# Sutlej Holdings Inc. and Subsidiary

Consolidated Financial Statements

March 31, 2021 and March 31, 2020

**KNAV P.A.**

**Certified Public Accountants**

**One Lakeside Commons, Suite 850**

**990 Hammond Drive NE, Atlanta, GA 30328**

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KNAV
PARTNERS BEYOND BOUNDARIES

# Independent Auditor's Report

Board of Directors
Sutlej Holdings Inc and Subsidiary

We have audited the accompanying consolidated financial statements of Sutlej Holdings Inc. and Subsidiary ('the Company'), which comprise the consolidated balance sheets as at March 31, 2021 and March 31, 2020 and the related consolidated statements of loss, stockholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

**Management's responsibility for the consolidated financial statements**
Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated 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 organization'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 consolidated financial statements.

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 consolidated financial statements referred to above present fairly in all material respects, the consolidated financial position of the Company as at March 31, 2021 and March 31, 2020 and the results of its consolidated operations and the consolidated cash flows for the years then ended, in accordance with the accounting principles generally accepted in the United States of America.

KNAV P.A.

Atlanta, Georgia
May 05, 2021

# Consolidated Financial Statements

# Consolidated balance sheets

*(All amounts are in United States Dollars, unless otherwise stated)*

| | | As at | |
|---|---|---|---|
| | | **March 31, 2021** | **March 31, 2020** |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 326,798 | 985,202 |
| Accounts receivable, net | | 153,485 | 235,873 |
| Inventories, net | | 1,711,014 | 2,174,896 |
| Other current assets | | 400,492 | 334,627 |
| **Total current assets** | **$** | **2,591,789** | **3,730,598** |
| Property, plant and equipment, net | | 30,721 | 79,496 |
| Goodwill and other intangible assets, net | | 969,663 | 936,329 |
| Other assets | | 30,195 | 15,195 |
| **Total assets** | **$** | **3,622,368** | **4,761,618** |
| **LIABILITIES AND STOCKHOLDER'S EQUITY** | | | |
| **Current liabilities** | | | |
| Accounts payable | | 682,231 | 1,451,374 |
| Line of credit | | 751,837 | 793,129 |
| Other current liabilities | | 135,009 | 191,273 |
| **Total current liabilities** | **$** | **1,569,077** | **2,435,776** |
| Deferred tax liabilities | | 49,331 | 34,894 |
| Long term borrowings | | 288,862 | - |
| **Total liabilities** | **$** | **1,907,270** | **2,470,670** |
| **Stockholder's equity** | | | |
| Common stock | | 5,700,000 | 4,500,000 |
| Accumulated deficit | | (3,984,902) | (2,209,052) |
| **Total stockholder's equity** | **$** | **1,715,098** | **2,290,948** |
| **Total liabilities and stockholder's equity** | **$** | **3,622,368** | **4,761,618** |

*(The accompanying notes are an integral part of these consolidated financial statements)*

# Consolidated statements of loss

*(All amounts are in United States Dollars, unless otherwise stated)*

| | | For the year ended | |
|---|---|---|---|
| | | **March 31, 2021** | **March 31, 2020** |
| Revenue from operations | | 3,277,092 | 5,353,844 |
| Other income | | 192 | 11,492 |
| **Total revenue** | **$** | **3,277,284** | **5,365,336** |
| | | | |
| Cost of goods sold | | 2,419,668 | 3,984,971 |
| **Gross profit** | **$** | **857,616** | **1,380,365** |
| | | | |
| **Costs and expenses** | | | |
| Employee cost | | 1,395,980 | 1,100,716 |
| Selling, general and administrative expenses | | 1,038,719 | 1,269,785 |
| Depreciation and amortization | | 65,005 | 81,890 |
| **Total cost and expenses** | **$** | **2,499,704** | **2,452,391** |
| | | | |
| **Operating loss** | | **(1,642,088)** | **(1,072,026)** |
| Interest expense | | 119,268 | 94,046 |
| **Loss before taxes** | **$** | **(1,761,356)** | **(1,166,072)** |
| | | | |
| **Income tax expense** | | | |
| Current tax expense | | 57 | 81 |
| Deferred tax expense | | 14,437 | 14,251 |
| **Net loss** | **$** | **(1,775,850)** | **(1,180,404)** |

