

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY

**CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

MARCH 31, 2021

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2021

TABLE OF CONTENTS

	<u>PAGES</u>
Independent Auditor's Report on Consolidated Financial Statements	1 - 2
Consolidated balance sheet	3 - 4
Consolidated statement of operations	5
Consolidated statement of changes in stockholders' equity	6
Consolidated statement of cash flows	7
Notes to consolidated financial statements	8 - 19
Supplementary information	21 - 27

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders' of
ADF Holdings (USA) Ltd.

We have audited the accompanying consolidated financial statements of ADF Holdings (USA) Ltd. (a Corporation) and Subsidiary, which comprise the consolidated balance sheet as of March 31, 2021, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year 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 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 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 risks assessments, the auditor considers internal control relevant to the entity'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 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 consolidated financial statements.

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

(Cont.)

Partners

MAURIZIO AMERI
WILLIAM LAST
SONNY ANAND
JOSEPH M. CATALANO
LUIGI PERIN
PAOLO ZANOTTI
MINDY PIATOFF DAYNES

Principals

A. ADELCHI ROSSI
ANDREA OGGIONI
GIACOMO VALORI
MATTEO CAZZOLETTI
FILIPPO OLIVA

of Counsel

SHELDON SATLIN



ADF Holdings (USA) Ltd. and Subsidiary
Independent Auditor's Report (Cont.)
Page 2

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ADF Holdings (USA) Ltd. and Subsidiary as of March 31, 2020 and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 21 through 27, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Funaro & Co., P.C.

New York, N.Y.

May 19, 2021

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

MARCH 31, 2021

ASSETS

Current assets	
Cash and cash equivalents (Note 1)	\$ 2,588,378
Accounts receivable (Note 1)	1,402,043
Inventories (Notes 1 and 3)	5,812,869
Prepaid expenses and taxes	<u>34,488</u>
Total current assets	<u>9,837,778</u>
Property and equipment, at cost (Notes 1 and 2)	
Furniture and fixtures	4,235
Computer equipment	<u>6,765</u>
Total property and equipment	11,000
Less: accumulated depreciation and amortization	<u>(10,744)</u>
Total property and equipment, net	<u>256</u>
Other assets	
Security deposits	3,551
Deferred tax assets (Notes 1 and 7)	<u>589,938</u>
Total other assets	<u>593,489</u>
Total assets	<u>\$ 10,431,523</u>

See independent auditor's report and notes to consolidated financial statements.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

MARCH 31, 2021

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities	
Accounts payable	\$ 2,276,116
Customer deposit	110,648
Due to ADF Foods Ltd.	1,545
Accrued expenses and other payables	375,177
Other current liabilities	1,507
Due to employees	<u>271</u>
Total current liabilities	<u>2,765,264</u>
Total liabilities	<u>2,765,264</u>
Commitments and contingencies (Note 8)	
Stockholders' equity	
Preferred stock: Authorized 100,000 shares	
Issued and outstanding 26,197 shares	
\$0.001 par value	26
Common stock: Authorized 100,000 shares	
Issued and outstanding 12,000 shares	
\$0.001 par value	12
Additional paid-in capital (Note 11)	11,165,095
Treasury stock (11,152 shares) (Note 1)	(622,040)
Accumulated other comprehensive loss (Notes 1 and 12)	(98,989)
Accumulated deficit	<u>(2,777,845)</u>
Total stockholders' equity	<u>7,666,259</u>
Total liabilities and stockholders' equity	<u>\$ 10,431,523</u>

See independent auditor's report and notes to consolidated financial statements.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2021

Net sales (Note 1)	\$	17,448,400
Cost of goods sold		<u>13,262,330</u>
Gross profit		<u>4,186,070</u>
Operating expenses		<u>1,921,087</u>
Operating income		<u>2,264,983</u>
Other income (expense)		
Penalties		(1,457)
PPP forgiveness (Note 6)		18,100
Depreciation expense (Note 1)		(301)
Bad debt recovered		149,600
Interest income		95
Interest expense		<u>(220)</u>
Total other income, net		<u>165,817</u>
Income before income tax expense		2,430,800
Income tax expense (Note 9)		<u>(556,317)</u>
Net income		1,874,483
Accumulated deficit - beginning of year		(4,652,250)
Preference share dividend		<u>(78)</u>
Accumulated deficit - end of year	\$	<u>(2,777,845)</u>

