

VEGA INDUSTRIES, LTD.

**FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019**

VEGA INDUSTRIES, LTD.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Vega Industries, Ltd.

We have audited the accompanying financial statements of Vega Industries, Ltd., which comprise the balance sheets as of March 31, 2020, and the related statements of income, stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statement

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 audit. We conducted our audit 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 of 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 estimates made by management, as well as evaluating the overall presentation of the financial statements.

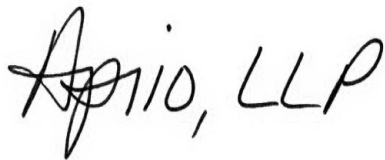
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Vega Industries, Ltd. as of March 31, 2019, were audited by other auditors whose report dated May 10, 2019, expressed an unmodified opinion on those statements.



Atlanta, Georgia

May 20, 2020

VEGA INDUSTRIES, LTD.
BALANCE SHEETS
MARCH 31,

ASSETS

	<u>2020</u>	<u>2019</u>
<u>Current assets</u>		
Cash and cash equivalents	\$ 984,718	\$ 1,051,115
Accounts receivable - trade	19,059,080	18,930,882
Employee advances	34,668	28,680
Notes receivable - related parties	443,765	173,191
Inventory	24,163,396	22,739,592
Other current assets	<u>37,970</u>	<u>44,519</u>
Total current assets	<u>44,723,597</u>	<u>42,967,979</u>
<u>Property and equipment, at cost</u>		
Computer equipment	23,623	21,397
Equipment	152,506	151,136
Vehicles	81,730	75,625
Less accumulated depreciation	<u>(215,355)</u>	<u>(232,637)</u>
Total property and equipment, net	<u>42,504</u>	<u>15,521</u>
<u>Other assets</u>		
Security deposits	<u>16,295</u>	<u>16,295</u>
Total assets	<u>\$ 44,782,396</u>	<u>\$ 42,999,795</u>

See accompanying notes to financial statements

VEGA INDUSTRIES, LTD.
BALANCE SHEETS
MARCH 31,

LIABILITIES AND STOCKHOLDER'S EQUITY

	<u>2020</u>	<u>2019</u>
<u>Current liabilities</u>		
Accounts payable	\$ 43,103,353	\$ 41,265,179
Accrued liabilities	280,660	358,021
Income taxes payable	<u>6,337</u>	<u>52,307</u>
Total current liabilities	<u>43,390,350</u>	<u>41,675,507</u>
<u>Stockholder's Equity</u>		
Common stock, \$1 par value, 50,000 shares authorized; 50,000 shares issued and outstanding at March 31, 2020 and 2019	50,000	50,000
Retained earnings	<u>1,342,046</u>	<u>1,274,288</u>
Stockholder's equity	<u>1,392,046</u>	<u>1,324,288</u>
Total liabilities and stockholder's equity	<u>\$ 44,782,396</u>	<u>\$ 42,999,795</u>

See accompanying notes to financial statements

VEGA INDUSTRIES, LTD.
STATEMENTS OF INCOME
FOR THE YEARS ENDED MARCH 31,

	<u>2020</u>	<u>2019</u>
<u>Sales</u> , net of returns and discounts	\$ 74,950,059	\$ 52,389,121
<u>Cost of sales</u>	<u>70,955,096</u>	<u>48,680,226</u>
Gross profit	3,994,963	3,708,895
<u>Selling, general, and administrative expenses</u>	<u>3,930,351</u>	<u>3,497,590</u>
Income from operations	<u>64,612</u>	<u>211,305</u>
<u>Other income (expense)</u>		
Miscellaneous income (expense)	10,475	(477)
Gain on disposal of property and equipment	<u>11,484</u>	<u>-</u>
Total other income (expense)	<u>21,959</u>	<u>(477)</u>
Income before provision for income taxes	86,571	210,828
<u>Provision for income taxes</u>	<u>18,813</u>	<u>49,603</u>
Net income	<u>\$ 67,758</u>	<u>\$ 161,225</u>

See accompanying notes to financial statements

VEGA INDUSTRIES, LTD.
STATEMENTS OF STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED MARCH 31,

	<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>		
Balance at April 1, 2018	50,000	\$ 50,000	\$ 1,113,063	\$ 1,163,063
Net income	<u>-</u>	<u>-</u>	<u>161,225</u>	<u>161,225</u>
Balance at March 31, 2019	50,000	50,000	1,274,288	1,324,288
Net income	<u>-</u>	<u>-</u>	<u>67,758</u>	<u>67,758</u>
Balance at March 31, 2020	<u>50,000</u>	<u>\$ 50,000</u>	<u>\$ 1,342,046</u>	<u>\$ 1,392,046</u>

