

CUMI AMERICA, INC.
(A SUBSIDIARY)

FINANCIAL STATEMENTS

For the Years Ended March 31, 2017 and 2016

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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, 2017 and 2016, 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.

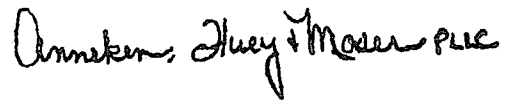
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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, 2017 and 2016, 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, 2017

CUMI AMERICA, INC. (A SUBSIDIARY)
BALANCE SHEETS
 March 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
NON-CURRENT ASSETS		
Property and equipment	\$ 199,354	\$ 326,188
Deferred tax asset	820,300	820,300
TOTAL NON-CURRENT ASSETS	<u>1,019,654</u>	<u>1,146,488</u>
CURRENT ASSETS		
Inventory	3,870,399	4,545,347
Financial assets		
Trade receivables	1,695,065	1,269,019
Cash	183,265	182,960
Other financial assets	52,884	24,700
Other current assets	35,917	34,470
TOTAL CURRENT ASSETS	<u>5,837,530</u>	<u>6,056,496</u>
TOTAL ASSETS	<u><u>\$6,857,184</u></u>	<u><u>\$7,202,984</u></u>
 STOCKHOLDERS' EQUITY AND LIABILITIES		
STOCKHOLDERS' EQUITY		
Equity share capital	\$4,850,000	1,850,000
Other equity excluding non-controlling interest	(3,643,703)	(2,178,325)
TOTAL STOCKHOLDERS' EQUITY	<u>1,206,297</u>	<u>(328,325)</u>
LIABILITIES		
CURRENT LIABILITIES		
Financial liabilities		
Borrowings	3,740,000	4,490,000
Trade payables	1,903,934	3,034,759
Other current liabilities	6,953	6,550
TOTAL CURRENT LIABILITIES	<u>5,650,887</u>	<u>7,531,309</u>
TOTAL LIABILITIES & EQUITY	<u><u>\$6,857,184</u></u>	<u><u>\$7,202,984</u></u>

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
STATEMENTS OF OPERATIONS
 March 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CONTINUING OPERATIONS		
Revenue from operations	\$ 5,973,924	\$ 5,089,799
TOTAL REVENUE	5,973,924	5,089,799
EXPENSES		
Purchases of finished, semi-finished and other products	6,218,270	4,370,676
Changes in stock of finished goods	(674,948)	61,001
Employee benefit expense	811,125	712,595
Finance costs	97,100	89,153
Depreciation expense	28,584	40,413
Other expenses	959,171	628,614
TOTAL EXPENSES	7,439,302	5,902,452
PROFIT/(LOSS) FROM CONTINUING OPERATIONS FOR THE PERIOD ATTRIBUTABLE TO:		
Owners of the Company	<u>\$ (1,465,378)</u>	<u>\$ (812,653)</u>

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
STATEMENTS OF STOCKHOLDERS' EQUITY
 March 31, 2017 and 2016

	<u>COMMON STOCK ISSUED</u> <u>SHARES</u>	<u>AMOUNT</u>	<u>RETAINED</u> <u>EARNINGS</u> <u>(DEFICIT)</u>	<u>Total</u>
Balance, March 31, 2015	18,500	\$ 1,850,000	\$ (1,365,672)	\$ 484,328
Net Loss	-	-	(812,653)	(812,653)
Balance at March 31, 2016	18,500	1,850,000	(2,178,325)	\$ (328,325)
Issuance of stock	30,000	3,000,000	-	3,000,000
Net Loss	-	-	(1,465,378)	(1,465,378)
Balance at March 31, 2017	<u>48,500</u>	<u>\$ 4,850,000</u>	<u>\$ (3,643,703)</u>	<u>\$ 1,206,297</u>