See independent auditor's report and notes to consolidated financial statements.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEAR ENDED MARCH 31, 2021

	<u>Preferred stock</u>	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Treasury stock</u>	<u>Comprehensive income</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive loss</u>	<u>Total</u>
Balances as of April 1, 2020	\$ 21	\$ 12	\$10,665,100	\$ (622,040)	\$	\$ (4,652,250)	\$ (98,989)	\$ 5,291,854
Additional contribution	5		499,995					500,000
Dividend						(78)		(78)
Net income					<u>1,874,483</u>	<u>1,874,483</u>		<u>1,874,483</u>
Total income					<u>1,874,483</u>			<u>1,874,483</u>
Balances as of March 31, 2021	<u>\$ 26</u>	<u>\$ 12</u>	<u>\$11,165,095</u>	<u>(622,040)</u>		<u>\$ (2,777,845)</u>	<u>\$ (98,989)</u>	<u>\$ 7,666,259</u>

Preferred stock

Series A Preferred Stock 10,000 shares par value \$0.001 per share issued at \$622.50 per share on December 10, 2015.

Series A Preferred Stock redemption and cancellation of 803 shares at issue price on May 25, 2017.

Series B Preferred Stock 1,000 shares par value \$0.001 per share issued at \$415.00 per share on March 31, 2017.

Series C Preferred Stock 1,000 shares par value \$0.001 per share issued at \$100.00 per share on March 31, 2019.

Series D Preferred Stock 10,000 shares par value \$0.001 per share issued at \$115.00 per share on November 11, 2019.

Series E Preferred Stock 5,000 shares par value \$0.001 per share issued at \$100.00 per share on July 9, 2020.

See independent auditor's report and notes to consolidated financial statements.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2021

Cash flows from operating activities:	
Net income	\$ <u>1,874,483</u>
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	301
Deferred taxes	484,770
Changes in operating assets and liabilities	
Accounts receivable	(190,548)
Inventories	(2,236,743)
Other receivables and taxes	71,543
Accounts payable, accrued expenses and taxes	<u>1,325,502</u>
Total adjustments	<u>(545,175)</u>
Net cash provided by operating activities	<u>1,329,308</u>
Cash flows from investing activities:	
Security deposits	<u>(1,160)</u>
Net cash used in investing activities	<u>(1,160)</u>
Cash flows from financing activities:	
Preference dividend	(78)
Loan repayment	<u>(8,455)</u>
Net cash used in financing activities	<u>(8,533)</u>
Net increase in cash and cash equivalents	1,319,615
Cash and cash equivalents - beginning	<u>1,268,763</u>
Cash and cash equivalents - ending	<u><u>\$ 2,588,378</u></u>
<u>Supplemental disclosures of cash flow information:</u>	
Cash paid during the period for: Interest	\$ 220
Income taxes	\$ 60,600
<u>Non-cash financing activity:</u>	
Conversion of debt to preferred stock and additional paid in capital	\$ 500,000

See independent auditor's report and notes to consolidated financial statements.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 1 **SUMMARY OF ACCOUNTING POLICIES**

Company overview

ADF Holdings (USA) Ltd. (the “Company”) was incorporated on September 29, 2010 under the laws of the State of Delaware. The Company is a wholly owned subsidiary of ADF Foods (UK) Ltd. (the "Parent"), a company incorporated in United Kingdom which is ultimately owned by ADF Foods Ltd., a company incorporated in India. The Company has no other material operations apart from managing its subsidiary. The Company owned eighty nine percent (89%) of ADF Foods (USA) Ltd. (the "Subsidiary"), a Delaware Corporation and the remaining eleven percent (11%) that was previously owned by Peter Sartorio (5%) and The Mark Cooley and Joan D' Ambrosio Revocable Trust (6%) was bought back by the Subsidiary in 2014, to be kept back as treasury stock. Subsequent to the purchase of the shares held by the minority shareholders as treasury stock, the Company effectively now owns 100% of the Subsidiary.

On November 3, 2010, the Company purchased the inventory, plant, equipment and certain rights from Elena’s Food Specialties Inc., a California Corporation pursuant to an Asset Purchase Agreement (the “Purchase Agreement”). The Company’s corporate headquarters are located in South San Francisco, California where the Subsidiary operates a USDA organic certified facility engaged in the production, marketing and sales of premium natural and organic food products of various food categories with well-known brands including PJ’s, Nates, Elena’s, and Nonna’s sold to retail, private label and food service customers located in the United States and Canada.