See accompanying notes to financial statements

VEGA INDUSTRIES, LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31,

	<u>2020</u>	<u>2019</u>
<u>Cash flows from operating activities</u>		
Net income	\$ <u>67,758</u>	\$ <u>161,225</u>
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	14,499	21,551
Gain on disposition of property and equipment	(11,484)	-
Deferred income taxes	-	(3,857)
Change in operating assets and liabilities:		
Accounts receivable - trade	(128,198)	(8,840,722)
Employee advances	(5,988)	90,796
Inventory	(1,423,804)	(10,084,287)
Other current assets	6,549	(23,538)
Other non-current assets	-	(1,098)
Accounts payable	1,838,174	18,406,977
Accrued liabilities	(77,361)	254,765
Income taxes payable	<u>(45,970)</u>	<u>(5,953)</u>
Total adjustments	<u>166,417</u>	<u>(185,366)</u>
Cash provided (used) by operating activities	<u>234,175</u>	<u>(24,141)</u>
 <u>Cash flows from investing activities</u>		
Net advances made on notes receivable - related parties	(270,574)	125,689
Acquisition of property and equipment	(45,015)	(3,595)
Proceeds from disposition of property and equipment	<u>15,017</u>	<u>-</u>
Cash provided (used) by investing activities	<u>(300,572)</u>	<u>122,094</u>
Net change in cash and cash equivalents	(66,397)	97,953
Cash and cash equivalents, beginning of the year	<u>1,051,115</u>	<u>953,162</u>
Cash and cash equivalents, end of year	<u>\$ 984,718</u>	<u>\$ 1,051,115</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the years for:

Interest	\$ 0	\$ 0
Income taxes	56,574	33,864

See accompanying notes to financial statements

VEGA INDUSTRIES, LTD.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

Note A
Summary of Significant Accounting Policies

Nature of Operations:

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").

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 statement. Estimates are used for, but not limited to, the accounting for doubtful accounts, inventory valuation, and useful lives of property and equipment. Actual results could differ from these estimates.

Cash and Cash Equivalents:

For the purpose of the statements of cash flows, the Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk Arising From Cash Deposits in Excess of Insured Limits:

The Company maintains cash balances at several financial institutions that at times may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risks on cash.

Accounts Receivable - Trade:

The Company extends credit to customers located primarily throughout North America based on the size of the customer, its payment history, and other factors. The Company generally does not require collateral to support customer receivables. The Company provides an allowance for doubtful accounts based upon a review of the outstanding accounts receivable, historical collection information and existing economic conditions. The Company determines if receivables are past due based on days outstanding, and amounts are written off when determined to be uncollectible by management. The maximum accounting loss from the credit risk associated with accounts receivable is the amount of the receivable recorded, which is the face amount of the receivable, net of the allowance for doubtful accounts.

Inventory:

Inventory, which consist primarily of grinding media, is stated at the lower of weighted average cost or net realizable value and is valued using the first-in, first-out method.

VEGA INDUSTRIES, LTD.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

Note A
Summary of Significant Accounting Policies (Continued)

Property and Equipment:

Property and equipment are stated at cost. Expenditures for maintenance and repairs are expensed currently, while renewals and betterments that materially extend the life of an asset are capitalized. The cost of assets sold, retired, or otherwise disposed of, and the related allowance for depreciation are eliminated from the accounts, and any resulting gain or loss is recognized.

Depreciation of property and equipment is provided using the straight-line method over a estimated useful life of the assets of 5 years. Depreciation expense for the period ended March 31, 2020 and 2019, totaled \$14,499 and \$21,551, respectively.

Revenue Recognition:

Revenue from the sale of products is recognized when performance obligations under the terms of the contracts with customers are satisfied. The Company's performance obligation generally consists of the promise to deliver grinding media and related products to the customer. Revenue is recognized at a point in time upon when control of the asset is transferred to the customer. The Company's transaction price is usually fixed.

Shipping and Handling Costs:

The Company elects to use the practical expedients to account for any shipping after the customer obtains control as fulfillment activities rather than a separate performance obligation. Shipping and handling billed to customers are included in sales and cost of sales.

Advertising:

The Company expenses advertising costs as incurred. Advertising expenses were \$9,858 and \$6,112 for the years ended March 31, 2020 and 2019, respectively.

Income Taxes:

The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on the deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company records valuation allowances against deferred tax assets as deemed necessary.

VEGA INDUSTRIES, LTD.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

Note A
Summary of Significant Accounting Policies (Continued)

The Company accounts for the uncertainty in income taxes as prescribed by the minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

The Company records interest related to unrecognized tax benefits in interest expense and penalties in selling, general, and administrative expenses. The Company is no longer subject to income tax examinations for years prior to 2016.