*(The accompanying notes are an integral part of these consolidated financial statements)*

# Consolidated statements of stockholder's equity

*(All amounts are in United States Dollars, except number of shares)*

| | Common stock | | | | | |
|---|---|---|---|---|---|---|
| | Authorized | | Issued & outstanding | | Accumulated | Total |
| **Particulars** | **Shares** | **Value** | **Shares** | **Value** | **deficit** | **stockholder's equity** |
| **Balance as at April 01, 2019** | **4,500** | **4,500,000** | **4,500** | **4,500,000** | **(1,028,648)** | **3,471,352** |
| Net loss for the year | - | - | - | - | (1,180,404) | (1,180,404) |
| **Balance as at March 31, 2020** | **4,500** | **4,500,000** | **4,500** | **4,500,000** | **(2,209,052)** | **2,290,948** |
| | | | | | | |
| **Balance as at April 01, 2020** | **4,500** | **4,500,000** | **4,500** | **4,500,000** | **(2,209,052)** | **2,290,948** |
| Issue of common stock | 1,200 | 1,200,000 | 1,200 | 1,200,000 | - | 1,200,000 |
| Net loss for the year | - | - | - | - | (1,775,850) | (1,775,850) |
| **Balance as at March 31, 2021** | **5,700** | **5,700,000** | **5,700** | **5,700,000** | **(3,984,902)** | **1,715,098** |

*(The accompanying notes are an integral part of these consolidated financial statements)*

# Consolidated statements of cash flows

*(All amounts are in United States Dollars, unless otherwise stated)*

| | For the year ended March 31, 2021 | For the year ended March 31, 2020 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss | (1,775,850) | (1,180,404) |
| **Adjustments to reconcile net loss to net cash (used in) operating activities** | | |
| Depreciation and amortization | 65,005 | 81,890 |
| Deferred taxes expenses | 14,437 | 14,251 |
| Allowance for doubtful debts | 35,287 | 18,838 |
| Provision for slow moving and obsolete inventory | 98,093 | 75,078 |
| **Changes in assets and liabilities** | | |
| Accounts receivable | 47,101 | 676,005 |
| Inventories | 365,789 | (774,668) |
| Other current assets | (65,862) | (270,282) |
| Other assets | (15,000) | - |
| Accounts payable | (769,143) | 511,511 |
| Other current liabilities | (56,267) | 114,103 |
| **Net cash used in operating activities** | **(2,056,410)** | **(733,678)** |
| **Cash flows from investing activities** | | |
| Purchase of property, plant, and equipment | (612) | (46,592) |
| Purchase of software | - | (47,368) |
| Internally developed software in progress | (48,952) | (42,098) |
| **Net cash used in investing activities** | **(49,564)** | **(136,058)** |
| **Cash flow from financing activities** | | |
| Line of credit, net | (41,292) | 793,129 |
| Proceeds from long term borrowings, net | 288,862 | - |
| Issue of equity share capital | 1,200,000 | - |
| **Net cash provided by financing activities** | **1,447,570** | **793,129** |
| **Net decrease in cash and cash equivalents** | **(658,404)** | **(76,607)** |
| Cash and cash equivalents at the beginning of the year | 985,202 | 1,061,809 |
| **Cash and cash equivalents at end of the year** | **326,798** | **985,202** |
| **Supplemental cash flow information** | | |
| Income taxes paid | 61 | 57 |
| Interest paid | 99,723 | 71,037 |

*(The accompanying notes are an integral part of these consolidated financial statements)*

# Notes to Consolidated Financial Statements

*(All amounts in United State Dollars, unless otherwise stated)*

## NOTE A - NATURE OF OPERATIONS

1. *Organization and nature of operations*
   Sutlej Holdings Inc. was incorporated on September 28, 2017 in the state of Delaware and is a wholly owned subsidiary of Sutlej Textiles and Industries Limited ("the Parent Company"), a Company incorporated in India. Sutlej USA, LLC, a wholly owned subsidiary of Sutlej Holdings Inc. (collectively referred to as "the Company" or "the Group") was also incorporated on September 28, 2017 in the state of Delaware. Pursuant to a business combination, the name of Sutlej USA, LLC was changed to American Silk Mills, LLC. The Company is primarily engaged in the design, manufacture and worldwide distribution of textiles to wholesalers, manufacturers and retailers for the home furnishing industry.

## NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements are as follows

2. *Basis of preparation*
   i. The accompanying consolidated financial statements are prepared under historical cost convention on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America to reflect the consolidated financial position, results of its consolidated operations and its consolidated cash flows.

   ii. The consolidated financial statements have been presented for the years ended March 31, 2021 and March 31, 2020.

   iii. Certain reclassifications, regroupings and reworking have been made in the consolidated financial statements of prior periods to conform to the classifications used in the current year. These changes had no impact on previously reported net loss or stockholder's equity.

   iv. Principles of consolidation
   The accompanying consolidated financial statements include the accounts of Sutlej Holdings, Inc. and American Silk Mills, LLC (erstwhile known as "Sutlej USA, LLC"); its wholly owned subsidiary. All material inter-company transactions and balances between Sutlej Holdings, Inc. and American Silk Mills, LLC have been eliminated.

3. *Use of estimates*

   The preparation of the consolidated 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 statements. The management's estimates for, determination of useful lives for property, plant and equipment and impairment of goodwill and intangible assets, long-lived assets; revenue recognition, provision for doubtful accounts, the valuation of deferred tax assets, inventory reserves, income tax uncertainties and other contingencies at the balance sheet date represent certain of these particularly sensitive estimates. Management believes that the estimates used in the preparation of the consolidated financial statements are prudent and reasonable. Actual results could differ from these estimates. Appropriate changes in estimates are made as management becomes aware of changes in circumstances surrounding the estimates. Any revision to accounting estimates is recognized prospectively in the current and future periods.

4. *Cash and cash equivalents*

   The Company considers all investments with original maturities of ninety days or less to be cash and cash equivalents. Cash and cash equivalents comprise of balance with banks and petty cash balances.

5. *Allowance for doubtful accounts*

The Company follows specific identification method for recognizing bad debts. Management analyses accounts receivable and the composition of the accounts receivable aging, historical bad debts, current economic trends and customer credit worthiness when evaluating the adequacy of the provision for doubtful accounts.

6. *Inventories*

Inventories are stated at the lower of cost and market value using the first in first out method. Cost in the case of raw materials comprises the purchase price and attributable direct costs, less trade discounts. The Company periodically reviews its inventories to determine whether any inventories have declined in value and records a charge to operations for known and estimated inventory obsolescence. In evaluating whether inventory is stated at the lower of cost or market, management considers such factors as the amount of inventory on hand and in the distribution channel, the estimated time required to sell such inventory, and current and expected market conditions, including levels of competition. Adjustments to reduce inventories to their net realizable value are charged to cost of goods sold in the consolidated statement of loss.

7. *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. Depreciation is provided over the estimated useful life of the assets using the straight-line method. Expenditures for maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the cost of the asset and related depreciation are eliminated from the financial records. Any gain or loss on disposition is credited or charged to income. The estimated useful lives of assets are as follows:

| Class of asset | Useful life |
|---|---|
| Computer equipment | 6 years |
| Office equipment | 3 to 6 years |
| Machinery and equipment | 3 to 6 years |
| Furniture and fixtures | 3 to 6 years |
| Leasehold improvements | Over the term of the lease |

8. *Internally developed software costs*

The Company capitalizes costs related to development of internal use software. Costs incurred during the preliminary project work stage or conceptual stage are expensed as incurred. As per Accounting Standards Codification ("ASC") 350-40, costs incurred in the application development phase are capitalized as intangible assets and are amortized from the point at which the asset is available for use. Directly attributable costs that are capitalized as part of the software include software consultant's cost and an appropriate portion of relevant overheads.

During the year ended March 31, 2021, the Company has capitalized internally developed software in progress amounting to $48,952 (March 31, 2020 - $42,097) and transferred intangibles worth $101,357 (March 31, 2020 - Nil) to software upon completion. The asset under development and not available for use as at March 31, 2021 amounts to $2,214 (March 31, 2020 – $54,619).