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
STATEMENTS OF CASH FLOWS
 March 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
NET LOSS	\$ (1,465,378)	\$ (812,653)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	28,584	40,413
Deferred income taxes	-	(236,300)
Gain or Loss on sale	54,580	(586)
(Increase) Decrease in:		
Trade receivables	(426,046)	(325,036)
Inventory	674,948	61,001
Other financial assets	(28,184)	(15,562)
Other current assets	(1,447)	(20,730)
Increase (Decrease) in:		
Trade payables	(1,130,825)	1,020,654
Other current liabilities	403	4,471
	<u> </u>	<u> </u>
NET CASH USED BY OPERATING ACTIVITIES	(2,293,365)	(284,328)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings on line of credit	(750,000)	320,000
Proceeds from sale of equipment	74,770	6,849
Proceeds from issuance of common stock	3,000,000	-
	<u> </u>	<u> </u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,324,770	326,849
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(31,100)	(72,610)
	<u> </u>	<u> </u>
NET CASH USED BY INVESTING ACTIVITIES	(31,100)	(72,610)
INCREASE IN CASH	305	(30,089)
CASH AT BEGINNING OF PERIOD	<u>182,960</u>	<u>213,049</u>
CASH AT END OF PERIOD	<u>\$ 183,265</u>	<u>\$ 182,960</u>

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
 March 31, 2017 and 2016

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.

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>2017</u>	<u>2016</u>
Cash paid during the year:		
Interest	<u>\$ 97,100</u>	<u>\$ 89,153</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, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Trade accounts receivable	\$ 1,695,065	\$ 1,269,019
Allowance for doubtful accounts	-	-
Trade accounts receivable, net	<u>\$ 1,695,065</u>	<u>\$ 1,269,019</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 \$28,584 and \$40,413 in 2017 and 2016, 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, 2017 and 2016

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, 2017 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 \$1,465,378 and \$812,653 during the years ended March 31, 2017 and 2016. During the year ended March 31, 2017, the parent company invested \$3,000,000 in additional capital into the Company. 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, 2018.

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, 2017. 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, 2017 and 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Major Customers

For the year ended March 31, 2017, five customers had sales in excess of five percent of sales and accounted for 35% of the total revenue. At March 31, 2017 accounts receivable included \$880,649 due from these customers. No allowance was considered necessary.

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 customer and no allowance was considered necessary.

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 March 31, 2018. The interest rate is the BBA LIBOR daily floating rate plus 1.75%. The interest rate at March 31, 2017 was 2.67%. The line is guaranteed by Carborundum Universal Ltd. The Company had \$760,000 available for borrowing against the line at March 31, 2017.

NOTE C – OPERATING LEASES

The Company has three operating leases. A five year warehouse lease entered into in April 2015, a 24 month phone system lease entered into in September 2015, and a three year and three month warehouse lease entered into in November 2016. Expenses included \$172,577 and \$168,048 for years ending March 31, 2017 and 2016 respectively. The following is a schedule of non-cancellable minimum lease payments:

For the Year Ended	
March 31, 2018	\$ 159,312
March 31, 2019	161,010
March 31, 2020	154,050
March 31, 2021	17,650
	<u>\$ 492,022</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, 2017 and 2016, were \$1,621,204 and \$2,818,681, respectively.

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
 March 31, 2017 and 2016

NOTE D – RELATED PARTY TRANSACTIONS (continued)

Receivables

The Company was owed \$9,811 and \$8,308 by members of the Carborundum Universal Ltd. Group at March 31, 2017 and 2016.

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 \$6,053 and \$11,153 for 2017 and 2016 respectively. Industrial Ceramics was still a division of the Company at March 31, 2017.

NOTE E – COMMON STOCK

Common stock consists of 70,000 authorized shares with a \$100 par value per share. There were 48,500 and 18,500 shares issued and outstanding respectively at March 31, 2017 and 2016.

NOTE F – INCOME TAXES

There is no tax benefit recorded for the year ended March 31, 2017. The Company currently has \$4,600,000 in loss carryforward that will in expire in 2033-2036 with 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>2017</u>	<u>2016</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>

The Company's deferred tax assets arise from net operating loss carryforwards approximating \$4,600,000 expiring from 2033-2036.

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
March 31, 2017 and 2016

NOTE G – MANAGEMENT REVIEW

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through April 7, 2017, the date the financial statements were available to be issued.

NOTE H – RECLASSIFICATIONS

Amounts shown for the 2016 Balance Sheet and Statement of Operations have been reclassified to conform to classifications used in 2017.