

COMSTAR AUTOMOTIVE USA LLC

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

March 31, 2021 and March 31, 2020

FRANK J. GUIDA C.P.A., P.A.

Frank J. Guida - *Certified Public Accountant*

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Independent Auditor's Report

The Board of Directors
Comstar Automotive USA LLC
Tecumseh, MI

I have audited the accompanying financial statements of Comstar Automotive USA LLC (a wholly owned subsidiary of Comstar Automotive Technologies Pvt Ltd, India, formed in Delaware as a Limited Liability Company), which comprises the balance sheets as March 31, 2021 and March 31, 2020, and the related statements of income, changes in members' equity, 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

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Comstar Automotive USA LLC as of March 31, 2021 and March 31, 2020, 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.

Frank J. Guida CPA

Frank J. Guida, CPA, P.A.
Maitland, FL
April 12, 2021

Comstar Automotive USA LLC

Balance Sheet

as of
March 31, 2021 and March 31, 2020

ASSETS

	<u>March 31, 2021</u>	<u>March 31, 2020</u>
Current assets:		
Cash	\$ 1,843,278	\$ 1,909,851
Accounts receivable	3,360,922	2,502,209
Advances and Interest receivable- related party	602,662	365,925
Inventories	1,652,450	1,717,407
Prepaid federal and state taxes	17,328	266,101
Prepaid expenses and other current assets	10	10
Total current assets	7,476,650	6,761,503
Furniture, fixtures and equipment, net	460,129	452,409
Deferred Taxes - long term	-	3,630
Other assets		
Notes receivable-related party	5,795,501	6,496,905
Total assets	\$ 13,732,280	\$ 13,714,447

Comstar Automotive USA LLC

Balance Sheet

as of
March 31, 2021 and March 31, 2020

LIABILITIES AND MEMBERS EQUITY

	<u>March 31, 2021</u>	<u>March 31, 2020</u>
Current liabilities:		
Accounts payable	\$ 2,403,016	\$ 1,451,788
Accrued warranty costs	65,295	72,983
Accrued liabilities-other	26,975	-
Total current liabilities	2,495,286	1,524,771
Long-term debt, net of current portion	-	-
Deferred federal income tax	4,508	-
Total long term liabilities	4,508	-
Members Equity:		
Members Equity	11,232,486	12,189,676
Total Members Equity	11,232,486	12,189,676
Total liabilities and members equity	\$ 13,732,280	\$ 13,714,447

Comstar Automotive USA LLC

Statement of Income

For The Years Ended
March 31, 2021 and March 31, 2020

	<u>March 31, 2021</u>	<u>March 31, 2020</u>
Sales, net of returns and allowances	\$ 20,293,146	\$ 23,236,801
Cost of goods sold	14,473,020	16,530,473
Gross profit	5,820,126	6,706,328
General, Administrative and Selling expenses	759,853	717,420
Income from operations	5,060,273	5,988,908
Other income (expense):		
Currency Exchange Income (Loss)	(95,032)	(72,581)
Interest Income, net	92,456	152,054
Other income and expenses, net	-	8
Total other income (expense)	(2,576)	79,481
Income before income taxes	5,057,697	6,068,389
Provision of Federal and State Income Taxes	1,314,887	1,560,074
Net Income	\$ 3,742,810	\$ 4,508,315