Costs incurred during the post-implementation/operation stage, including training costs and maintenance costs, are expensed as incurred.

9. *Business combinations, goodwill and intangible assets*

The Company accounts for goodwill and intangible assets in accordance with Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 350, Intangibles – Goodwill and Other ("ASC 350"). ASC 350 requires that goodwill and other intangibles with indefinite lives should be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value.

Goodwill is tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value.

The Company has adopted the provisions of Accounting Standards Update ("ASU") 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). ASU 2017-04 eliminates the second step of the goodwill impairment test. For goodwill impairment tests, if the carrying value of a reporting unit exceeds its fair value, the Company will measure any goodwill impairment losses as the amount by which the carrying amount of a reporting unit exceeds its fair value, not to exceed the total amount of goodwill allocated to that reporting unit

The Company has recorded a goodwill of $750,000 pursuant to the acquisition of the business and assets of American Silk Mills, LLC based on the purchase price allocation ('PPA') undertaken to assess the fair value of assets and liabilities acquired in the acquisition.

The Company amortizes intangible assets over their estimated useful lives unless such lives are determined to be indefinite. Amortizable intangible assets are amortized over their estimated useful lives in proportion to the economic benefits consumed in each period. Intangible assets with indefinite lives are tested at least annually for impairment and written down to fair value as required.

The estimated useful lives of the amortizable intangible assets are as follows:

| Class of asset | Useful life |
|---|---|
| Software | 6 to 12 years |
| Internally developed software | 6 to 12 years |

10. *Impairment of long-lived assets*

Long-lived assets, including certain identifiable intangible assets, to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Such assets are considered to be impaired if the carrying amount of the assets is higher than the future undiscounted net cash flows expected to be generated from the assets. The impairment amount to be recognized is measured by the amount by which the carrying value of the assets exceeds its fair value.

11. *Revenue recognition*

Effective April 01, 2019, the Company has adopted Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606). Revenue is recognized upon transfer of control of products or services promised to customers in an amount that reflects the consideration the Company expects to receive in exchange for these products or services. Please refer to Note N, "Revenue from Contracts with Customers" for further information on the Company's revenue.

The core principle of Accounting Standard Codification ("ASC") 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognized when obligations under the terms of a contract with a customer are satisfied; generally, this occurs with the transfer of control of the Company's products or services. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in the contract. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied.

The Company's performance obligations are satisfied at a point in time. This includes sales of the Company's broad range of unique textiles for the residential, contract, hospitality and furniture markets in the United

States of America For a majority of these sales, the Company's performance obligation is satisfied upon delivery to the customer. Shipping and handling activities are considered to be fulfilment activities and are not considered to be a separate performance obligation.

12. *Income taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. 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 deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded for deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized. All deferred tax assets and liabilities, along with any related valuation allowance, is classified as non-current on the consolidated balance sheets.

The Company recognizes liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The Company recognizes interest and penalties related to uncertain tax positions in the consolidated statement of loss.

13. *Operating lease*

Lease payments under operating lease are recognized as an expense on a straight-line basis over the lease term in the consolidated statement of loss.

14. *Commitments and contingencies*

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. Contingent liabilities are not recognised but disclosed in notes to the consolidated financial statements. Contingent assets are neither recognised nor disclosed.

15. *Fair value measurements*

Assets and liabilities recorded at fair value in the consolidated financial statements are categorized based upon the level of judgement associated with the inputs used to measure their fair value. Hierarchical levels which are directly related to the amount of subjectivity associated with the inputs to the valuation of these assets or liabilities are as follows:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date.
Level 2 – inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.
Level 3 – unobservable inputs for the asset or liability only used when there is little, if any, market activity for the asset or liability at the measurement date.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, line of credit and accrued liabilities.

## NOTE C - CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the following:

| | | As at | |
|---|---|---|---|
| | | **March 31, 2021** | **March 31, 2020** |
| Balance with bank | | 326,765 | 984,836 |
| Cash in hand | | 33 | 366 |
| **Total** | $ | **326,798** | **985,202** |

Cash balances on deposits with bank are insured by the Federal Deposit Insurance Corporation up to an aggregate of $250,000.