In 2015, the Subsidiary shut down its own manufacturing facility in California and sold, leased, transferred and abandoned its fixed assets, raw materials and packaging materials.

In 2015, the Subsidiary entered into a manufacturing and co-packaging agreement with another packaged food manufacturing facility in Cleveland, Ohio for a term of two years.

In 2016, the Subsidiary is engaged in marketing and sales of its premium natural and organic food products of various food categories mentioned above to retail, private label and food service customers located in United States and Canada.

In 2018, the Subsidiary entered into a manufacturing and co-packaging agreement with another packaged food manufacturing facility in Vernon, California for a term of two years.

In 2019, the Company signed an exclusive master distributorship agreement with Unilever, Canada and thereby was appointed as their sole distributor for a portfolio of products to be distributed on the East coast of USA.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 1 **SUMMARY OF ACCOUNTING POLICIES (CONT.)**

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary. All significant inter-company investments, advances, transactions and profits have been eliminated.

Use of estimates in preparing financial statements

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements as well as revenue and expenses during the reporting period. The most significant assumptions and estimates relate to the determination of allowances for returns, credits and doubtful accounts, inventory valuations, depreciation of property and income taxes. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Concentration of risk

The Company maintains its cash in bank deposit accounts, which at times may exceed the federally insured limits of \$250,000 at each banking institution. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts receivable

Accounts receivable represent amounts due from customers for the goods sold by the Company. The provision for doubtful accounts is determined using historical information and current evaluations of accounts. Accounts receivable amounted to \$1,402,043 as at March 31, 2021.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 1 **SUMMARY OF ACCOUNTING POLICIES (CONT.)**

Inventories

The inventories consist of finished goods that are valued at the lower of cost (first-in, first-out) or market.

Property and equipment

Property and equipment are stated at cost. Depreciation expense is calculated principally using the straight line method for books and double declining balance method for tax. The depreciation methods are designed to amortize the cost of the assets over their estimated useful lives. The estimated useful lives for computing depreciation are generally as follows:

Machinery and equipment	5 years
Furniture and fixtures	5 years
Automobiles	5 years
Leasehold improvements	lesser of the lease term or life of the asset

Maintenance and repairs are charged to expense as incurred. Gains or losses arising from retirements or sales of assets are included in income currently. Depreciation begins when assets are placed in service. The depreciation expense amounted to \$301 for the year ended March 31, 2021.

Impairment of long-lived assets

In accordance with Codification 360-10 and 360-20, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company monitors the carrying value of long-lived assets for potential impairment based on whether certain trigger events have occurred. These events include current period losses combined with a history of losses or projection of continuing losses or a significant decrease in the market value of an asset. When a trigger event occurs, an impairment calculation is performed, comparing projected discounted future cash flows to the carrying value of an asset. If impairment is identified for long-lived assets to be held and used, discounted future cash flows are compared to the asset's current carrying value. Impairment is recorded when the carrying value exceeds the discounted cash flows.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2021

NOTE 1 **SUMMARY OF ACCOUNTING POLICIES (CONT.)**

Income taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company records net deferred tax assets to the extent it believes these assets will more-likely-than-not will be realized. In making such determination, the Company considers all available positive and negative evidences, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. In the event the Company were to determine that it would be able to realize its deferred income tax assets in the future in excess of its net recorded amount, the Company would make an adjustment to the valuation allowance which would reduce the provision for income taxes.

In July 2006, the Financial Accounting Standards Board (“FASB”) issued Financial Interpretation (“FIN”) 48, “Accounting for Uncertainty in Income Taxes,” which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with Statement of Financial Accounting Standards (“SFAS”) 109, “Accounting for Income Taxes.” (FASB Accounting Standards Codification™ (ASC or Codification) 740, Income Taxes). FIN 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more-likely-than-not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods.

This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 effective September 29, 2010, its inception.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 1 **SUMMARY OF ACCOUNTING POLICIES (CONT.)**

Income taxes (cont.)

The Company's management believes that its income tax filing positions and deductions would be sustained on audit and does not anticipate any adjustments that would result in a material change to the Company's financial position. Therefore, no reserves for uncertain income tax positions were recorded.

It is the Company's policy to include any interest and penalties related to unrecognized tax benefits in its interest expense and general and administrative expenses, respectively. However, the Company currently has no interest or penalties related to unrecognized tax benefits.