Foreign Currency Translation:

The Company sells product to several non-domestic 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 \$12,149 and \$8,300 during the years ending March 31, 2020 and 2019, respectively.

Recent Accounting Pronouncements:

In May 2014, the FASB issued comprehensive new revenue recognition guidance, ASU No. 2014-09, "Revenue From Contracts With Customers Topic 606". The guidance requires an entity to follow a five step model to (a) identify the contract(s) with a customer, (b) identify the performance obligations in the contract, (c) determine the transaction price, (d) allocate the transaction price to the performance obligations in the contract, and (e) recognize revenue when (or as) the entity satisfies a performance obligation. The Company adopted the guidance upon its effective date of January 1, 2019, using the modified retrospective method (i.e. applied prospectively effective January 1, 2019), which had no impact on the Company's opening retained earnings. Further, the Company determined that there was no material impact to the Company's recognition of revenue upon adoption of Topic 606.

Note B
Income Taxes

The provision for income taxes consists of the following for the years ended March 31:

<u>Current tax (expense)/benefit</u>	<u>2020</u>	<u>2019</u>
Federal	\$ 16,813	\$ 51,460
State	<u>2,000</u>	<u>2,000</u>
Current provision for income taxes	<u>\$ 18,813</u>	<u>\$ 53,460</u>

VEGA INDUSTRIES, LTD.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

Note B
Income Taxes (Continued)

	2020	2019
<u>Deferred tax (expense)/benefit</u>		
Federal	\$ -	\$ (3,995)
State	-	138
Deferred provision for income taxes	-	(3,857)
Net provision for income taxes	\$ 18,813	\$ 49,603

The tax effects of temporary differences that give rise to significant portions of the deferred tax asset and deferred tax liability at March 31 which are included in income taxes payable in the accompanying balance sheet consist of:

	2020	2019
<u>Current:</u>		
Capitalized inventory costs	\$ -	\$ 960
<u>Non-current:</u>		
Depreciation differences	-	(2,620)
	\$ -	\$ (1,660)

Note C
Commitments and Contingencies

Operating Leases:

The Company has entered into noncancelable 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.

At March 31, 2020, future minimum lease payments under noncancelable operating leases were as follows:

Year Ending March 31	Amount
2021	\$ 47,303
2022	6,637
	\$ 53,940

Rent expense under these agreements totaled \$44,093 and \$39,619 for the years ended March 31, 2020 and 2019, respectively.

VEGA INDUSTRIES, LTD.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

Note D
Employee Retirement Plans

The Company sponsors an employee retirement plan known as Vega Industries, Ltd. 401(k) Plan. Under the plan, employees may contribute up to the maximum contributions as set periodically by the Internal Revenue Service. The Company matches employee contributions up to a maximum of 50% of the participant's salary deferral, limited to 6% of the employee's salary.

Matching contributions were \$19,553 and \$18,548 by the Company for the years ended March 31, 2020 and 2019, respectively. No discretionary contributions were made for the years ended March 31, 2020 and 2019.

Note E
Concentrations

Significant Vendor:

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

Significant Customer:

A significant customer is defined as one from whom at least 10% of annual revenue is derived. The Company had sales to three customers totaling \$35,892,398, which comprised approximately 48% of total sales for the year ended March 31, 2020. The accounts receivable balance included approximately \$10,335,646 from these three customers at March 31, 2020.

The Company had sales to four customer, which comprised approximately 53% of total sales and 50% of total accounts receivable at March 31, 2019.

Note F
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 Vega ME were \$70,383,498 and \$57,412,091 for the years ended March 31, 2020 and 2019, respectively.

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

	<u>2020</u>	<u>2019</u>
Accounts Payable		
Vega ME	\$ (43,096,120)	\$ (41,265,179)

The Company had a note receivable of \$443,765 and \$173,191 for the years ended March 31, 2020 and 2019, 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.

VEGA INDUSTRIES, LTD.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

Note G
Subsequent Events

The Company evaluated subsequent events through May 20, 2020, when these financial statements were available to be issued.

The Company's ongoing profitability may experience instability and estimates included in the financial statements may change due to current political and economic conditions as a result of public health concerns related to the novel coronavirus, or COVID-19. The duration and intensity of these impacts and resulting disruption to which these events effect the Company's business will depend on future developments, which are highly uncertain and cannot be predicted at this time.

Management is not aware of any other significant events that occurred subsequent to the balance sheet date, and prior to the filing of this report, that would have a material impact on the consolidated financial statements.