

# **CUMI Canada Inc.**

Financial Statements  
**March 31, 2015**



A Member Firm of The AC Group of Independent Accounting Firms Limited

April 10, 2015

## Independent Auditor's Report

### To the Shareholder of CUMI Canada Inc.

We have audited the accompanying financial statements of **CUMI Canada Inc.**, which comprise the statement of financial position as at March 31, 2015, and the statements of operations, deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **CUMI Canada Inc.** as at March 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

We draw attention to note 1 to the financial statements which indicates that as of March 31, 2015 the company has a deficit of \$5,452,620. This condition indicates the existence of a material uncertainty that casts doubt on the company's existence as a going concern. Our opinion is not qualified in respect of this matter.

*ArsenaultBestCameronEllis*

Chartered Accountants

**CUMI Canada Inc.**  
Statement of Financial Position  
As at March 31, 2015

	2015 \$	2014 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and short term deposits	378	143,673
Accounts receivable	1,014	2,799
Prepaid expenses	4,988	-
	<u>6,380</u>	<u>146,472</u>
<b>Property and equipment</b> (note 4)	435,000	652,488
	<u>441,380</u>	<u>798,960</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	2,000	64,588
<b>Redeemable shares</b> (note 5)	1,600,000	1,600,000
	<u>1,602,000</u>	<u>1,664,588</u>
<b>Deficit Less Capital Stock</b>		
<b>Deficit</b>	(5,452,620)	(5,157,628)
<b>Capital stock</b> (note 6)	4,292,000	4,292,000
	<u>(1,160,620)</u>	<u>(865,628)</u>
	<u>441,380</u>	<u>798,960</u>

Approved by the Board of Directors

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Director

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Director

**CUMI Canada Inc.**  
Statement of Deficit  
For the year ended March 31, 2015

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	2015 \$	2014 \$
<b>Deficit - Beginning of year</b>	(5,157,628)	(4,643,866)
Net loss for the year	<u>(294,992)</u>	<u>(513,762)</u>
<b>Deficit - End of year</b>	<u>(5,452,620)</u>	<u>(5,157,628)</u>

# CUMI Canada Inc.

## Statement of Operations

For the year ended March 31, 2015

	2015	2014
	\$	\$
<b>Sales</b> (note 9)	-	2,819,745
<b>Cost of goods sold</b> (note 9)	-	2,225,641
<b>Gross profit</b>	-	594,104
<b>Expenses</b>		
Salaries	-	242,627
Freight and duty	14,403	231,890
Interest and bank charges	1,825	111,101
Insurance	514	72,884
Utilities	32,847	51,574
Professional fees	19,518	57,900
Management fees (note 9)	-	44,779
Property taxes	26,710	31,551
Repairs and maintenance	11,196	27,556
Office supplies	1,616	26,753
Computer	25,966	18,247
Travel	4,582	13,179
Telecommunications	8,532	12,518
Bad debt expense	-	3,940
Membership and dues	-	1,298
Promotion and advertising	2,329	411
Amortization	27,182	27,182
	177,220	975,390
<b>Operating loss</b>	(177,220)	(381,286)
<b>Other income (expense)</b>		
Property maintenance reimbursement (note 9)	66,901	-
Impairment of property and equipment	(190,306)	-
Foreign exchange	5,633	(206,884)
Gain on sale of property and equipment	-	74,408
	(117,772)	(132,476)
<b>Net loss for the year</b>	(294,992)	(513,762)

# CUMI Canada Inc.

## Statement of Cash Flows

For the year ended March 31, 2015

	2015	2014
	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the year	(294,992)	(513,762)
Items not affecting cash		
Amortization of property and equipment	27,182	27,182
Impairment of property and equipment	190,306	-
Gain on sale of property and equipment	-	(74,408)
	<u>(77,504)</u>	<u>(560,988)</u>
Net change in non-cash working capital items		
Decrease in accounts receivable	1,785	380,633
Decrease in inventory	-	1,672,762
Decrease (increase) in prepaid expenses	(4,988)	8,449
Decrease in accounts payable and accrued liabilities	(62,588)	(180,023)
	<u>(65,791)</u>	<u>1,881,821</u>
	(143,295)	1,320,833
<b>Financing activity</b>		
Issuance of Class A common shares	-	2,442,000
<b>Investing activity</b>		
Proceeds on disposal of property and equipment	-	290,927
	<u>(143,295)</u>	<u>4,053,760</u>
<b>Increase (decrease) in cash</b>	(143,295)	4,053,760
<b>Net cash - Beginning of year</b>	<u>143,673</u>	<u>(3,910,087)</u>
<b>Net cash - End of year</b>	<u>378</u>	<u>143,673</u>
<b>Supplementary disclosure</b>		
Interest paid	1,824	111,101

# CUMI Canada Inc.

Notes to Financial Statements

March 31, 2015

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## 1 Going concern

These financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes that an organization will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Active operations were transferred to a related company, CUMI America Inc. in fiscal 2014, and once the property and equipment is sold, the company intends to wind-up operations and surrender its charter.