Revenue recognition

Sales are generally recognized when merchandise is shipped to customers.

Concentration of credit risk

For the year ended March 31, 2021, seven customers accounted for approximately 70% of sales and they accounted for approximately 68% of the accounts receivable.

Advertising

Advertising and business promotion costs, not having future benefit, are charged to operations when incurred. Advertising and business promotion costs amounted to \$433,770 for the year ended March 31, 2021.

Economic dependency

The Company purchases substantially all of its finished goods from two suppliers. As at March 31, 2021, amounts due to these suppliers are 97% of total accounts payable.

Comprehensive income

The Company has adopted SFAS No.130, "Reporting Comprehensive Income". SFAS No. 130 requires the reporting of comprehensive income in addition to net income from operations. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 1 **SUMMARY OF ACCOUNTING POLICIES (CONT.)**

Recent accounting pronouncements

Lease

In February 2016, the FASB issued guidance on the lease recognition requirements. The core principal of the guidance is that an entity should recognize assets and liabilities arising from a lease for both financing and operating leases, along with additional qualitative and quantitative disclosures. The standard will be effective for fiscal years beginning after December 15, 2021 and early adoption is permitted. The guidance is to be applied using a modified retrospective transition method with the option to elect a package of practical expedients. The Company is currently evaluating the impact of the adoption of this standard on its financial statements.

NOTE 2 **ASSET PURCHASE AGREEMENT**

On November 1, 2010, pursuant to the Purchase Agreement, the Company purchased certain assets, rights, and assumed certain liabilities from Elena’s Food Specialties Inc., a California Corporation for a total cash purchase price of \$900,000. The fair market values assigned to the purchase of the assets and assumption of liabilities are as follows:

Plant, equipment and machinery	\$	642,785
Inventories		369,584
Computer equipment		9,383
Leasehold improvements		25,007
Deferred interest		19,481
Capital lease obligation assumed		<u>(166,240)</u>
Total	\$	<u><u>900,000</u></u>

NOTE 3 **INVENTORIES**

Inventories as at March 31, 2021 are summarized as follows:

Finished goods, including in-transit		\$ <u>5,812,869</u>
Total		\$ <u><u>5,812,869</u></u>

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 4 **TRADEMARKS**

In December 2010, the Company purchased certain trademarks including “PJ’s”, “Nate’s” and “Elena’s Food Specialties” and any related service marks utilizing those names from ADF Foods (Mauritius) Ltd., an affiliate, for a total purchase price of \$4,000,000.

The Company's management conducted an impairment test for its trademarks and recorded any impairment charge amounting to \$1,750,000 related to its trademarks for the year ended March 31, 2017 (Refer Note 1). Management had further determined an impairment to its trademarks amounting to \$790,000 for the year ended March 31, 2018; \$1,410,000 for the year ended March 31, 2019 and \$50,000 for the year ended March 31, 2020. The book value of the Trademarks are fully written off.

NOTE 5 **PENSION PLAN**

From January 1, 2019, the Company established an Employee Retirement 401(k) plan for its employees. Employee contributions are voluntary and are subject to maximum amounts established by the Internal Revenue Code. The Company contributes 3% of the employees’ total salary based upon a predetermined formula. The Company’s contribution to the plan included in the operating expenses amounted to \$8,017.

NOTE 6 **SMALL BUSINESS ADMINISTRATION LOANS**

On May 28, 2020, the Company borrowed \$18,100 from its bank under the Payroll Protection Program (PPP) of the Cares Act (Act) as a precautionary measure resulting from the uncertainty of the financial impact resulting from the COVID-19 virus, and to afford the Company the ability to pay allowable costs. The Company used the proceeds from the PPP loan to fund qualifying costs including payroll, rent and utilities. The PPP loan was eligible for potential forgiveness with amounts not forgiven to bear interest at 1% and to be due over a repayment term ranging from twenty-four months to sixty months. Management expressed the view that it used the proceeds for eligible purposes and on January 12, 2021 the loan was forgiven. The proceeds have been reported as other income for the year ended March 31, 2021.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 7 **DEFERRED INCOME TAXES**

Deferred income tax assets result from temporary differences in the recognition of certain revenue and expense items for tax and financial reporting purposes. Following is a summary of significant components of deferred tax assets (liabilities) as at March 31, 2021:

Current	
263A Inventory	\$ 24,504
Paid time off accrual	6,300
Net operating loss	297,346
Depreciation expense	455
Trademarks	(578,667)
Impairment of trademarks	<u>840,000</u>
Total deferred tax assets	<u>\$ 589,938</u>

The Company has unused federal net operating loss carryforwards that expire as follows:

<u>Year of loss</u>	<u>Available NOL</u>	<u>Expiring in year</u>
2016	1,351,815	2036
2017	<u>64,105</u>	2037
	<u>\$ 1,415,920</u>	

Realization is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards.

