

**VEGA INDUSTRIES, LTD.**

**FINANCIAL STATEMENTS**

March 31, 2016 and 2015

VEGA INDUSTRIES, LTD.  
Nashville, Tennessee

FINANCIAL STATEMENTS  
March 31, 2016 and 2015

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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, 2016 and 2015, 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.

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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, 2016 and 2015, 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, 2016

VEGA INDUSTRIES, LTD.  
BALANCE SHEETS  
March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,835,641	\$ 379,082
Accounts receivables	11,604,119	7,365,463
Inventories	13,787,322	10,133,886
Note receivable - related party (Note 4)	707,631	-
Other current assets	42,274	399,563
Refundable income taxes	1,491	38,141
Deferred income taxes	<u>968</u>	<u>980</u>
	27,979,446	18,317,115
 Fixed assets, net	 86,230	 87,379
 Other assets	 <u>1,212</u>	 <u>1,212</u>
	<u>\$ 28,066,888</u>	<u>\$ 18,405,706</u>
 <b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Current liabilities		
Current portion of long-term debt	\$ -	\$ 8,908
Accounts payable - related parties (Note 4)	26,574,097	16,760,480
Note payable – related party (Note 4)	-	510,296
Customer advances	15,273	60,230
Accrued expenses	<u>421,275</u>	<u>11,386</u>
	27,010,645	17,351,300
 Long-term liabilities		
Deferred income taxes	13,514	12,347
 Stockholder's equity		
Common stock, \$1 par value; 50,000 shares authorized, issued and outstanding	50,000	50,000
Retained earnings	<u>992,729</u>	<u>992,059</u>
	<u>1,042,729</u>	<u>1,042,059</u>
	<u>\$ 28,066,888</u>	<u>\$ 18,405,706</u>

See accompanying notes to financial statements.

VEGA INDUSTRIES, LTD.  
STATEMENTS OF INCOME AND RETAINED EARNINGS  
Years ended March 31, 2016 and 2015

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	<u>2016</u>	<u>2015</u>
Sales, net of returns and discounts	\$ 38,194,896	\$ 27,095,414
Cost of sales	<u>35,960,878</u>	<u>24,434,467</u>
<b>Gross profit</b>	2,234,018	2,660,947
Selling, general, and administrative expenses	<u>2,278,992</u>	<u>2,637,538</u>
<b>Income (loss) from operations</b>	(44,974)	23,409
Interest expense	-	(80)
Other income	<u>53,859</u>	<u>-</u>
	<u>53,859</u>	<u>(80)</u>
<b>Income before income taxes</b>	8,885	23,329
Federal and state income taxes		
Current	7,036	4,827
Deferred	<u>1,179</u>	<u>8,436</u>
	<u>8,215</u>	<u>13,263</u>
<b>Net income</b>	670	10,066
Retained earnings at beginning of year	<u>992,059</u>	<u>981,993</u>
Retained earnings at end of year	<u>\$ 992,729</u>	<u>\$ 992,059</u>

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See accompanying notes to financial statements.

VEGA INDUSTRIES, LTD.  
STATEMENTS OF CASH FLOWS  
Years ended March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 670	\$ 10,066
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	27,915	19,236
Deferred taxes	1,179	8,436
Changes in assets and liabilities		
Accounts receivable	(4,238,656)	(1,418,837)
Inventories	(3,653,436)	(7,487,790)
Other current assets	357,289	(311,585)
Refundable income taxes	36,650	4,827
Accounts payable- related parties	9,813,617	10,024,169
Accrued expenses	409,889	(323,281)
Customer advances	<u>(44,957)</u>	<u>14,800</u>
Net cash from operating activities	2,710,160	540,041
 <b>Cash flows from investing activities</b>		
Purchase of fixed assets	(26,766)	(35,771)
Advance on notes receivable - related party	<u>(707,631)</u>	<u>-</u>
Net cash from investing activities	(734,397)	(35,771)
 <b>Cash flows from financing activities</b>		
Principal payments on long-term debt	(8,908)	(10,762)
Payments on notes payable - related party	<u>(510,296)</u>	<u>(538,035)</u>
Net cash from financing activities	<u>(519,204)</u>	<u>(548,797)</u>
 Net change in cash and cash equivalents	1,456,559	(44,527)
 Cash and cash equivalents at beginning of year	<u>379,082</u>	<u>423,609</u>
 <b>Cash and cash equivalents at end of year</b>	<u>\$ 1,835,641</u>	<u>\$ 379,082</u>
 <b>Supplemental disclosures of cash flow information</b>		
Cash paid during the year for		
Interest	<u>\$ -</u>	<u>\$ 80</u>
Income taxes	<u>\$ -</u>	<u>\$ 8,600</u>