Comstar Automotive USA LLC

Statement of Cash Flows

For The Years Ended
March 31, 2021 and March 31, 2020

	<u>March 31, 2021</u>	<u>March 31, 2020</u>
Cash flows from operating activities:		
Net income (loss)	\$ 3,742,810	\$ 4,508,315
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	36,723	43,043
Deferred taxes	8,139	17,215
Changes in assets and liabilities which provide (use) cash:		
Accounts receivable	(858,713)	854,630
Note receivable-related party	701,404	(2,298,124)
Advances and interest-related party	(236,737)	(151,778)
Inventories	64,957	(320,743)
Prepaid and current assets	248,773	(112,149)
Other assets	-	-
Payables and accrued exp.	970,515	(1,417,825)
Net cash provided (used) by operating activities:	4,677,871	1,122,584
Cash flows from investing activities:		
Acquisitions of property, plant and equipment	(44,444)	(31,831)
Net cash provided (used) by investing activities:	(44,444)	(31,831)
Cash flows from financing activities:		
Dividends paid to shareholder	(4,700,000)	(500,000)
Loans from Shareholder	-	-
Net cash provided (used) by financing activities:	(4,700,000)	(500,000)
Net change in cash	(66,573)	590,753
Cash at beginning of year	1,909,851	1,319,098
Cash at end of year	\$ 1,843,278	\$ 1,909,851
Supplemental Cash Flow Information:		
Interest Paid	-	-
Federal taxes paid	765,000	1,284,000
State taxes paid	266,000	371,000

Comstar Automotive USA LLC

Statement of Changes in Members Equity

For The Years Ended
March 31, 2021 and March 31, 2020

	Total Members Equity
Balances at March 31, 2019	\$ 8,181,361
Net income	4,508,315
Dividends paid to shareholder	(500,000)
Balances at March 31, 2020	\$ 12,189,676
Net income	3,742,810
Dividends paid to shareholder	(4,700,000)
Balances at March 31, 2021	\$ 11,232,486

COMSTAR AUTOMOTIVE USA LLC

Notes To Financial Statements

March 31, 2021 and March 31, 2020

1. Significant Accounting Policies

Organization Comstar Automotive USA LLC (the “Company”) was formed as a limited liability company on October 9, 2012. The Company is a wholly owned subsidiary of Comstar Automotive Technologies Pvt Ltd, India, whose ultimate shareholder is Sona BLW Precision Forgings Ltd. The Company’s plant and operations are in Tecumseh, MI. The Company contracts with a related party in India to do all accounting and other management functions.

The company imports components from foreign suppliers (including their parent company in India) and from other domestic suppliers and assembles the items into sub-assemblies and starter motors at its plant in Tecumseh. The Company is a Tier-1 supplier of Starter motors and subassemblies for passenger cars and light commercial vehicles, with its primary customer being Ford Motor Company.

**Cash
Equivalents
and
Concentration
of Credit Risk** For purposes of reporting cash flows, the Company considers all highly liquid investments purchased with a maturity of three months or less at acquisition as cash and cash equivalents in the accompanying consolidated balance sheet. Periodically, the Company may have interest bearing deposits in financial institutions that maintained federal insurance in full for all accounts and limited coverage up to \$250,000 per financial institution. The portion of the deposits in excess of this amount is not subject to such insurance and represents a credit risk to the Company. At times, balances held at each financial institution may exceed \$250,000, which represents a credit risk to the Company, at March 31, 2021, there were no uninsured deposits.

**Use of
Estimates** The preparation of financial statements in conformity with generally accepted accounting principals 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 revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Fiscal Year The Company’s fiscal year ends on March 31.

COMSTAR AUTOMOTIVE USA LLC

Notes To Financial Statements

March 31, 2021 and March 31, 2020

Significant Accounting Policies (Continued)

Revenue Recognition	Company recognizes revenue upon shipment of products based on specific orders from customers and revenue is determined based upon contract terms such as F.O.B. shipping point. The Company's selling price is fixed and determined at the time of shipment; collectability is reasonably assured and not contingent upon the customer's use or resale of the product.
Trade Receivables	Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. A trade receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days beyond terms. For fiscal years 2021 and 2020, management has determined that no reserve for doubtful receivables is needed.
Inventories	Inventories are stated at cost and lower of cost or market (first-in, first-out method).
Exchange Rates	The Company has international suppliers and numerous transactions in foreign currencies. The financial statements are expressed in United States dollars. All foreign currency transactions are translated at the rates of exchange on the date of the transaction and/or at the balance sheet date. Differences arising from translations arising from fluctuation in exchange rates have been included in the statement of income. During fiscal year 2021 and 2020 other income included a gain or (loss) from currency fluctuations of approximately (\$95,032) and \$(72,581) respectively.