The management of the Company believes that it is more-likely-than-not that all of the deferred tax assets will be realized. As at March 31, 2021, the Company has provided a valuation allowance of \$0. The Company is subject to taxation in the United States of America ("U.S.") and seven U.S. States. As at March 31, 2021, the Company's tax years for 2017, 2018 and 2019 are subject to examination by the authorities.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 8 **COMMITMENTS AND CONTINGENCIES**

Leases

The Company leases premises for its office space under a two year operating lease from September 1, 2020 and ending on August 30, 2022. Minimum future rental payments, which are subject to customary escalation clauses and have remaining terms in excess of one year as at March 31, 2021 are as follows:

April 1, 2021, to March 31, 2022	12,612
April 1, 2022, to August 30, 2022	<u>5,255</u>
Total	<u>\$17,867</u>

Royalty agreement

On December 20, 2010, a royalty agreement was executed between the Company (the “Licensor”) and the Subsidiary (the “Licensee”) with an effective date of January 1, 2011 (the “Effective Date”). According to the terms of the royalty agreement, the Licensor licensed certain Trademarks (PJ’S ORGANICS, Nates and Elena’s Kitchen) to the Licensee for the exclusive use for the production and marketing of its products in the international and domestic markets. The Licensee agreed to pay the Licensor a royalty fee of 5% of the net sales (gross sales less returns and allowances) for the usage of said Trademarks. The royalty shall be payable on a quarterly basis before the 15th day of succeeding calendar month. The initial royalty agreement expired on December 31, 2013. A new agreement dated January 1, 2014 was executed for a further period of 36 months ending December 31, 2016 and that it may be extended for a further period of one year as may be mutually decided by the parties to the agreement. Effective January 1, 2018 the agreement was renewed for another 36 months ending on December 31, 2020.

Since branded sales have significantly declined and trademarks are fully impaired and written off the books, management has decided to discontinue payment of royalty fees effective April 1, 2020. Subsequent to December 31, 2020, the royalty agreement has not been renewed.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2021

NOTE 8 **COMMITMENTS AND CONTINGENCIES (Cont.)**

Litigation

In 2019, the Subsidiary, was served a subpoena from the Superior Court of New Jersey, Middlesex County, regarding a civil litigation between Chetak Foods (Plaintiff) Vs. ADF Foods (USA) Ltd., Apurva Patel and Savita Dubey (Joint defendants). The civil litigation had been filed by Chetak alleging that Apurva shared their confidential business information with ADF Group due to which Chetak's business opportunities were diversified to ADF Group. Initially, the complaint was filed against Apurva and his wife. Later on, the same was amended by Chetak to include ADF Foods (USA) Ltd. as a joint defendant. On December 02, 2019, ADF's legal counsel had filed a motion for dismissal of the case in the Superior Court of New Jersey. The Plaintiff's counsel had approached the Subsidiary for out of an out of court settlement. In July 2020, the Subsidiary paid \$15,000 towards settlement and mutual release agreement of this claim. The amount paid by the Subsidiary was fully reimbursed to the Subsidiary by its ultimate Parent company in India, ADF Foods Ltd. against whom this litigation was intended.

NOTE 9 **CORPORATE TAXES**

The Company's corporate tax consists of the following:

State tax	\$ 71,547
Deferred taxes	<u>484,770</u>
Income tax expense	<u>\$ 556,317</u>

New tax legislation

In December 2017, the US Tax Cuts and Jobs Act was signed into law. Effective January 1, 2018, among other provisions the federal corporate tax rate has been replaced with a flat 21% rate and the alternative minimum tax has been eliminated. Additionally, the Act allows federal net operating losses ("NOLs") incurred after December 31, 2017 to be carried forward indefinitely, while eliminating the two year carryback rule. The Act generally limits the NOL deduction for post 2017 NOLs to 80% of taxable income, determined without regard to the NOL deduction.