## NOTE D - ACCOUNTS RECEIVABLE, NET

Accounts receivable, net comprise of the following:

| | | As at | |
|---|---|---|---|
| | | **March 31, 2021** | **March 31, 2020** |
| Receivable from customers | | 156,295 | 237,692 |
| Less: allowance for doubtful debts | | (2,810) | (1,819) |
| **Total** | $ | **153,485** | **235,873** |

The movement in the allowance for doubtful debts during the year is as under:

| | | For the year ended | |
|---|---|---|---|
| | | **March 31, 2021** | **March 31, 2020** |
| Beginning balance | | 1,819 | 6,814 |
| Add: during the year provision | | 35,287 | 18,838 |
| Less: during the year write off | | (34,296) | (23,833) |
| **Total** | $ | **2,810** | **1,819** |

The Company's accounts receivables serve as a collateral to the line of credit entered into by the Company with the financing company.

## NOTE E - INVENTORIES

Inventories, net comprise of the following:

| | | As at | |
|---|---|---|---|
| | | **March 31, 2021** | **March 31, 2020** |
| Raw materials | | 415,454 | 479,994 |
| Finished goods | | 1,291,893 | 1,646,973 |
| Finished goods-in-transit | | 151,193 | 123,007 |
| Less: provision for slow moving and obsolete inventory | | (147,526) | (75,078) |
| **Total** | $ | **1,711,014** | **2,174,896** |

The movement in the provision for slow moving and obsolete inventory during the year is as under:

| | | For the year ended | |
|---|---|---|---|
| | | **March 31, 2021** | **March 31, 2020** |
| Beginning balance | | 75,078 | 200,000 |
| Add: during the year provision | | 98,093 | 75,078 |
| Less: during the year write off | | (25,645) | (200,000) |
| **Total** | $ | **147,526** | **75,078** |

The Company's inventories serve as a collateral to the line of credit entered into by the Company with the financing company.

## NOTE F - OTHER CURRENT ASSETS

Other current assets comprise of the following:

| | | As at | |
|---|---|---|---|
| | | March 31, 2021 | March 31, 2020 |
| Advances to suppliers | | 9,211 | - |
| Accrued income | | - | 262 |
| Prepaid insurance | | 5,161 | 19,200 |
| Prepaid expenses | | 326,068 | 248,127 |
| Prepaid payroll | | 5,696 | - |
| Others | | 54,356 | 67,038 |
| **Total** | $ | **400,492** | **334,627** |

## NOTE G - PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net comprise of the following:

| | | As at | |
|---|---|---|---|
| | | March 31, 2021 | March 31, 2020 |
| Machinery and equipment | | 31,625 | 31,625 |
| Computer equipment | | 12,323 | 11,711 |
| Office equipment | | 41,285 | 41,285 |
| Furniture and fixtures | | 63,809 | 63,809 |
| Leasehold improvements | | 39,254 | 39,254 |
| Less: accumulated depreciation | | (157,575) | (108,188) |
| **Total** | $ | **30,721** | **79,496** |

Depreciation expense for the year ended March 31, 2021 and March 31, 2020 amounts to $49,387 and $66,986, respectively.

## NOTE H - GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets comprise of the following:

| | | As at | |
|---|---|---|---|
| | | March 31, 2021 | March 31, 2020 |
| Goodwill | | 750,000 | 750,000 |
| Software | | 247,971 | 146,614 |
| Less: accumulated amortization | | (30,522) | (14,904) |
| **Total** | | **967,449** | **881,710** |
| Internally developed software in progress | | 2,214 | 54,619 |
| **Total** | $ | **969,663** | **936,329** |

Amortization expense for the year ended March 31, 2021 and March 31, 2020 amounts to $15,618 and $14,904, respectively.

