

CUMI AMERICA, INC.
(A SUBSIDIARY)

FINANCIAL STATEMENTS

For the Years Ended March 31, 2021 and 2020

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS	1-2
FINANCIAL STATEMENTS	
Balance Sheets	3
Statements of Operations	4
Statements of Stockholders' Equity	5
Statements of Cash Flows	6
Notes to Financial Statements	7-12



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.

Opinion

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, 2021 and 2020, and the related statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CUMI America, Inc. as of March 31, 2021 and 2020, 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.

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 CUMI America, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CUMI America, Inc.'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 CUMI America, Inc.'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.

Anneken, Huey & Moser, PLLC

Anneken, Huey & Moser, PLLC
Highland Heights, Kentucky
April 9, 2021

CUMI AMERICA, INC. (A SUBSIDIARY)
BALANCE SHEETS
 March 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
NON-CURRENT ASSETS		
Net property and equipment	\$ 237,993	\$ 175,939
Deferred tax asset	820,300	820,300
Operating lease right-of-use asset	1,556,543	527,108
TOTAL NON-CURRENT ASSETS	<u>2,614,836</u>	<u>1,523,347</u>
CURRENT ASSETS		
Inventory	5,204,718	4,615,878
Financial assets		
Trade receivables	1,528,949	1,555,355
Cash	458,427	313,601
Other financial assets	12,327	9,627
Other current assets	20,641	21,588
TOTAL CURRENT ASSETS	<u>7,225,062</u>	<u>6,516,049</u>
TOTAL ASSETS	<u>\$ 9,839,898</u>	<u>\$ 8,039,396</u>
STOCKHOLDERS' EQUITY AND LIABILITIES		
STOCKHOLDERS' EQUITY		
Equity share capital	\$ 8,600,000	\$ 4,850,000
Other equity excluding non-controlling interest	(4,155,147)	(4,247,612)
TOTAL STOCKHOLDERS' EQUITY	<u>4,444,853</u>	<u>602,388</u>
LIABILITIES		
NON-CURRENT LIABILITIES		
Financial liabilities		
Operating lease liabilities	1,184,850	347,420
Other financial liabilities measured at fair value	-	791
TOTAL NON-CURRENT LIABILITIES	<u>1,184,850</u>	<u>348,211</u>
CURRENT LIABILITIES		
Financial liabilities		
Borrowings	1,000,000	3,740,000
Trade payables	2,824,747	3,144,827
Operating lease liabilities	371,693	179,688
Other financial liabilities measured at fair value	-	4,745
Other current liabilities	13,755	19,537
TOTAL CURRENT LIABILITIES	<u>4,210,195</u>	<u>7,088,797</u>
TOTAL LIABILITIES & EQUITY	<u>\$ 9,839,898</u>	<u>\$ 8,039,396</u>

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
STATEMENTS OF OPERATIONS
 March 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CONTINUING OPERATIONS		
Revenue from operations	\$ 8,688,127	\$ 9,860,632
TOTAL REVENUE	8,688,127	9,860,632
EXPENSES		
Purchases of finished, semi-finished and other products	7,148,946	6,751,056
Changes in stock of finished goods	(588,840)	671,122
Employee benefit expense	1,053,608	1,027,374
Finance costs	40,177	120,378
Depreciation expense	40,065	32,941
Impairment of financial asset	-	959
Other expenses	901,706	1,007,135
TOTAL EXPENSES	<u>8,595,662</u>	<u>9,610,965</u>
PROFIT/(LOSS) FROM CONTINUING OPERATIONS FOR THE PERIOD ATTRIBUTABLE TO:		
Owners of the Company	<u>\$ 92,465</u>	<u>\$ 249,667</u>

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
STATEMENTS OF STOCKHOLDERS' EQUITY
 March 31, 2021 and 2020

	COMMON STOCK ISSUED		RETAINED	
	SHARES	AMOUNT	EARNINGS	Total
			(DEFICIT)	
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
Issuance of stock	37,500	3,750,000	-	3,750,000
Net Income	-	-	92,465	92,465
Balance, March 31, 2021	86,000	8,600,000	\$ (4,155,147)	\$ 4,444,853

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
STATEMENTS OF CASH FLOWS
March 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
NET INCOME	\$ 92,465	\$ 249,667
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation	40,065	32,941
Loss on sale of assets	25,229	17,797
(Increase) Decrease in:		
Trade receivables	26,406	(150,116)
Inventory	(588,840)	(671,122)
Other financial assets	(2,700)	28,553
Other current assets	947	17,891
Increase (Decrease) in:		
Trade payables	(320,080)	498,039
Other current liabilities	(5,780)	15,615
	<u>(732,288)</u>	<u>39,265</u>
NET CASH USED BY OPERATING ACTIVITIES	(732,288)	39,265
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of assets	-	13,300
Purchase of equipment	(127,349)	(26,968)
	<u>(127,349)</u>	<u>(13,668)</u>
NET CASH USED BY INVESTING ACTIVITIES	(127,349)	(13,668)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments under capital lease obligation	(5,537)	(3,955)
Net borrowings under line of credit	(2,740,000)	-
Proceeds from issuance of common stock	3,750,000	-
Proceeds from issuance of debt	-	9,490
	<u>1,004,463</u>	<u>5,535</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,004,463	5,535
INCREASE IN CASH	144,826	31,132
CASH AT BEGINNING OF PERIOD	<u>313,601</u>	<u>282,469</u>
CASH AT END OF PERIOD	<u>\$ 458,427</u>	<u>\$ 313,601</u>

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
March 31, 2021 and 2020

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 F.