The CARES Act, signed into law in March 2020, temporarily removes the current NOL limitations and allows an NOL to fully offset taxable income. The legislation reintroduces the NOL carry-back mechanism allowing an NOL from tax years beginning in 2018, 2019, or 2020 to be carried back for five years and NOLs arising in a tax year beginning in 2017 and ending in 2018 (a fiscal year) to be carried back two years.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 10 **LOAN PAYABLE - RELATED PARTY**

As at March 31, 2021, the Subsidiary owes net \$5,822,253 to the Holding company. The outstanding amount includes:

Working capital loan (3% interest bearing)	\$ 2,670,300
Royalty payable	1,764,573
Management fee payable	820,000
Interest on unpaid loan payable	1,354,067
Interest on unpaid royalty payable	189,161
Interest on unpaid management fee	<u>55,989</u>
 Total payable	 6,854,090
Tax benefit receivable	<u>(1,031,837)</u>
 Total - net	 <u><u>\$ 5,822,253</u></u>

NOTE 11 **DUE TO / FROM PARENT COMPANY**

In December 2015, the Company converted Parent loan into Preferred stock issuing 10,000 Preferred stock (Series A) for a total amount of \$6,225,000.

In March 2017, the Company converted Parent loan into Preferred stock issuing 1,000 Preferred stock (Series B) for a total amount of \$415,000.

On May 25, 2017 the Company redeemed and cancelled 803 shares of Series A Preferred stock at its issue price.

On March 31, 2019, the Company converted Parent loan into Preferred stock issuing 1,000 Preferred stock (Series C) for a total amount of \$100,000.

On November 11, 2019, the Company converted Parent loan into Preferred stock issuing 10,000 Preferred stock (Series D) for a total amount of \$1,150,000.

On July 9, 2020, the Company converted Parent loan into Preferred stock issuing 5,000 Preferred stock (Series E) for a total amount of \$500,000.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 12 **COMPREHENSIVE LOSS**

Comprehensive loss resulting from initial equity investment was computed as follows:

	Total	Stockholders' equity	Non-controlling interest
Initial investment in the Subsidiary	\$ 900,011	\$ 900,000	\$ 11
Initial equity adjustment	_____	(98,989)	98,989
Total adjusted equity	<u>\$ 900,011</u>	<u>\$ 801,011</u>	<u>\$ 99,000</u>
Equity percentages (%)	<u>100</u>	<u>89</u>	<u>11</u>

NOTE 13 **RELATED PARTY TRANSACTIONS**

For the year ended March 31, 2021, the Company paid sales commission to the group President and CEO amounting to \$380,000. Commission payable amounting to \$54,200 is included in accrued expenses.

For the year ended March 31, 2021, ADF Foods Ltd., India recharged the group President and CEO travel costs amounting to \$15,367 of which \$1,545 is still payable.

NOTE 14 **SUBSEQUENT EVENTS**

Management has evaluated subsequent events through May 19, 2021, the date on which the consolidated financial statements were available to be issued. No events other than below were identified that required adjustment or disclosure in the consolidated financial statements.

The Company signed an exclusive warehouse lease in New Jersey comprising of 66,000 sq ft space on April 30, 2021 for a period of 10.2 years (122 months). Lease commencement date is May 1, 2021 which is set to expire on June 30, 2031. The landlord provided rent free period of 4.5 months with an effective rent commencement date of September, 16, 2021. The Company paid an initial rent security deposit amounting to \$104,500 on May 5, 2021 which is equal to 2 months of beginning current base rent.

In early March 2020, the COVID-19 virus was declared a global pandemic, and it unfortunately continues to spread rapidly. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, have been severely impacted for months or more, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty.

S U P P L E M E N T A L I N F O R M A T I O N
(See Independent Auditor's Report)

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF COST OF GOODS SOLD
FOR THE YEAR ENDED MARCH 31, 2021

Inventories - beginning	\$ 3,576,126
Purchases	14,911,798
Clearing and forwarding	43,992
Incoming costs	<u>543,283</u>
Goods available for sale	19,075,199
Less: inventories - ending	<u>(5,812,869)</u>
Cost of goods sold	<u><u>\$ 13,262,330</u></u>

See independent auditor's report.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED MARCH 31, 2021

