

**VEGA INDUSTRIES, LTD.**

**FINANCIAL STATEMENTS**

March 31, 2019 and 2018

VEGA INDUSTRIES, LTD.  
Nashville, Tennessee

FINANCIAL STATEMENTS  
March 31, 2019 and 2018

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Vega Industries, Ltd.  
Nashville, Tennessee

**Report on the Financial Statements**

We have audited the accompanying financial statements of Vega Industries, Ltd., which comprise the balance sheets as of March 31, 2019 and 2018, and the related statements of income and retained earnings, 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.

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vega Industries, Ltd. as of March 31, 2019 and 2018, 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.

A handwritten signature in black ink that reads "Crowe LLP". The signature is written in a cursive, flowing style.

Crowe LLP

Franklin, Tennessee  
May 10, 2019

VEGA INDUSTRIES, LTD.  
BALANCE SHEETS  
March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,051,114	\$ 953,162
Accounts receivables	18,930,882	10,090,160
Related party receivables (Note 4)	0	90,796
Inventories	22,739,592	12,655,305
Note receivable - related party (Note 4)	173,191	298,880
Other current assets	46,864	17,373
	<u>42,941,643</u>	<u>24,105,676</u>
Fixed assets, net (Note 2)	15,521	33,476
Other assets	<u>16,295</u>	<u>15,197</u>
	<u><u>\$ 42,973,459</u></u>	<u><u>\$ 24,154,349</u></u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Current liabilities		
Accounts payable - related parties (Note 4)	\$ 41,265,179	\$ 22,858,201
Accrued expenses	<u>382,334</u>	<u>127,569</u>
	41,647,513	22,985,770
Long-term liabilities		
Deferred income taxes - long-term (Note 3)	1,660	5,517
Stockholder's equity		
Common stock, \$1 par value; 50,000 shares authorized, issued and outstanding	50,000	50,000
Retained earnings	<u>1,274,286</u>	<u>1,113,062</u>
	<u>1,324,286</u>	<u>1,163,062</u>
	<u><u>\$ 42,973,459</u></u>	<u><u>\$ 24,154,349</u></u>

See accompanying notes to financial statements.

VEGA INDUSTRIES, LTD.  
STATEMENTS OF INCOME AND RETAINED EARNINGS  
Years ended March 31, 2019 and 2018

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	<u>2019</u>	<u>2018</u>
Sales, net of returns and discounts	\$ 52,389,121	\$ 36,182,240
Cost of sales	<u>48,680,226</u>	<u>33,377,636</u>
<b>Gross profit</b>	3,708,895	2,804,604
Selling, general, and administrative expenses	<u>3,497,591</u>	<u>2,651,224</u>
<b>Income from Operations</b>	211,304	153,380
Other income ( expense )	<u>( 477 )</u>	<u>18,150</u>
<b>Income before income tax expense (benefit)</b>	210,827	171,530
Federal and state income tax expense (benefit)		
Current	53,460	61,708
Deferred	<u>(3,857)</u>	<u>(6,443)</u>
	<u>49,603</u>	<u>55,265</u>
<b>Net income</b>	161,224	116,265
Retained earnings at beginning of year	<u>1,113,062</u>	<u>996,797</u>
Retained earnings at end of year	<u>\$1,274,286</u>	<u>\$1,113,062</u>

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See accompanying notes to financial statements.

VEGA INDUSTRIES, LTD.  
STATEMENTS OF CASH FLOWS  
Years ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 161,224	\$ 116,265
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	21,551	22,362
Deferred taxes	(3,857)	(6,443)
Loss on disposal of fixed assets	-	1,969
Changes in assets and liabilities		
Accounts receivable	(8,840,722)	(1,783,514)
Inventories	(10,084,287)	(624,960)
Related party receivable	90,796	145,737
Other current assets	(23,538)	(6,270)
Other assets	(1,098)	-
Accounts payable- related parties	18,406,977	1,300,937
Accrued expenses	254,765	(95,341)
Income taxes payable	(5,953)	53,903
Customer advances		(215,203)
Net cash from operating activities	<u>(24,142)</u>	<u>(1,090,558)</u>
<b>Cash flows from investing activities</b>		
Purchase of fixed assets	(3,595)	(1,201)
Receipts (advance) on notes receivable - related party	<u>125,689</u>	<u>697,037</u>
Net cash from investing activities	<u>122,094</u>	<u>695,836</u>
Net change in cash and cash equivalents	97,952	(394,722)
Cash and cash equivalents at beginning of year	<u>953,162</u>	<u>1,347,884</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 1,051,114</u>	<u>\$ 953,162</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for		
Interest	<u>\$ -</u>	<u>\$ -</u>
Income taxes	<u>\$ 33,864</u>	<u>\$ 5,500</u>

