

CUMI AMERICA, INC.
(A SUBSIDIARY)

FINANCIAL STATEMENTS

For the Years Ended March 31, 2018 and 2017

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS | 1 |
| FINANCIAL STATEMENTS | |
| Balance Sheets | 3 |
| Statements of Operations | 4 |
| Statements of Stockholders' Equity | 5 |
| Statements of Cash Flows | 6 |
| Notes to Financial Statements | 7-11 |



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, 2018 and 2017, 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.

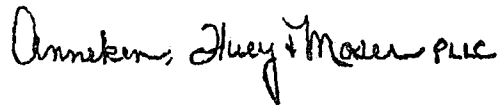
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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, 2018 and 2017, 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 cursive script that reads "Anneken, Huey & Moser PLLC".

Fort Wright, Kentucky

April 9, 2018

CUMI AMERICA, INC. (A SUBSIDIARY)
BALANCE SHEETS
 March 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|---------------------------|---------------------------|
| ASSETS | | |
| NON-CURRENT ASSETS | | |
| Property and equipment | \$ 215,508 | \$ 199,354 |
| Deferred tax asset | 820,300 | 820,300 |
| TOTAL NON-CURRENT ASSETS | <u>1,035,808</u> | <u>1,019,654</u> |
| CURRENT ASSETS | | |
| Inventory | 3,999,795 | 3,870,399 |
| Financial assets | | |
| Trade receivables | 1,384,566 | 1,695,065 |
| Cash | 322,679 | 183,265 |
| Other financial assets | 36,028 | 52,884 |
| Other current assets | 66,281 | 35,917 |
| TOTAL CURRENT ASSETS | <u>5,809,349</u> | <u>5,837,530</u> |
| TOTAL ASSETS | <u><u>\$6,845,157</u></u> | <u><u>\$6,857,184</u></u> |
| STOCKHOLDERS' EQUITY AND LIABILITIES | | |
| STOCKHOLDERS' EQUITY | | |
| Equity share capital | \$4,850,000 | \$4,850,000 |
| Other equity excluding non-controlling interest | (4,150,735) | (3,643,703) |
| TOTAL STOCKHOLDERS' EQUITY | <u>699,265</u> | <u>1,206,297</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Financial liabilities | | |
| Borrowings | 3,740,000 | 3,740,000 |
| Trade payables | 2,405,892 | 1,903,934 |
| Other current liabilities | - | 6,953 |
| TOTAL CURRENT LIABILITIES | <u>6,145,892</u> | <u>5,650,887</u> |
| TOTAL LIABILITIES & EQUITY | <u><u>\$6,845,157</u></u> | <u><u>\$6,857,184</u></u> |

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
STATEMENTS OF OPERATIONS
 March 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|-----------------------|
| CONTINUING OPERATIONS | | |
| Revenue from operations | \$ 7,291,887 | \$ 5,973,924 |
| TOTAL REVENUE | <u>7,291,887</u> | <u>5,973,924</u> |
| EXPENSES | | |
| Purchases of finished, semi-finished and other products | 5,577,835 | 6,218,270 |
| Changes in stock of finished goods | 129,396 | (674,948) |
| Employee benefit expense | 999,798 | 811,125 |
| Finance costs | 116,556 | 97,100 |
| Depreciation expense | 27,108 | 28,584 |
| Impairment of financial asset | 13,460 | - |
| Other expenses | 934,766 | 959,171 |
| TOTAL EXPENSES | <u>7,798,919</u> | <u>7,439,302</u> |
| PROFIT/(LOSS) FROM CONTINUING OPERATIONS FOR THE PERIOD ATTRIBUTABLE TO: | | |
| Owners of the Company | <u>\$ (507,032)</u> | <u>\$ (1,465,378)</u> |

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
STATEMENTS OF STOCKHOLDERS' EQUITY
 March 31, 2018 and 2017

| | <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, 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) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at March 31, 2017 | 48,500 | 4,850,000 | (3,643,703) | \$ 1,206,297 |
| Net Loss | - | - | (507,032) | (507,032) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at March 31, 2018 | <u>48,500</u> | <u>4,850,000</u> | <u>\$ (4,150,735)</u> | <u>\$ 699,265</u> |