The deficit less capital stock of \$1,160,620 is fully offset by the redeemable shares which are owned by the parent company. The remaining property and equipment, consisting of land, paving and building, has been written down to the amount of a counter offer for its sale, which is anticipated to occur in May 2015. Accordingly, the assets are recorded on the balance sheet at amounts representing their liquidation values on wind-up.

## 2 Summary of significant accounting policies

### Reporting entity

CUMI Canada Inc. is a Canadian resident corporation. The address of the company's registered office is 149 Industrial Crescent, Summerside, Prince Edward Island, Canada. The company is wholly-owned by Carborundum Universal Limited of India. CUMI Canada Inc.'s principal activity was the sales of coated abrasives and related products until 2013 when its operating assets were sold. The company continues to operate as a real estate holding company.

### Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial statements were authorized by the Board of Directors on April 10, 2015.

These financial statements have been prepared on the historical cost basis.

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Significant items subject to such estimates and assumptions include the estimated useful life of property and equipment. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

# CUMI Canada Inc.

Notes to Financial Statements

March 31, 2015

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## Foreign currency translation

The company's financial statements are presented in Canadian dollars, which is the company's presentation currency.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Canadian dollars at the exchange rate prevailing at that date. Revenues and expenses denominated in foreign currencies are translated at the average monthly exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. All gains and losses on translation of these foreign currency transactions are included in the income statement.

## Financial assets

Purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to or by the company. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or were transferred and the company has transferred substantially all risks and rewards of ownership. Financial assets are classified in the following categories at the time of initial recognition based on the purpose for which the financial assets were acquired:

### *Financial assets at fair value through profit or loss (FVTPL)*

Financial assets at FVTPL through the income statement are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term, if so designated by management or it is a derivative that is not designated and effective as a hedging instrument.

Financial assets carried at fair value through the income statement are initially recognized, and subsequently carried, at fair value, with changes recognized in the income statement. Transaction costs are expenses.

Assets in this category include cash and short-term deposits.

### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the assets's carrying amount and the present value of the estimated future cash flows. The carrying amount of accounts receivable is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance are recognized in profit or loss.



# CUMI Canada Inc.

Notes to Financial Statements

March 31, 2015

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## **Financial liabilities**

All financial liabilities are recognized initially at the trade date in which the company becomes a party to the contractual provisions of the instrument. The company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the assets and settle the liability simultaneously.

### *Other financial liabilities*

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.

Liabilities in this category include accounts payable and accrued liabilities.

## **Share capital**

### *Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

### *Redeemable shares*

Redeemable shares are classified as a liability as they are redeemable at the option of the shareholders. Dividends thereon are recognized as interest expense in profit or loss as accrued.

## **Cash and short-term deposits**

Cash and short-term deposits consist of cash on hand and deposits in banks. They are carried at cost.

## **Property and equipment**

### *Recognition and measurement*

Items of property and equipment are measured at cost less accumulated amortization. Costs include expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized profit or loss.

# CUMI Canada Inc.

Notes to Financial Statements

March 31, 2015

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## *Amortization*

Amortization is calculated on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in profit and loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. Land is not amortized.

The estimated useful lives for the current and comparative periods are as follows:

- Building components 30 years
- Pavement 10 years

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

## *Impairment*

The company's property and equipment are reviewed for an indication of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss for the period.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

## **Revenue**

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns and trade discounts.

Revenue is recognized when the following criteria are met:

- The risks and rewards of ownership, including managerial involvement, have been transferred to the buyer;
- The amount of revenue can be measured reliably; and
- The receipt of economic benefits is probable.

# CUMI Canada Inc.

Notes to Financial Statements

March 31, 2015

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## Income taxes

### *Current tax*

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

### *Deferred tax*

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which they can be utilized.

## Provisions and contingencies

Provisions are recognized only when there is a present obligation as a result of past events and when a reliable estimate of the amount of obligation can be made. Contingent liability is disclosed for (i) possible obligation which will be confirmed only by future events not wholly within the control of the company or (ii) present obligations arising from past events where it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made.

## 3 Financial risk management

### Financial risk factors

The company has exposure to the following risks from its use of financial instruments:

- Market risk (primarily currency and interest rate risk)
- Credit risk; and
- Liquidity risk

The company's risk management approach is to minimize the potential adverse effects from these risks on its financial performance. Financial risk management is carried out by management.

### *Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

# CUMI Canada Inc.

Notes to Financial Statements

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## *Currency risk*

The company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the company. The foreign currency of these transactions are primarily denominated in US\$. The company mitigates this risk by having bank accounts set up in US\$ to use for the US\$ transactions.

