

CUMI AMERICA, INC.
(A SUBSIDIARY)

FINANCIAL STATEMENTS

For the Years Ended March 31, 2023 and 2022

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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.

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, 2023 and 2022, 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, 2023 and 2022, 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 10, 2023

CUMI AMERICA, INC. (A SUBSIDIARY)
BALANCE SHEETS
March 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
NON-CURRENT ASSETS		
Net property and equipment	\$ 189,016	\$ 218,380
Deferred tax asset	820,300	820,300
Operating lease right-of-use asset	<u>1,052,881</u>	<u>1,184,851</u>
TOTAL NON-CURRENT ASSETS	<u>2,062,197</u>	<u>2,223,531</u>
CURRENT ASSETS		
Inventory	5,062,964	5,333,000
Financial assets		
Trade receivables	2,276,475	1,538,761
Cash	795,188	679,862
Other financial assets	8,259	11,101
Other current assets	<u>137,349</u>	<u>58,862</u>
TOTAL CURRENT ASSETS	<u>8,280,235</u>	<u>7,621,586</u>
TOTAL ASSETS	<u>\$ 10,342,432</u>	<u>\$ 9,845,117</u>
STOCKHOLDERS' EQUITY AND LIABILITIES		
STOCKHOLDERS' EQUITY		
Equity share capital	\$ 8,600,000	\$ 8,600,000
Other equity excluding non-controlling interest	<u>(1,954,275)</u>	<u>(4,118,294)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>6,645,725</u>	<u>4,481,706</u>
LIABILITIES		
NON-CURRENT LIABILITIES		
Financial liabilities		
Operating lease liabilities	<u>672,452</u>	<u>825,114</u>
TOTAL NON-CURRENT LIABILITIES	<u>672,452</u>	<u>825,114</u>
CURRENT LIABILITIES		
Financial liabilities		
Borrowings	850,000	1,000,000
Trade payables	1,783,578	3,165,639
Operating lease liabilities	380,429	359,737
Other current liabilities	<u>10,248</u>	<u>12,921</u>
TOTAL CURRENT LIABILITIES	<u>3,024,255</u>	<u>4,538,297</u>
TOTAL LIABILITIES & EQUITY	<u>\$ 10,342,432</u>	<u>\$ 9,845,117</u>

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
STATEMENTS OF OPERATIONS
 March 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CONTINUING OPERATIONS		
Revenue from operations	\$ 18,074,067	\$ 11,851,232
TOTAL REVENUE	18,074,067	\$ 11,851,232
EXPENSES		
Purchases of finished, semi-finished and other products	12,853,566	9,110,504
Changes in stock of finished goods	270,036	128,282
Employee benefit expense	1,474,407	1,388,223
Finance costs	50,086	17,162
Depreciation expense	41,536	41,068
Other expenses	1,220,417	1,129,141
TOTAL EXPENSES	<u>15,910,048</u>	<u>11,814,380</u>
PROFIT/(LOSS) FROM CONTINUING OPERATIONS FOR THE PERIOD ATTRIBUTABLE TO:		
Owners of the Company	<u>\$ 2,164,019</u>	<u>\$ 36,852</u>

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
STATEMENTS OF STOCKHOLDERS' EQUITY
 March 31, 2023 and 2022

	COMMON STOCK ISSUED		RETAINED	
	SHARES	AMOUNT	EARNINGS	Total
	<u> </u>	<u> </u>	<u>(DEFICIT)</u>	<u> </u>
Balance, March 31, 2021	86,000	\$ 8,600,000	\$ (4,155,146)	\$ 4,444,854
Net Income	<u> -</u>	<u> -</u>	<u> 36,852</u>	<u> 36,852</u>
Balance, March 31, 2022	86,000	8,600,000	\$ (4,118,294)	\$ 4,481,706
Net Income	<u> -</u>	<u> -</u>	<u> 2,164,019</u>	<u> 2,164,019</u>
Balance, March 31, 2023	<u> 86,000</u>	<u> \$ 8,600,000</u>	<u> \$ (1,954,275)</u>	<u> \$ 6,645,725</u>

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
STATEMENTS OF CASH FLOWS
March 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
NET INCOME	\$ 2,164,019	\$ 36,852
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation	41,536	41,068
Loss on sale of assets	2,483	-
(Increase) Decrease in:		
Trade receivables	(737,714)	(9,812)
Inventory	270,036	(128,282)
Other financial assets	2,842	1,226
Other current assets	(78,487)	(38,221)
Increase (Decrease) in:		
Trade payables	(1,382,061)	340,893
Other current liabilities	(2,673)	(834)
	<u>279,981</u>	<u>242,890</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	279,981	242,890
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	<u>(14,655)</u>	<u>(21,455)</u>
NET CASH USED BY INVESTING ACTIVITIES	(14,655)	(21,455)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on line of credit	<u>(150,000)</u>	<u>-</u>
NET CASH USED BY FINANCING ACTIVITIES	(150,000)	-
INCREASE IN CASH	115,326	221,435
CASH AT BEGINNING OF PERIOD	<u>679,862</u>	<u>458,427</u>
CASH AT END OF PERIOD	<u>\$ 795,188</u>	<u>\$ 679,862</u>

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
March 31, 2023 and 2022

NOTE A – NATURE OF 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.

