY OPERATING ACTIVITIES	39,264	(13,659)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of equipment	13,300	-
Purchase of equipment	(26,969)	(26,551)
NET CASH USED BY INVESTING ACTIVITIES	(13,669)	(26,551)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments under capital lease obligation	(3,953)	-
Proceeds from issuance of debt	9,490	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	5,537	-
INCREASE IN CASH	31,132	(40,210)
CASH AT BEGINNING OF PERIOD	282,469	322,679
CASH AT END OF PERIOD	\$ 313,601	\$ 282,469

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
March 31, 2020 and 2019

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

Adoption of New Revenue Recognition Guidance – Effective April 1, 2019, the Company retrospectively changed its accounting method for revenue recognition as a result of implementing the requirement in the Financial Accounting Standards Board’s Accounting Standard Codification (ASC) 606, Revenue from Contracts with Customers. The change in accounting principle is discussed in more detail in Note G.

The revenue recognition guidance requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company adopted the requirements of the new revenue recognition guidance as of April 1, 2019, utilizing the modified retrospective transition method. A practical expedient was applied for revenue contracts that began and ended in the same year. Though these contracts were not restated, the effect of applying this shortcut was not significant to the financial statements.

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>2020</u>	<u>2019</u>
Cash paid during the year:		
Interest	<u>\$ 119,938</u>	<u>\$ 150,341</u>

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
March 31, 2020 and 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Trade accounts receivable	\$ 1,569,665	\$ 1,405,239
Allowance for doubtful accounts	<u>(14,310)</u>	<u>(37,000)</u>
Trade accounts receivable, net	<u>\$ 1,555,355</u>	<u>\$ 1,368,239</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 \$32,941 and \$29,051 in 2020 and 2019, respectively. Expenditures for maintenance, repairs, renewals and betterments, which do not materially extend the useful lives of the assets, are expensed as incurred.

Leases

Adoption of New Lease Guidance – Effective April 1, 2019, the Company adopted ASU No. 2016-02 – Leases (ASC 842) using the modified retrospective transition method. Previously, the Company classified operating leases under ASC 840. On transition for these leases, lease liabilities were measured at the present value of the remaining lease payments. The Company did not recognize right-of-use assets and liabilities for leases with the lease term ending 12 months of the date of initial application. The change in accounting principle is discussed in more detail in Note G.

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 and salability of inventory.

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
March 31, 2020 and 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2020 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. 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, 2020. The Company policy with regard to interest or penalties on such items is to record them as part of tax expense.

Major Customers

For the year ended March 31, 2020, three customers had sales in excess of five percent of sales and accounted for 19% of the total revenue. At March 31, 2020 accounts receivable included \$122,850 due from these customers. No allowance was considered necessary.

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 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 expires April 7, 2020 and the Company expects the line to be renewed by April 30, 2020. The interest rate is the BBA LIBOR daily floating rate plus 1.75%. The interest rate at March 31, 2020 was 2.03%. The line is guaranteed by Carborundum Universal Ltd. The Company had \$760,000 available for borrowing against the line at March 31, 2020.

NOTE C – 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, 2020 and 2019, were \$2,724,270 and \$2,456,516, respectively.

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
March 31, 2020 and 2019

NOTE C – RELATED PARTY TRANSACTIONS (continued)

Receivables

The Company was owed \$29,744 and \$1,230 by members of the Carborundum Universal Ltd. Group at March 31, 2020 and 2019.

NOTE D – 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, 2020 and 2019.

NOTE E – INCOME TAXES

There is no tax expense recorded for the year ended March 31, 2020. 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.

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

	<u>2020</u>	<u>2019</u>
Current Deferred Tax Asset	\$ -	\$ -
Long-term Deferred Tax Asset	\$ 975,480	
Less: Valuation Allowance	<u>(155,180)</u>	
	<u>\$ 820,300</u>	<u>\$ -</u>

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
March 31, 2020 and 2019

NOTE E – INCOME TAXES (continued)

The tax provision consists of the following:

	<u>2020</u>	<u>2019</u>
Federal		
Currently payable	\$ 52,500	-
Recognition of benefit loss carryforwards	(52,500)	-
	-	-
State		
Currently payable	12,500	-
Recognition of benefit loss carryforwards	(12,500)	-
	-	-
Total payable	<u>\$ -</u>	<u>\$ -</u>

NOTE F – FASB 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenues from Contracts with Customers* in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB 605, Revenue Recognition and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods and services. The requirements of the new guidance were adopted as of April 1, 2019, utilizing the modified retrospective method of transition. Adoption of the new guidance resulted in changes to our accounting policies for revenue and cost recognition as discussed in Note A. Adoption of the guidance did not result in any changes to previously reported amounts as the new standards and old standards were substantially identical in application at the Company.

NOTE G – FASB 842 NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 842, *Leases*. Topic 842 supersedes the lease requirements in FASB 840, *Leases* and requires the recognition of financing and operating lease assets and lease liabilities on the balance sheet. The requirements of the new guidance were adopted as of April 1, 2019, utilizing the modified retrospective method of transition. Adoption of the new guidance resulted in changes to our accounting policy for financing and operating leases as discussed in Note A. Adoption of the new guidance did not result in any changes to previously reported amounts.

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
March 31, 2020 and 2019

NOTE H – OPERATING LEASE LIABILITIES

The Company leases two warehouse facilities which typically run three to five years. The Company recently amended those leases for an additional 36 months commencing in February 2020 and June 2020. Lease payments are amortized on a straight-line basis. The discount rate was determined by using the Company's line of credit borrowing rate at March 31, 2020. The balances of the right-of-use assets and lease liabilities at March 31, 2020 were \$527,108 and \$527,108, respectively. Interest expense on lease liabilities for the year ended March 31, 2020 was \$440. Expenses related to short-term leases for the year ended March 31, 2020 were \$164,820.

The following is a schedule of future amortized lease payments:

<u>Year Ending March 31,</u>	
2021	\$ 168,340
2022	190,763
2023	181,565
2024	<u>19,500</u>
	560,168
Less amount representing interest:	<u>33,060</u>
	<u>\$ 527,108</u>

NOTE I – CORONAVIRUS PANDEMIC

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020 the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared states of emergency. It is anticipated that these impacts will continue for some time. There has been no impact to the Company's operations to date. Future potential impacts to the Company include disruptions or restrictions on our employees' ability to work. Changes to the operating environment may also be impacted. These changes may increase operating costs. The future effects of these issues are unknown.

NOTE J – MANAGEMENT'S REVIEW

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through April 7, 2020, the date the financial statements were available to be issued.