See accompanying notes to financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Business Description: Vega Industries, Ltd. (the "Company") is a Corporation primarily engaged in the distribution of grinding media and related products to customers in the United States and abroad. The Company was incorporated in the state of Delaware in November 2001. The Company is a wholly-owned subsidiary of Vega Industries, Ltd., a United Kingdom corporation ("Vega UK").

Cash and Cash Equivalents: For the purpose of the statement of cash flows, cash includes cash and cash equivalents with original maturities of 90 days or less.

Revenue Recognition: Revenue from the sale of products is recognized when the products are shipped to customers.

Inventories: Inventories, which consist primarily of grinding media, are stated at the lower of weighted average cost or net realizable value, which approximates the first-in, first-out method.

Fixed Assets: Fixed assets are stated at cost. Expenditures for betterments and improvements are capitalized and expenditures for normal repair and maintenance are expensed as incurred. The Company provides for depreciation of fixed assets using the straight-line method over the estimated useful lives of the assets. Depreciation expense amounted to \$ 21,551 and \$ 22,362 for the years ended March 31, 2019 and 2018, respectively.

Income Taxes: The Company accounts for income tax expense using the liability method. Current expense represents the estimated tax obligation per the income tax return, and deferred expense represents the change in the estimated future tax effects of temporary differences and carryforwards. Deferred tax assets and liabilities are computed by applying enacted income tax rates to the expected reversals of temporary differences between financial reporting and income tax reporting, and by considering carryforwards for operating losses and tax credits. A valuation allowance adjusts deferred tax assets to the net amount that is more likely than not to be realized.

The Company recognizes a tax position as a benefit only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. Management is not aware of any uncertain tax positions at March 31, 2019.

The Company's major tax jurisdictions are the United States federal and various state jurisdictions. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

The Company would recognize interest and/or penalties related to income tax matters in other expenses. The company recognized no interest or penalties for the years ending March 31, 2019 and 2018.

Deferred Tax: Deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount in balance sheet. The effect of the adoption on the balance sheet for March 31, 2019 was the re class of \$ 1,660 of long-term deferred tax liability and for Comparative last year March 31,2018 was re class of \$ 5,517 of long term deferred tax liability.

Accounts Receivable: The Company accounts for accounts receivable based on the amounts billed to customers. Most billings and past due receivables are determined based on contractual terms. The Company does not accrue interest on any of its accounts receivable.

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VEGA INDUSTRIES, LTD.  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2019 and 2018

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Allowance for Doubtful Accounts: The allowance for doubtful accounts is determined by management based on the Company's historical losses, specific customer circumstances, and general economic conditions. Periodically, management reviews accounts receivable and adjusts the allowance based on current circumstances and charges off uncollectible receivables when all attempts to collect have failed. Management has not recorded an allowance for doubtful accounts at March 31, 2019 and 2018, as they believe all amounts to be collectible.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk: Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash on deposit and accounts receivable from customers. The Company's cash deposits are primarily in financial institutions in Tennessee and may at times exceed federally insured amounts. Concentrations of credit risk with respect to accounts receivable are limited to customers primarily in the industry in which the Company is engaged. The Company performs ongoing credit evaluations of its customers' financial conditions and generally requires no collateral from its customers.

Advertising Costs: The Company expenses advertising costs as incurred. Advertising costs for the years ended March 31, 2019 and 2018 were \$ 6,112 and \$ 22,336 respectively.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on net income or stockholder's equity.