The US\$ - CAD\$ exchange rate at the reporting date of March 31, 2015 was 1.0 to 1.2683 (2014 - 1.0 to 1.1053). The average monthly US\$ - CAD\$ exchange rates used for 2015 fiscal year ranged from 1.0 to 1.0634 CAD\$ to 1.0 to 1.2803 CAD\$ (2014 - 1.0 to 1.0023 CAD\$ to 1.0 to 1.1251 CAD\$).

## *Credit risk*

Credit risk is the risk of financial loss to the company if a customer to a financial instrument fails to meet its contractual obligations, and arises principally from cash and short-term deposits and the company's receivables from its customers. The company attempts to minimize credit exposure to various instruments as follows:

- Cash and short-term deposits are placed with high-quality financial institutions;
- Credit limits minimize exposure to any one customer.

No allowance for credit losses on financial assets was required as at March 31, 2015. Further, no financial or other assets have been pledged as security.

The company's maximum exposure to credit, assuming no mitigating factors, would be the aggregate of its cash and short-term deposits \$378 (2014 - \$143,373) and accounts receivable of \$1,014 (2014 - \$2,799).

## *Liquidity risk*

Liquidity risk is the risk that the company will encounter difficulty in meeting the obligations associated with this financial liabilities that are settled by delivering cash or other financial asset. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses of risking damage to the company's reputation.

The company's financial liabilities of \$2,000 (2014 - \$64,588) are due within one year.

## **Capital management**

The company's objectives when managing capital are to safeguard the company's ability to exist as a going concern and to liquidate its remaining assets to the maximum benefit of the shareholder.

# CUMI Canada Inc.

Notes to Financial Statements

March 31, 2015

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## 4 Property and equipment

	<b>Land</b> \$	<b>Building</b> \$	<b>Pavement</b> \$	<b>Total</b> \$
<b>Cost</b>				
Balance at March 31, 2014	76,147	784,830	10,209	871,185
Additions	-	-	-	-
Impairment	-	(190,306)	-	(190,306)
Disposals	-	-	-	-
	<hr/>			
Balance at March 31, 2015	76,147	594,524	10,209	680,880
	<hr/>			
<b>Accumulated amortization</b>				
Balance at March 31, 2014	-	210,515	8,183	218,698
Current year amortization	-	26,161	1,021	27,182
Disposals	-	-	-	-
	<hr/>			
Balance at March 31, 2015	-	236,676	9,204	245,880
	<hr/>			
<b>Net book value</b>				
March 31, 2014	76,147	574,315	2,026	652,488
March 31, 2015	76,147	357,848	1,005	435,000

# CUMI Canada Inc.

Notes to Financial Statements

March 31, 2015

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## 5 Redeemable shares

Authorized

Unlimited number of 9% non-cumulative, non-voting, redeemable, retractable Class B shares without par value, redeemable and retractable at \$1 per share

Issued

	2015	2014
	\$	\$
1,600,000 Class B shares	1,600,000	1,600,000

## 6 Capital stock

Authorized

Unlimited number of voting Class A shares without par value

	2015	2014
	\$	\$
Issued		
4,292,000 Class A shares	4,292,000	4,292,000

## 7 Income taxes

The company has unutilized income tax loss carryforwards of \$5,011,906 available to reduce future years' taxable income and for which no tax benefit has been recognized in the accounts. If not utilized, these loss carryforwards expire as follows:

	\$
Year ending March 31, 2027	12,922
2028	847,539
2029	1,146,552
2030	835,056
2031	616,359
2032	454,893
2033	629,324
2034	391,758
2035	77,503

# CUMI Canada Inc.

Notes to Financial Statements

March 31, 2015

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## 8 Investment tax credits

The company has federal investment tax credits of \$14,200 and provincial investment tax credits of \$1,024 which may be carried forward and used to reduce federal and provincial income taxes. The credits will expire as follows:

	<b>Federal</b>		<b>Provincial</b>
	\$		\$
March 31, 2027	12,583	March 31, 2016	939
2028	695	2018	25
2029	846	2019	<u>60</u>
2031	22		
2032	<u>54</u>		<u>1,024</u>
	<u>14,200</u>		

The investment tax credit carryforwards have not been recognized in the financial statements.

## 9 Related party transactions

Management fees of nil (2014 - \$44,779) were paid to CUMI America Inc. during the year, a wholly-owned subsidiary of the parent company of CUMI Canada Inc.

During the year, the company had sales of nil (2014 - \$1,732,835) to CUMI America Inc.

During the year, the company purchased nil (2014 - \$117,192) of material from the parent company and nil (2014 - \$404,774) from CUMI America Inc.

During the year, the company received property maintenance reimbursements of \$66,901 (2014 - nil) from CUMI America Inc.