See accompanying notes to financial statements.

**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 \$27,915 and \$19,236 for the years ended March 31, 2016 and 2015, 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, 2016.

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, 2016 and 2015.

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.

VEGA INDUSTRIES, LTD.  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015 were \$22,541 and \$23,510, 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 \$(544,343) and \$(301,394) for the years ending March 31, 2016 and 2015, respectively.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to March 31, 2016 to determine the need for any adjustments or disclosures for the year then ended. Management has performed their analysis through May 13, 2016, the date the financial statements were available to be issued.

**NOTE 2 - FIXED ASSETS**

Fixed assets consists of the following:

	<u>2016</u>	<u>2015</u>
Equipment	\$ 163,347	\$ 138,664
Computer equipment	18,569	16,485
Automobiles	<u>75,625</u>	<u>111,912</u>
	257,541	267,061
Less: accumulated depreciation	<u>(171,311)</u>	<u>(179,682)</u>
	<u>\$ 86,230</u>	<u>\$ 87,379</u>

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(Continued)

VEGA INDUSTRIES, LTD.  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2016 and 2015

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**NOTE 3 - INCOME TAXES**

The provision for income taxes consists of the following:

	<u>2016</u>	<u>2015</u>
Current		
Federal	\$ 5,069	\$ 2,007
State	<u>1,967</u>	<u>2,820</u>
	7,036	4,827
Deferred		
Federal	1,115	8,430
State	<u>64</u>	<u>6</u>
	<u>1,179</u>	<u>8,436</u>
	<u>\$ 8,215</u>	<u>\$ 13,263</u>

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

	<u>2016</u>	<u>2015</u>
Current		
Capitalized inventory costs	\$ 968	\$ 980
Long-term		
Depreciation	<u>(13,514)</u>	<u>(12,347)</u>
	<u>\$ (12,546)</u>	<u>\$ (11,367)</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 \$38,656,403 and \$31,506,393 for the years ended March 31, 2016 and 2015, respectively.

Amounts due to related companies were as follows:

	<u>2016</u>	<u>2015</u>
Accounts Payable		
Vega ME	<u>\$ (26,574,097)</u>	<u>\$ (16,760,480)</u>
Related party payables	<u>\$ (26,574,097)</u>	<u>\$ (16,760,480)</u>

At March 31, 2016, the Company had a receivable of \$707,631 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. At March 31 2015, the Company had a note payable of \$510,296, due to Vega ME.

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VEGA INDUSTRIES, LTD.  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2016 and 2015

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**NOTE 5 - CONCENTRATIONS**

Sales to two customers approximated 57% of total sales and accounts receivable from these two customers approximated 41% of total accounts receivable at March 31, 2016. 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.

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 \$61,488 and \$58,688 for the years ended March 31, 2016 and 2015, respectively.

**NOTE 7 - OPERATING LEASE AGREEMENTS**

The Company has entered into a noncancelable operating lease agreement for its office space with the lease terms expiring April 2018. At March 31, 2016, the future minimum rental payments under this lease are as follows:

Year Ending <u>March 31,</u>		
2017	\$	18,495
2018		19,050
2019		<u>1,591</u>
	\$	<u><u>39,136</u></u>

Total rent expense was \$31,173 and \$32,407 for the years ended March 31, 2016 and 2015, respectively.

The Company has an additional month to month operating lease agreement for office space that requires monthly payments of \$1,348.