NOTE B – DATE OF MANAGEMENT’S REVIEW

In preparing these financial statements, the Company has evaluation events and transactions for potential recognition or disclosure through April 10, 2023, the date the financial statements were available to be issued.

NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Accounting Standard Codification (ASC) 606, *Revenue from Contracts with Customers* 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.

Shipping and handling costs associated with outbound freight after control over a product has been 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>2023</u>	<u>2022</u>
Cash paid during the year:		
Interest	<u>\$ 50,086</u>	<u>\$ 17,162</u>
State income taxes (PA)	<u>\$ 75,000</u>	<u>\$ 12,000</u>

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
March 31, 2023 and 2022

NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

The Company maintains its cash balances at two financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At March 31, 2023, the Company's uninsured cash balances totaled \$255,370.

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, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Trade accounts receivable	\$ 2,276,475	\$ 1,544,761
Allowance for doubtful accounts	-	(6,000)
Trade accounts receivable, net	<u>\$ 2,276,475</u>	<u>\$ 1,538,761</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 \$1,492,797 and \$2,356,163 for 2023 and 2022, 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 \$41,536 and \$41,068 in 2023 and 2022, respectively. Expenditures for maintenance, repairs, renewals, and betterments, which do not materially extend the useful lives of the assets, are expensed as incurred.

Leases

The Company adopted ASU No. 2016-02 – *Leases* (ASC 842) which supersedes the lease requirements in ASC 840, *Leases* and requires the recognition of financing and operating lease assets and lease liabilities on the balance sheet. The Company did not recognize right-of-use assets and liabilities for leases with the lease term of 12 months or less.

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, 2023 and 2022

NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2023. 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, 2023, three customers had sales in excess of five percent of sales and accounted for 19% of the total revenue. At March 31, 2023 accounts receivable included \$41,630 due from these customers and no allowance was considered necessary.

For the year ended March 31, 2022, two customers had sales in excess of five percent of sales and accounted for 11% of the total revenue. At March 31, 2022 accounts receivable included \$167,978 due from these customer and no allowance was considered necessary.

NOTE D – LINES OF CREDIT

The Company maintains a line of credit for \$2,500,000 with Citi Bank. The line expires June 30, 2023. The interest rate is the SOFR rate plus 0.65%. The interest rate at March 31, 2023 was 5.54%. The line is guaranteed by Carborundum Universal Ltd. The Company had \$1,650,000 available for borrowing against the line at March 31, 2023.

NOTE E – RELATED PARTY TRANSACTIONS

Purchases

The Company purchases the majority of its inventory from members of the Carborundum Universal Ltd. Group. Accounts payable due to the members of the group, as of March 31, 2023 and 2022, were \$2,093,179 and \$2,177,928, respectively.

Receivables

The Company was owed \$52,910 and \$11,529 by members of the Carborundum Universal Ltd. Group at March 31, 2023 and 2022.

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
March 31, 2023 and 2022

NOTE F – COMMON STOCK

Common stock consists of 100,000 authorized shares with a \$100 par value per share. There were 86,000 and 86,000 shares issued and outstanding respectively at March 31, 2023 and 2022.

NOTE G – INCOME TAXES

There is no tax expense recorded for the year ended March 31, 2023. The Company currently has net operating losses totaling \$3,000,000 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>2022</u>	<u>2021</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, 2023 and 2022

NOTE G – INCOME TAXES (continued)

The tax provision consists of the following:

	<u>2023</u>	<u>2022</u>
Federal		
Currently payable	\$ 454,400	299,900
Recognition of benefit loss carryforwards	<u>(454,400)</u>	<u>(299,900)</u>
	-	-
State		
Currently payable(refundable)	180,727	59,723
Prepaid income tax expense	(75,000)	-
Recognition of benefit loss carryforwards	<u>(108,201)</u>	<u>(71,399)</u>
	<u>(2,474)</u>	<u>(11,676)</u>
 Total payable	 <u>\$ (2,474)</u>	 <u>\$ (11,676)</u>

NOTE H – OPERATING LEASE LIABILITIES

The Company leases two warehouse facilities which typically run for three to five years. The Company amended those leases for an additional 36 months and 60 months commencing in February 2023 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, 2023 and March 31, 2022. The balances of the right-of-use assets and lease liabilities at March 31, 2023 and March 31, 2022 were \$1,052,881 and \$1,052,881, and \$1,184,851 and \$1,184,851, respectively. Amortization of the right-of-use assets for the year ended March 31, 2023 was \$367,178. Interest expense on lease liabilities for the years ended March 31, 2023 and March 31, 2022 were \$15,055 and \$9,277, respectively.

The following is a schedule of future amortized lease payments:

<u>Year Ending March 31,</u>	
2024	\$ 409,942
2025	414,385
2026	<u>318,664</u>
	1,142,991
Less amount representing interest:	<u>90,111</u>
	<u>\$ 1,052,881</u>