## NOTE I - OTHER ASSETS

Other assets comprise of the following:

| | | As at | |
|---|---|---|---|
| | | March 31, 2021 | March 31, 2020 |
| Security deposit | | 30,195 | 15,195 |
| **Total** | $ | **30,195** | **15,195** |

## NOTE J - ACCOUNTS PAYABLE

Accounts payable comprise of the following:

| | | As at | |
|---|---|---|---|
| | | **March 31, 2021** | **March 31, 2020** |
| Due to related party | | 71,044 | 69,420 |
| Other trade payables | | 611,187 | 1,381,954 |
| **Total** | **$** | **682,231** | **1,451,374** |

## NOTE K - LINE OF CREDIT

Line of credit comprise of the following:

| | | As at | |
|---|---|---|---|
| | | **March 31, 2021** | **March 31, 2020** |
| Rosenthal loan | | 751,837 | 793,129 |
| **Total** | **$** | **751,837** | **793,129** |

In April 2019, the Company entered into a factoring agreement (the "Facility") with a finance company. The Facility provides both factoring and revolving credit line of up to $ 2,700,000, subject to borrowing base availability and extends its maturity to October 31, 2021. The line of credit is pledged against Company's accounts receivable and inventory. The Facility bears interest upon the daily net balance of any monies remitted, paid or otherwise advanced to the Company which if:

(i) not in excess of the receivables availability, is charged at a rate per annum equal to receivable interest rate @ 6%.
(ii) in excess of receivables availability but not in excess of the receivables availability plus the inventory availability is charged at a rate per annum equal to the inventory interest rate @6.5%.

During the year ended March 31, 2021, factoring commission expenses of $31,730 and factoring interest expenses of $76,077 have been charged to consolidated statement of loss. In accordance with ASC 860-10, the factoring arrangement with recourse obligation has not met all the three conditions for sale of a receivable. As at March 31, 2021, the recourse obligation amounts to $33,059. (March 31, 2020: $57,882).

## NOTE L - LONG TERM BORROWINGS

Long term borrowings comprise of the following:

| | | As at | |
|---|---|---|---|
| | | **March 31, 2021** | **March 31, 2020** |
| Paycheck Protection Program loan | | 288,862 | - |
| **Total** | **$** | **288,862** | **-** |

In April 2020, the Company applied for and received a Paycheck Protection Program ("PPP") loan from the Small Business Administration ("SBA") through its M&T bank ("lender"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loan amount is $288,862 and carries an interest rate of 1%. The term of the loan is 24 months. The principal payments for the first six months are deferred. The loan is forgivable if certain conditions are met under SBA guidelines. The Company is in the process of applying for PPP loan forgiveness with lender.

## NOTE M - OTHER CURRENT LIABILITIES

Other current liabilities comprise of the following:

| | | As at | |
|---|---|---|---|
| | | March 31, 2021 | March 31, 2020 |
| Employee benefits | | 13,950 | 61,272 |
| Accrued expenses | | 85,134 | 47,343 |
| Advance from customers | | 35,668 | 82,397 |
| Provision for income taxes | | 257 | 261 |
| **Total** | $ | **135,009** | **191,273** |

## NOTE N - REVENUE FROM CUSTOMER CONTRACTS

The following table presents revenue disaggregated by product line:

| | For the year ended | |
|---|---|---|
| | March 31, 2021 | March 31, 2020 |
| Revenue from sale of goods | 3,277,092 | 5,353,844 |
| **Total** | **3,277,092** | **5,353,844** |

The following table presents revenue disaggregated by timing of recognition:

| | For the year ended | |
|---|---|---|
| | March 31, 2021 | March 31, 2020 |
| At a point in time | 3,277,092 | 5,353,844 |
| **Total** | **3,277,092** | **5,353,844** |

Revenue disaggregated by geography based on Company's locations:

| | For the year ended | |
|---|---|---|
| | March 31, 2021 | March 31, 2020 |
| United States | 3,058,890 | 4,877,484 |
| Canada | 70,437 | 174,731 |
| China | 90,380 | 113,955 |
| Australia | 493 | 11,559 |
| Others | 56,892 | 176,115 |
| **Total revenue from operations** | **3,277,092** | **5,353,844** |

*Contract balances*

The Company's contracts with customers with dealer agreements and purchase orders. These contracts with customers typically consist of sale of products which represent performance obligations that are satisfied upon transfer of control of the product to the customer at a point in time.