Translation of Foreign Currency: The Company sells products to several nondomestic customers. Foreign currency transaction gains and losses (transactions denominated in a currency other than local currency) are generally included in selling, general and administrative expenses, and resulted in losses of \$ 8,300 and \$ 45,484 for the years ending March 31, 2019 and 2018, respectively.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to March 31, 2019 to determine the need for any adjustments or disclosures for the year then ended. Management has performed their analysis through May 10, 2019, the date the financial statements were available to be issued.

**NOTE 2 - FIXED ASSETS**

Fixed assets consists of the following:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 151,136	\$ 163,347
Computer equipment	21,397	17,801
Automobiles	<u>75,625</u>	<u>75,625</u>
	248,158	256,773
Less: accumulated depreciation	<u>(232,637)</u>	<u>(223,297)</u>
	<u>\$ 15,521</u>	<u>\$ 33,476</u>

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(Continued)

VEGA INDUSTRIES, LTD.  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 3 - INCOME TAXES**

The provision (benefit) for income taxes consists of the following:

	<u>2019</u>	<u>2018</u>
Current		
Federal	\$ 51,460	\$ 59,708
State	<u>2,000</u>	<u>2,000</u>
	53,460	61,708
Deferred		
Federal	( 3,995 )	(6,777)
State	<u>138</u>	<u>334</u>
	<u>(3,857)</u>	<u>(6,443)</u>
	<u>\$49,603</u>	<u>\$55,265</u>

The composition of the deferred tax assets (no valuation allowance considered necessary) and liabilities in the accompanying balance sheets is as follows:

	<u>2019</u>	<u>2018</u>
Current		
Capitalized inventory costs	\$ 960	\$ 586
Long-term		
Depreciation	<u>(2,620)</u>	<u>(6,103)</u>
	<u>\$ (1,660)</u>	<u>\$ (5,517)</u>

**NOTE 4 - RELATED PARTY TRANSACTIONS**

The Company purchases its inventory from Vega Industries (Middle East) F.Z.C. (Vega ME), which is a related party through common ownership and controlling interest. Purchases from related parties were \$ 57,412,091 and \$ 32,679,239 for the years ended March 31, 2019 and 2018, respectively.

Amounts due (to) from related companies were as follows:

	<u>2019</u>	<u>2018</u>
Accounts Receivable		
Vega ME	\$ -	\$ 90,796
Accounts Payable		
Vega ME	<u>(41,265,179)</u>	<u>(22,858,201)</u>
Net related party payables	<u>\$ (41,265,179)</u>	<u>\$ (22,767,405)</u>

The Company had a note receivable of \$173,191 and \$298,880 for the years ended March 31, 2019 and 2018, respectively, due from Vega ME. The note receivable is unsecured and is non-interest bearing. The note is due on demand and is classified as current.

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VEGA INDUSTRIES, LTD.  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2019 and 2018

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**NOTE 5 - CONCENTRATIONS**

Sales to four customers approximated 53% of total sales and accounts receivable from these four customers approximated 50 % of total accounts receivable at March 31, 2019. Sales to four customers approximated 64% of total sales and accounts receivable from these four customers approximated 63% of total accounts receivable at March 31, 2018.

The Corporation purchases a substantial portion of its inventory from Vega ME, which is located in Ajman, UAE (see Note 4).

**NOTE 6 - 401(K) PLAN**

The Company has a defined contribution 401(K) plan covering all employees who are 21 years of age. The Company matches 50% of employee contributions up to 6% of wages. The Company recognized an expense of \$18,548 and \$ 16,950 for the years ended March 31, 2019 and 2018, respectively.

**NOTE 7 - OPERATING LEASE AGREEMENTS**

The Company has entered into no cancelable operating lease agreements for its USA office spaces with the lease terms expiring June 2021. Subsequent to year end the Company entered into a new lease agreement for its Canadian office space expiring April 2021. Future minimum rental payments, including subsequent office lease renewal, are as follows:

Year Ending <u>March 31,</u>	
2020	\$ 46,672
2021	47,940
2022	<u>9,356</u>
	<u>\$ 103,968</u>

Total rent expense was \$ 39,619 and \$34,060 for the years ended March 31, 2019 and 2018, respectively.