COMSTAR AUTOMOTIVE USA LLC

Notes To Financial Statements

March 31, 2021 and March 31, 2020

Significant Accounting Policies (Continued)

Long Lived Assets

Accounting principles generally accepted in the United States of America require reviews of long-lived assets when there are impairment indicators present. The financial performance of certain subsidiaries is an indicator that long-lived assets could be impaired. Considerable management judgment is necessary to estimate the fair value of assets and accordingly, actual results could vary significantly from such estimates.

The Company evaluates the recoverability of long-lived assets whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. Such long-lived assets are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities, and the carrying value of the asset group is compared to the estimated future net undiscounted cash flows expected to result from the use of the asset group, including cash flows from disposition. Should the sum of the expected future net undiscounted cash flows be less than the carrying value, the Company would recognize an impairment loss at that date. An impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value of the long-lived assets. The Company's review of long-lived assets resulted in a determination that there was no impairment for the fiscal year.

Furniture, Fixtures and Equipment

Property, plant and equipment are stated at cost. For financial reporting purposes, depreciation is provided on the straight-line and accelerated methods over the estimated useful lives. The depreciable lives used by the Company for equipment range from 3 to 30 years. Straight line and accelerated depreciation methods are also used for income tax purposes. Assets held under capital leases are amortized over the life of the equipment. Related amortization expense is included with depreciation in the accompanying statement of operations and accumulated depreciation in the accompanying balance sheet.

COMSTAR AUTOMOTIVE USA LLC

Notes To Financial Statements

March 31, 2021 and March 31, 2020

Significant Accounting Policies (Continued)

Fair Value of Financial Instruments The following methods and assumptions were used to estimate the fair value of financial instruments:

Cash and Cash Equivalents. The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Accounts Receivable and Accounts Payable. The carrying amount of accounts receivable and accounts payable in the balance sheet approximates fair value.

Short Term and Long Term Debt. The carrying amount of the revolving credit facility approximates fair value.

Warranty Reserve The Company has multiple suppliers of component parts, for fiscal year 2021, the Company computed a warranty provision of 0.15% of the last two years sales. Quality control is constantly monitored, and the provision will be adjusted by management based upon historical and future anticipated activity. The amount of accrued warranty included in the financial statements as of March 31, 2021 and March 31, 2020 was approximately \$65,295 and \$72,983 respectively.

Recent accounting pronouncements:

In February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)*". The guidance in this ASU supersedes the leasing guidance in Topic 840, "*Leases*". Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2021. The Company is evaluating the impact of that the adoption of the new standard will have on the Company's financial statements, however, does not anticipate the adoption of the standard to have a material impact on the financial statements.

COMSTAR AUTOMOTIVE USA LLC

Notes To Financial Statements

March 31, 2021 and March 31, 2020

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)". This standard outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service.

Transfer of control is not the same as transfer of risks and rewards, as it is considered in current guidance. The standard is effective for fiscal years beginning on or after December 15, 2019. The Company's current method of accounting for revenues is consistent with this standard.

2. Inventories

Inventories consist of the following:

	March 31, 2021	March 31, 2020
Purchased parts and components	\$ 1,288,962	\$ 1,086,670
Nonproduction parts	108,522	108,522
Finished goods	255,066	522,215
	\$ 1,652,450	\$ 1,717,407

Inventories consist of raw materials and purchased parts. Purchased parts consist of partly assembled components.