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>2021</u>	<u>2020</u>
Cash paid during the year:		
Interest	<u>\$ 40,177</u>	<u>\$ 120,378</u>
State income taxes (PA)	<u>\$ 9,135</u>	<u>\$ -</u>

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
 March 31, 2021 and 2020

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, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Trade accounts receivable	\$ 1,534,949	\$ 1,569,665
Allowance for doubtful accounts	<u>(6,000)</u>	<u>(14,310)</u>
Trade accounts receivable, net	<u>\$ 1,528,949</u>	<u>\$ 1,555,355</u>

Inventory

Inventory is valued at the lower of cost or market. Cost is determined using the first-in, first-out method. Included in inventory are in-transit goods in the amounts of \$1,343,256 and \$821,437 for 2021 and 2020, respectively.

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 \$40,065 and \$32,941 in 2021 and 2020, 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, 2021 and 2020

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, 2021 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, 2021. 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, 2021, three customers had sales in excess of five percent of sales and accounted for 24% of the total revenue. At March 31, 2021 accounts receivable included \$319,841 due from these customers. No allowance was considered necessary.

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 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 8, 2022. The interest rate is the BBA LIBOR daily floating rate plus 1.75%. The interest rate at March 31, 2021 was 0.91%. The line is guaranteed by Carborundum Universal Ltd. The Company had \$3,500,000 available for borrowing against the line at March 31, 2021.

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, 2021 and 2020, were \$2,724,270 and \$2,794,981, respectively.

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE C – RELATED PARTY TRANSACTIONS (continued)

Receivables

The Company was owed \$7,501 and \$29,744 by members of the Carborundum Universal Ltd. Group at March 31, 2021 and 2020.

NOTE D – COMMON STOCK

Common stock consists of 100,000 authorized shares with a \$100 par value per share. There were 86,000 and 48,500 shares issued and outstanding respectively at March 31, 2021 and 2020.

NOTE E – INCOME TAXES

There is no tax expense recorded for the year ended March 31, 2021. 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>2021</u>	<u>2020</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>

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
March 31, 2021 and 2020

NOTE E – INCOME TAXES (continued)

The tax provision consists of the following:

	<u>2021</u>	<u>2020</u>
Federal		
Currently payable	\$ 19,400	52,500
Recognition of benefit loss carryforwards	<u>(19,400)</u>	<u>(52,500)</u>
	-	-
State		
Currently payable	7,724	12,500
Prepaid income tax expense	(9,135)	-
Recognition of benefit loss carryforwards	<u>(4,623)</u>	<u>(12,500)</u>
	<u>(6,034)</u>	<u>-</u>
Total payable	<u>\$ (6,034)</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, 2021 and 2020

NOTE H – OPERATING LEASE LIABILITIES

The Company leases two warehouse facilities which typically run three to five years. The Company amended those leases for an additional 36 months and 60 months commencing in February 2020 and February 2021. 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, 2021 and March 31, 2020. The balances of the right-of-use assets and lease liabilities at March 31, 2021 and March 31, 2020 were \$1,556,543 and \$1,556,543, and \$527,108 and \$527,108, respectively. Interest expense on lease liabilities for the years ended March 31, 2021 and March 31, 2020 were \$958 and \$440, respectively. Expenses related to short-term leases for the years ended March 31, 2021 and March 31, 2020 were \$232,443 and \$164,820, respectively.

The following is a schedule of future amortized lease payments:

<u>Year Ending March 31,</u>	
2022	\$ 379,489
2023	374,459
2024	315,442
2025	319,885
2026	<u>239,914</u>
	1,629,189
Less amount representing interest:	<u>72,646</u>
	<u><u>\$ 1,556,543</u></u>

NOTE I – CORONAVIRUS PANDEMIC

The COVID-19 pandemic developed rapidly during the year, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity and resulted in industry shutdowns. The Company was not required to shutdown as they were deemed an "essential" business. The Company has taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for employees (such as social distancing and working from home) and securing the supply of materials that are essential to the Company's business process. The Company will continue to follow the various government policies and advice and, in parallel, continue operations in the best and safest way possible without jeopardizing the health of the employees. A vaccine for the virus is currently being distributed and administered globally. The future effects of any government mandated activities due to the continued pandemic 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 9, 2021, the date the financial statements were available to be issued.