| | As at | |
|---|---|---|
| | March 31, 2021 | March 31, 2020 |
| Account receivables | 153,485 | 235,873 |
| | **153,485** | **235,873** |

## NOTE O - INCOME TAXES

The Company files federal and state tax returns as per the regulations applicable to Chapter C corporations in the United States of America. The components of the provision for income taxes are as follows:

| | | For the year ended | |
|---|---|---|---|
| | | March 31, 2021 | March 31, 2020 |
| Current tax expense | | 57 | 81 |
| Deferred tax expense | | 14,437 | 14,251 |
| **Total** | $ | **14,494** | **14,332** |

The items accounting for the difference between income taxes computed at the federal statutory rate and the provision for income taxes are as follows:

| | | For the year ended | |
|---|---|---|---|
| | | **March 31, 2021** | **March 31, 2020** |
| Income tax at federal rate | | (370,801) | (247,144) |
| State tax, net of federal effect | | (200) | (176) |
| Return to provision | | (142,204) | (117,550) |
| Permanent differences | | 1,680 | 4,498 |
| Changes in net operating losses | | 1,445 | 21,864 |
| Changes in valuation allowance | | 524,574 | 352,840 |
| | $ | **14,494** | **14,332** |

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities and a description of the items that create such differences is as follows:

| | | As at | |
|---|---|---|---|
| | | **March 31, 2021** | **March 31, 2020** |
| Deferred tax assets: | | | |
| Net operating losses | | 1,143,817 | 652,329 |
| Accrued vacation | | 4,028 | 5,126 |
| Inventory reserve | | 42,601 | 21,681 |
| Provision for doubtful debts | | 811 | 525 |
| **Total deferred tax asset** | | **1,191,257** | **679,661** |
| Deferred tax liabilities: | | | |
| Property, plant and equipment | | (3,386) | (17,707) |
| Goodwill | | (49,331) | (34,894) |
| Software | | (5,515) | (4,171) |
| **Total deferred tax liabilities** | | **(58,232)** | **(56,772)** |
| Net deferred taxes | | 1,133,025 | 622,889 |
| Less: valuation allowance | | (1,182,356) | (657,783) |
| Net deferred taxes | $ | **(49,331)** | **(34,894)** |

In assessing the realization of deferred tax assets, the likelihood of whether it is more likely than not that some portion or all of the deferred tax assets will not be realized must be considered. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which temporary difference become deductible.

Management considers earnings expectations, the existence of taxable temporary differences, tax planning strategies and the periods in which estimated losses can be utilized. Based on the history of previous year losses, management has concluded that it is more likely than not that the Company will not realize the deferred tax assets.

The Company has net operating loss carry forwards of $3,981,227 as of March 31, 2021 available to reduce future federal income taxes. If not used, the carry forwards of $66,932 will expire in 2038. Carry forwards of $3,914,295 will be allowed to carryforward indefinitely. The management does not expect to utilize entire amount of net operating losses and hence valuation allowance has been established for such losses. Valuation allowance as at March 31, 2021 and March 31, 2020 is $1,182,356 and $657,783, respectively.

Accounting for uncertain tax position
The Company recognizes the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination.

The tax years of 2017 through 2019 remains subject to examination by the taxing authorities.

## NOTE P - COMMITMENTS AND CONTINGENCIES

The Company, pursuant to acquisition of business from Legacy Weavers LLC, acquired lease agreements for the showrooms at High Point, North Carolina (“NC”) and Plains, Pennsylvania ("Plains"). The lease term expiry dates for North Carolina is July 30, 2021 and for Plains is December 31, 2020. The lease agreement for Plains was extended for further two years until December 31, 2022. For the year ended March 31, 2021, the lease deposit is $4,571 and $10,624 for NC and Plains locations, respectively. For the year ended March 31, 2021, the monthly lease rent is $4,571 and $7,170 for NC and Plains locations, respectively. Future lease rental commitments are as under:

| For the year ending | Amount |
|---|---|
| March 31, 2022 | 104,324 |
| March 31, 2023 | 64,530 |

## NOTE Q - STOCKHOLDER’S EQUITY

*Common stock*
The authorized share capital of the Company is $5,700,000, comprising of 5,700 shares of par value $1,000 each, of which 5,700 common stock are issued and outstanding.