3. Furniture, Fixtures and Equipment

Furniture, fixtures and equipment consist of the following:

	March 31, 2021	March 31, 2020
Land	\$ 47,818	\$ 47,818
Building improvements	406,304	389,858
Machinery and equipment	215,585	179,306
Furniture and office equipment	54,510	54,510
Vehicles	17,356	17,356
Construction in progress	-0-	8,283
	741,573	697,131
Less accumulated depreciation	(281,444)	(244,722)
	\$ 460,129	\$ 452,409

COMSTAR AUTOMOTIVE USA LLC

Notes To Financial Statements

March 31, 2021 and March 31, 2020

4. Income Taxes

The Company is a Limited Liability Company (“LLC”) but has elected to be taxed as a C Corporation. The Company follows the asset and liability method of accounting for income taxes. Deferred income tax assets and liabilities are recognized for the estimated future tax impact of differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

For the years ended March 31, 2021 and 2020, management has determined there are no material uncertain income tax positions.

The Company files income tax returns in US federal jurisdiction, and various states when required. The Company is generally not subject to US federal, or state and local income tax examinations by tax authorities for periods ending prior to 2018.

The components of income tax expense are as follows:

	March 31, 2021	March 31, 2020
Current Federal Income Tax	\$ 991,243	\$ 1,175,754
Current State Income Tax	315,505	358,875
Deferred Federal Income Tax	8,138	17,217
Net Federal and State Income Tax	\$ 1,314,887	\$ 1,551,846

The Tax Cuts and Jobs Act (the “Act”) changes existing United States tax law and includes numerous provisions that will affect businesses. The Act, for instance, introduces changes that impact U.S. corporate tax rates, business-related exclusions, and deductions and credits. The Act will also have international tax consequences for many companies that operate internationally. The Act has widespread applicability to numerous entities. ASC Topic 740 provides accounting and disclosure guidance on accounting for income taxes under generally accepted accounting principles (“U.S. GAAP”).

COMSTAR AUTOMOTIVE USA LLC

Notes To Financial Statements

March 31, 2021 and March 31, 2020

4. Income Taxes (continued)

For Fiscal years 2021 and 2020, the effective federal tax rate is 21.00%.

Deferred taxes are due primarily to the difference in the book verses tax recognition of several items. Below is a summary of the Company's deferred tax assets and liabilities computed at the effective rates reflected above.

	March 31, 2021	March 31, 2020
US Federal Deferred tax assets:		
Warranty reserve	\$ 13,712	\$ 15,326
<i>Total US deferred tax assets</i>	<u>13,712</u>	<u>15,326</u>
US Federal Deferred tax liabilities:		
Depreciation	18,220	11,696
<i>Total deferred tax liabilities</i>	<u>18,220</u>	<u>11,696</u>
Net US deferred tax assets (liabilities)	\$ (4,508)	\$ 3,630

5. Related Party Loans and Transactions

Related Party Transactions

Name of Related Party	March 31, 2021	March 31, 2020
Purchase of Goods:		
Comstar Automotive Technologies Private Ltd(C)	9,019,311	10,498,347
Legal and Professional Fees:		
Comstar Automotive Technology Services Private Ltd (D)	403,000	368,000
Loans Given (Received):		
Comstar Automotive Hong Kong Limited	(500,000)	2,150,000
Comestel Automotive Technologies Mexicana Ltd	-0-	-0-

COMSTAR AUTOMOTIVE USA LLC

Notes To Financial Statements

March 31, 2021 and March 31, 2020

Related Party Loans and Transactions(continued)

Related Party Transactions

Name of Related Party	March 31, 2021	March 31, 2020
Interest Income:		
Comstar Automotive Hong Kong Limited	55,395	107,514
Comestel Automotive Technologies Mexicana Ltd	37,061	44,264
Dividends Paid:		
Comstar Automotive Technologies Private Ltd	4,700,000	500,000
Accounts Payable:		
Comstar Automotive Technologies Private Ltd	1,400,694	602,999
Comstar Automotive Technology Services Private Ltd	34,100	31,000
Trade Receivables:		
Comstar Automotive Hong Kong Limited		
Comestel Automotive Technologies Mexicana Ltd	201,404	201,404
Comstar Automotive Hong Kong Limited (A)	3,295,501	3,795,501
Comestel Automotive Technologies Mexicana Ltd (B)	2,500,000	2,500,000
Ending Accrued Interest Receivable:		
Comstar Automotive Hong Kong Limited	319,407	321,135
Comestel Automotive Technologies Mexicana Ltd	81,851	44,790
Reimbursement of Expenses		
Sona BLW Precision Forgings Limited	30,965	-0-