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
STATEMENTS OF CASH FLOWS
March 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| NET LOSS | \$ (507,032) | \$ (1,465,378) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation | 27,108 | 28,584 |
| Gain or Loss on sale | (11,076) | 54,580 |
| (Increase) Decrease in: | | |
| Trade receivables | 310,499 | (426,046) |
| Inventory | (129,396) | 674,948 |
| Other financial assets | 16,856 | (28,184) |
| Other current assets | (30,364) | (1,447) |
| Increase (Decrease) in: | | |
| Trade payables | 501,958 | (1,130,825) |
| Other current liabilities | (6,953) | 403 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>171,600</u> | <u>(2,293,365)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net borrowings on line of credit | - | (750,000) |
| Proceeds from sale of equipment | 11,076 | 74,770 |
| Proceeds from issuance of common stock | - | 3,000,000 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | <u>11,076</u> | <u>2,324,770</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of equipment | (43,262) | (31,100) |
| NET CASH USED BY INVESTING ACTIVITIES | <u>(43,262)</u> | <u>(31,100)</u> |
| INCREASE IN CASH | 139,414 | 305 |
| CASH AT BEGINNING OF PERIOD | <u>183,265</u> | <u>182,960</u> |
| CASH AT END OF PERIOD | <u>\$ 322,679</u> | <u>\$ 183,265</u> |

See accompanying notes to financial statements.

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
 March 31, 2018 and 2017

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>2018</u> | <u>2017</u> |
|----------------------------|-------------------|------------------|
| Cash paid during the year: | | |
| Interest | <u>\$ 116,556</u> | <u>\$ 97,100</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, 2018 and 2017 were as follows:

| | <u>2018</u> | <u>2017</u> |
|---------------------------------|--------------------|--------------------|
| Trade accounts receivable | \$1,384,566 | \$1,695,065 |
| Allowance for doubtful accounts | - | - |
| Trade accounts receivable, net | <u>\$1,384,566</u> | <u>\$1,695,065</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 \$27,108 and \$28,584 in 2018 and 2017, 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, 2018 and 2017

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, 2018 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 \$507,032 and \$1,465,378 during the years ended March 31, 2018 and 2017. 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, 2019.

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, 2018. 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, 2018 and 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Major Customers

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 customers. No allowance was considered necessary.

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 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 expired March 31, 2018. The Company expects the line to be renewed by April 30, 2018. The interest rate is the BBA LIBOR daily floating rate plus 1.75%. The interest rate at March 31, 2018 was 3.63%. The line is guaranteed by Carborundum Universal Ltd. The Company had \$760,000 available for borrowing against the line at March 31, 2018.

NOTE C – OPERATING LEASES

The Company has four operating leases. A five year warehouse lease entered into in April 2015, a 24 month phone system lease entered into in September 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 \$168,274 and \$172,577 for years ending March 31, 2018 and 2017 respectively. The following is a schedule of non-cancellable minimum lease payments:

| | |
|--------------------|-------------------|
| For the Year Ended | |
| March 31, 2019 | 171,764 |
| March 31, 2020 | 164,804 |
| March 31, 2021 | 19,442 |
| | <u>\$ 356,011</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, 2018 and 2017, were \$2,202,594 and \$1,621,204, respectively.

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
March 31, 2018 and 2017

NOTE D – RELATED PARTY TRANSACTIONS (continued)

Receivables

The Company was owed \$2,408 and \$9,811 by members of the Carborundum Universal Ltd. Group at March 31, 2018 and 2017.

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 \$0 and \$6,053 for 2018 and 2017 respectively. Industrial Ceramics was still a division of the Company at March 31, 2018.

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, 2018 and 2017.

NOTE F – INCOME TAXES

There is no tax benefit recorded for the year ended March 31, 2018. The Company currently has \$4,740,000 in loss carryforward that will expire in 2035-2038 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>2018</u> | <u>2017</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 \$4,740,000 expiring from 2035-2038.

CUMI AMERICA, INC. (A SUBSIDIARY)
NOTES TO FINANCIAL STATEMENTS
March 31, 2018 and 2017

NOTE G – MANAGEMENT REVIEW

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through April 9, 2018, the date the financial statements were available to be issued.