

VEGA INDUSTRIES, LTD.
FINANCIAL STATEMENTS
March 31, 2015 and 2014

VEGA INDUSTRIES, LTD.
Nashville, Tennessee

FINANCIAL STATEMENTS
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CONTENTS

INDEPENDENT AUDITOR'S REPORT.....	1
FINANCIAL STATEMENTS	
BALANCE SHEETS.....	3
STATEMENTS OF OPERATIONS AND RETAINED EARNINGS.....	4
STATEMENTS OF CASH FLOWS.....	5
NOTES TO FINANCIAL STATEMENTS.....	6

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, 2015 and 2014, and the related statements of operations 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.

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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 Vega Industries, Ltd. as of March 31, 2015 and 2014, 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.

Crowe Horwath LLP

Crowe Horwath LLP

Franklin, Tennessee
May 13, 2015

VEGA INDUSTRIES, LTD.
BALANCE SHEETS
March 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 379,082	\$ 423,609
Accounts receivables	7,365,463	5,946,626
Inventories	10,133,886	2,646,096
Other current assets	399,563	87,978
Refundable income taxes	38,141	42,968
Deferred income taxes	<u>980</u>	<u>454</u>
	18,317,115	9,147,731
 Fixed assets, net	 87,379	 70,844
 Other assets	 <u>1,212</u>	 <u>1,212</u>
	 <u>\$ 18,405,706</u>	 <u>\$ 9,219,787</u>
 LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Current portion of long-term debt (Note 4)	\$ 8,908	\$ 10,300
Accounts payable - related parties (Note 5)	16,760,480	6,736,311
Notes payable – related party (Note 5)	510,296	1,048,331
Customer advances	60,230	45,430
Accrued expenses	<u>11,386</u>	<u>334,667</u>
	17,351,300	8,175,039
 Long-term liabilities		
Long-term debt, net of current maturities (Note 4)	-	9,370
Deferred income taxes	<u>12,347</u>	<u>3,385</u>
	12,347	12,755
 Stockholder's equity		
Common stock, \$1 par value; 50,000 shares authorized, issued and outstanding	50,000	50,000
Retained earnings	<u>992,059</u>	<u>981,993</u>
	<u>1,042,059</u>	<u>1,031,993</u>
	 <u>\$ 18,405,706</u>	 <u>\$ 9,219,787</u>

See accompanying notes to financial statements.

VEGA INDUSTRIES, LTD.
STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
Years ended March 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Sales, net of returns and discounts	\$ 27,095,414	\$ 18,238,436
Cost of sales	<u>25,552,000</u>	<u>16,753,260</u>
Gross profit	1,543,414	1,485,176
Selling, general, and administrative expenses	<u>1,520,005</u>	<u>1,504,822</u>
Income (loss) from operations	23,409	(19,646)
Interest expense	<u>(80)</u>	<u>(1,315)</u>
Income (loss) before income taxes	23,329	(20,961)
Federal and state income taxes (benefit)		
Current	4,827	(6,698)
Deferred	<u>8,436</u>	<u>1,781</u>
	<u>13,263</u>	<u>(4,917)</u>
Net income (loss)	10,066	(16,044)
Retained earnings at beginning of year	<u>981,993</u>	<u>998,037</u>
Retained earnings at end of year	<u>\$ 992,059</u>	<u>\$ 981,993</u>

See accompanying notes to financial statements.

VEGA INDUSTRIES, LTD.
STATEMENTS OF CASH FLOWS
Years ended March 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Net income (loss)	\$ 10,066	\$ (16,044)
Adjustments to reconcile net income (loss) to net cash from operating activities		
Depreciation	19,236	17,400
Deferred taxes	8,436	1,781
Changes in assets and liabilities		
Accounts receivable	(1,418,837)	(1,927,908)
Inventories	(7,487,790)	1,676,821
Related party receivable	-	100,343
Other current assets	(311,585)	(74,510)
Refundable income taxes	4,827	(3,334)
Accounts payable and accrued expenses	9,700,888	793,252
Customer advances	<u>14,800</u>	<u>(7,231)</u>
Net cash from operating activities	540,041	560,570
Cash flows from investing activities		
Purchase of fixed assets	<u>(35,771)</u>	<u>(47,263)</u>
Net cash from investing activities	(35,771)	(47,263)
Cash flows from financing activities		
Principal payments on long-term debt	(10,762)	(9,528)
Payments on notes payable - related party	<u>(538,035)</u>	<u>(200,097)</u>
Net cash from financing activities	<u>(548,797)</u>	<u>(209,625)</u>
Net change in cash and cash equivalents	(44,527)	303,682
Cash and cash equivalents at beginning of year	<u>423,609</u>	<u>119,927</u>
Cash and cash equivalents at end of year	<u>\$ 379,082</u>	<u>\$ 423,609</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for		
Interest	<u>\$ 80</u>	<u>\$ 1,315</u>
Income taxes	<u>\$ 8,600</u>	<u>\$ 28,629</u>

See accompanying notes to financial statements.