During the year ended March 31, 2021, the Company issued 1,200 common shares with a par value of $1,000 each at $1,200,000.

*Voting*
Each holder of common stock is entitled to one vote in respect of each share held in the records of the Company for all matters submitted to a vote.

*Liquidation*
In the event of liquidation of the Company, the holders of common stock shall be entitled to receive all of the remaining assets of the Company, after distribution of all preferential amounts, if any. Such amounts will be in proportion to the number of equity shares held by the shareholders.

## NOTE R - RISK AND UNCERTAINTIES

The Company’s future results of operations involve several risks and uncertainties. Factors that could affect the Company’s future operating results and cause actual results to vary materially from expectations include, competitive factors, including but not limited to pricing pressures, deterioration in general economic conditions, the Company’s ability to effectively manage operating costs and increase operating efficiencies; declines in revenues; technological and market changes; the ability to attract and retain qualified employees and the company’s ability to execute on its business plan. The extent of the impact of the COVID-19 outbreak on operations of the Company will depend on future developments, including the duration and spread of the outbreak, related advisories and restrictions, government actions, the impact on financial markets and the overall economy, all of which are highly uncertain and cannot be predicted.

## NOTE S - RELATED PARTY TRANSACTIONS

Related parties with whom transactions have taken place during the year

Sutlej Textiles and Industries Limited – parent company

Summary of transactions with related parties are as follows:

| | March 31, 2021 | March 31, 2020 |
|---|---|---|
| **Sutlej Textiles and Industries Limited** | | |
| *Balances* | | |
| Payable | 71,044 | 69,420 |

| | | |
|---|---|---|
| *Transactions during the year* | | |
| Purchases | 185,001 | 107,134 |
| Consulting services | 21,600 | - |

## NOTE T - FINANCIAL INSTRUMENTS AND CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents and trade receivables. The cash resources of the Company are invested with banks after an evaluation of the credit risk. By their nature, all such cash equivalents and trade receivables involve risk including the credit risk of non-performance by counter parties. In management's opinion, as of March 31, 2021 and March 31, 2020, there was no significant risk of loss in the event of non-performance of the counter parties to these cash and cash equivalents and accounts receivable.

The Company's principal market is in North America. For the year ended March 31, 2021, the top five customers of the Company accounted for 44% of total revenue from operations of the Company whereas the top five product categories accounted for 96% of total sales. As at March 31, 2021, top five receivables of the Company accounted for 66% of total accounts receivable of the Company. For the year ended March 31, 2020, the top five customers of the Company accounted for 32% of total revenue from operations of the Company whereas the top five product categories accounted for 93% of total sales. As at March 31, 2020, top five receivables of the Company accounted for 49% of total accounts receivable of the Company.

As at March 31, 2021, top five payables of the Company accounted for 57% of total accounts payable of the Company. These suppliers accounted for approximately 79% of finished goods purchased by the Company during the year ended March 31, 2021. The goods they supply are widely available from many sources. As at March 31, 2020, top five payables of the Company accounted for 56% of total accounts payable of the Company. These suppliers accounted for approximately 79% of finished goods purchased by the Company during the year ended March 31, 2020.

## NOTE U - FAIR VALUE MEASUREMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The estimated fair value of cash, accounts receivable, accounts payable, line of credit and accrued liabilities approximate their carrying amounts due to the short-term nature of these instruments. None of these instruments are held for trading purposes.

## NOTE V - SUBSEQUENT EVENTS

In April 2021, the Company applied for and received a Paycheck Protection Program ('PPP') loan from the SBA through its M&T bank ("lender"). The loan amount is $230,500 and carries an interest rate of 1%. The term of the loan is 5 years. The principal payments for the first sixteen months are deferred. The loan is forgivable if certain conditions are met under SBA guidelines. The Company evaluated all other events and transactions that occurred after March 31, 2021 through May 05, 2021. Based on the evaluation, the Company is not aware of any events or transactions that would require recognition or disclosure in the consolidated financial statements.