(A)The Company entered into multiple loan agreements with Comstar Automotive Hong Kong Limited. On April 1, 2019 these loans were consolidated into a \$5,000,000 loan facility and the interest rate was changed and tied to annual Federal Rate. The effective interest rate at March 2021 was 1.92%.

COMSTAR AUTOMOTIVE USA LLC

Notes To Financial Statements

March 31, 2021 and March 31, 2020

Related Party Loans and Transactions(continued)

- (B) On March 22, 2019 the Company entered into a loan agreement with Comstar Automotive Technologies Mexicana Limited. On April 1, 2019, the loan facility was consolidated and a new loan facility of \$4,000,000, interest on these draws accrue interest at the Annual Federal rate. The principal and interest are due March 31, 2021, however, the loan may be immediately renewed under the same terms and provisions. The effective interest rate at March 2021 was 1.92%.
- (C) The Company acquires primarily all of its Drive, Solenoid and Armature assembly parts from its Parent Comstar Automotive Technologies Private Ltd in India which are primary components of the parts manufactured for Ford.
- (D) The Company has a contract with Comstar Automotive Technology Services Private Limited, to provide support services related to purchase, sale, design, accounting, treasury, financial, computer related software consultancy and other information services from their offices in India with their common parent Comstar Automotive Technologies Pvt Ltd, India. Comstar Automotive Technology Services Private Limited monitors and handles the all funds received, held and disbursed by the Company.

6. Risks and Uncertainties

The Company's future operating results may be affected by a number of factors. The Company is dependent upon its parent Comstar Automotive India and other foreign and domestic suppliers located in China, Brazil, Korea, Slovenia and the US to supply it with primarily all of its component parts. For fiscal year 2021, two vendors (including its Parent) consist of approximately 89.4% of the company's cost of sales purchases. If Comstar Automotive India or any of the Company's other critical suppliers, have shipping interruptions, operational problems or ceased making the component parts, the Company could be adversely affected.

The Company depends upon Comstar Automotive Technology Services Private Limited, a related party, to perform all accounting, treasury and other general and administrative functions. Thus all cash receipts, cash payments, accounts receivable, accounts payable and other functions are monitored and are handled by Comstar Automotive Technology Services Private Limited. The lack of control and total reliance upon Comstar Automotive Technology Services by the Company over these functions could put the company at risk.

COMSTAR AUTOMOTIVE USA LLC

Notes To Financial Statements

March 31, 2021 and March 31, 2020

Risks and Uncertainties (continued)

The Company's revenues are dependent solely on one automotive customer, the loss of this customer or an impact on the automotive industry as a whole, could have a favorable or unfavorable impact on the operating results of the Company.

7. Subsequent Events

Due to the COVID-19 event, the Company was required to close its Plant operations on March 20, 2020 through May 16, 2020. Due to the shut down and additional restrictions, both revenues and expenses for the were impacted. For fiscal year 2021, management has estimated that gross revenue decreased by approximately \$4,000,000. The plant has reopened, management has taken the utmost care with respect to its workforce and operation appear to have been normalized. The impact for Fiscal year 2022 has not been fully evaluated to determine the overall financial impact on the Company.

The Company has evaluated subsequent events for potential recognition and/or disclosure through April 12, 2021 and determined that there were no material subsequent events between the date of the financial statements and the date that the financial statements were issued or available to be issued.