VEGA INDUSTRIES, LTD.
NOTES TO FINANCIAL STATEMENTS
March 31, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Description: Vega Industries, Ltd. (the "Company") is a C-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 cost or market, with cost determined by the average cost method, 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 \$19,236 and \$17,400 for the years ended March 31, 2015 and 2014, 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, 2015.

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

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VEGA INDUSTRIES, LTD.
NOTES TO FINANCIAL STATEMENTS
March 31, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2015 and 2014.

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.

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, 2015 and 2014, 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, 2015 and 2014 were \$22,538 and \$32,770, respectively.

Reclassifications: Certain prior year amounts have been reclassified to conform with 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 \$(301,394) and \$(180,653) at March 31, 2015 and 2014, respectively.

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VEGA INDUSTRIES, LTD.
NOTES TO FINANCIAL STATEMENTS
March 31, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to March 31, 2015 to determine the need for any adjustments or disclosures for the year then ended. Management has performed their analysis through May 13, 2015, the date the financial statements were available to be issued.

NOTE 2 - FIXED ASSETS

Fixed assets consists of the following:

	<u>2015</u>	<u>2014</u>
Equipment	\$ 138,664	\$ 138,664
Computer equipment	16,485	16,027
Automobiles	<u>111,912</u>	<u>76,600</u>
	267,061	231,291
Less: accumulated depreciation	<u>(179,682)</u>	<u>(160,447)</u>
	<u>\$ 87,379</u>	<u>\$ 70,844</u>

NOTE 3 - INCOME TAXES

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

	<u>2015</u>	<u>2014</u>
Current		
Federal	\$ 2,007	\$ (7,378)
State	<u>2,820</u>	<u>680</u>
	4,827	(6,698)
Deferred		
Federal	8,430	1,702
State	<u>6</u>	<u>79</u>
	<u>8,436</u>	<u>1,781</u>
	<u>\$ 13,263</u>	<u>\$ (4,917)</u>

(Continued)

VEGA INDUSTRIES, LTD.
NOTES TO FINANCIAL STATEMENTS
March 31, 2015 and 2014

NOTE 3 - INCOME TAXES (Continued)

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

	<u>2015</u>	<u>2014</u>
Current		
Capitalized inventory costs	\$ 980	\$ 454
Long-term		
Depreciation	(12,347)	(9,068)
Other	<u>-</u>	<u>5,683</u>
	<u>\$ (11,367)</u>	<u>\$ (2,931)</u>

NOTE 4 - LONG-TERM DEBT

During the year ended March 31, 2012, the Company entered into a loan agreement with a bank for the purchase of a vehicle. The note requires minimum monthly payments of approximately \$904 and accrues interest at a rate of 3.49% per annum. The note matures on January 16, 2016 and is secured by the vehicle and guarantees of the Company and two officers of the Company.

Maturities of long-term debt are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ <u>8,908</u>
	<u>\$ 8,908</u>

NOTE 5 - RELATED PARTY TRANSACTIONS

The Company purchases its inventory from Vega Industries (Middle East) F.Z.E. (Vega ME), which is a related party through common ownership and controlling interest. Purchases from related parties were \$31,506,393 and \$14,253,972 for the years ended March 31, 2015 and 2014, respectively.

The Company sells to Vega ME and AIA Engineering Ltd., a related party through controlling interests. Sales to related parties amounted to \$0 and \$58,196 for the years ended March 31, 2015 and 2014, respectively.

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VEGA INDUSTRIES, LTD.
NOTES TO FINANCIAL STATEMENTS
March 31, 2015 and 2014

NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)

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

	<u>2015</u>	<u>2014</u>
Accounts Payable Vega ME	\$ (16,760,480)	\$ (6,736,311)
Related party payables	<u>\$ (16,760,480)</u>	<u>\$ (6,736,311)</u>

At March 31, 2015 and 2014, the Company had a note payable of \$510,296 and \$1,048,331, respectively, to a company related by common ownership. The note payable is unsecured and is non-interest bearing. The note is due on demand and is classified as current.

NOTE 6 - CONCENTRATIONS

Sales to two customers approximated 63% of total sales and accounts receivable from these two customers approximated 30% of total accounts receivable at March 31, 2015. Sales to three customers approximated 62% of total sales and accounts receivable from these three customers approximated 55% of total accounts receivable at March 31, 2014.

The Corporation purchases a substantial portion of its inventory from Vega ME, which is located in Ajman, UAE (see Note 5).

NOTE 7 - 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 \$58,688 and \$45,224 for the years ended March 31, 2015 and 2014, respectively.

NOTE 8 - OPERATING LEASE AGREEMENTS

The Company has entered into noncancelable operating lease agreements for its office spaces with the lease terms expiring at various dates through April 2018. At March 31, 2015, the future minimum rental payments under this lease are as follows:

(Continued)

VEGA INDUSTRIES, LTD.
NOTES TO FINANCIAL STATEMENTS
March 31, 2015 and 2014

NOTE 8 - OPERATING LEASE AGREEMENTS (Continued)

Year Ending <u>March 31,</u>	
2016	\$ 31,340
2017	18,495
2018	19,050
2019	<u>1,591</u>
	<u>\$ 70,476</u>

Total rent expense was \$32,407 and \$32,829 for the years ended March 31, 2015 and 2014, respectively.