Salaries	\$	335,136
Advertisement and business promotion		433,770
Sales and distribution expenses		304,797
Consulting fee		74,843
Sales commission		401,589
Payroll taxes and expenses		51,810
Office expenses		14,248
Insurance		94,905
Rent		20,198
Taxes and license fee		6,439
Telephone and telex		10,500
Legal and professional		20,718
Postage and delivery		2,647
Bank charges		6,500
Dues and subscription		17,974
Accounting fee		91,500
Directors fee		3,500
Travel		18,862
R&D costs		<u>11,151</u>
Total operating expenses	\$	<u><u>1,921,087</u></u>

See independent auditor's report.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY

CONSOLIDATING BALANCE SHEETS

MARCH 31, 2021

	<u>ASSETS</u>		ADF	ADF Foods
	<u>Consolidated</u>	<u>Eliminations</u>	<u>Holdings (USA) Ltd.</u>	<u>(USA) Ltd.</u>
Current assets				
Cash and cash equivalents	\$ 2,588,378	\$	\$ 1,261,079	\$ 1,327,299
Accounts receivable	1,402,043		706,047	695,996
Inter-company receivables		(1,031,837)		1,031,837
Inventories	5,812,869		4,815,344	997,525
Prepaid expenses and taxes	<u>34,488</u>	<u> </u>	<u>10,815</u>	<u>23,673</u>
Total current assets	<u>9,837,778</u>	<u>(1,031,837)</u>	<u>6,793,285</u>	<u>4,076,330</u>
Investment in subsidiary	<u> </u>	<u>(900,000)</u>	<u>900,000</u>	<u> </u>
Property and equipment, at cost				
Furniture and fixtures	4,235			4,235
Computer equipment	<u>6,765</u>	<u> </u>	<u> </u>	<u>6,765</u>
Total property and equipment	11,000			11,000
Less: accumulated depreciation and amortization	<u>(10,744)</u>	<u> </u>	<u> </u>	<u>(10,744)</u>
Total property and equipment, net	<u>256</u>	<u> </u>	<u> </u>	<u>256</u>
Other assets				
Security deposits	3,551		2,500	1,051
Due from ADF Foods (USA) Ltd.		(5,254,874)	5,254,874	
Deferred tax assets	589,938		589,938	
Interest receivable ADF Foods (USA) Ltd.	<u> </u>	<u>(1,599,216)</u>	<u>1,599,216</u>	<u> </u>
Total other assets	<u>593,489</u>	<u>(6,854,090)</u>	<u>7,446,528</u>	<u>1,051</u>
Total assets	<u>\$ 10,431,523</u>	<u>\$ (8,785,927)</u>	<u>\$15,139,813</u>	<u>\$ 4,077,637</u>

See independent auditor's report.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY

CONSOLIDATING BALANCE SHEETS

MARCH 31, 2021

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)

	<u>Consolidated</u>	<u>Eliminations</u>	<u>ADF Holdings (USA) Ltd.</u>	<u>ADF Foods (USA) Ltd.</u>
Current liabilities				
Accounts payable	\$ 2,276,116	\$	\$ 1,960,642	\$ 315,474
Customer deposit	110,648		110,648	
Due to ADF Foods Ltd.	1,545		1,545	
Accrued expenses and other payables	375,177		169,190	205,987
Due to ADF Foods (USA) Ltd.		(1,031,837)	1,031,837	
Other current liabilities	1,507			1,507
Due to employees	<u>271</u>			<u>271</u>
Total current liabilities	<u>2,765,264</u>	<u>(1,031,837)</u>	<u>3,273,862</u>	<u>523,239</u>
Long-term liabilities				
Inter-company payables		<u>(6,854,090)</u>		<u>6,854,090</u>
Total long-term liabilities		<u>(6,854,090)</u>		<u>6,854,090</u>
Total liabilities	<u>2,765,264</u>	<u>(7,885,927)</u>	<u>3,273,862</u>	<u>7,377,329</u>
Commitments and contingencies				
Stockholders' equity (deficiency)				
Preferred stock: Authorized 100,000 shares				
Issued and outstanding 26,197 shares \$0.001 par value	26		26	
Common stock: Authorized 100,000 shares				
Issued and outstanding 12,000 shares \$0.001 par value	12	(100)	12	100
Additional paid-in capital	11,165,095	(899,900)	11,165,095	899,900
Treasury stock (11,152 shares)	(622,040)			(622,040)
Accumulated other comprehensive loss	(98,989)			(98,989)
Accumulated deficit	<u>(2,777,845)</u>		<u>700,818</u>	<u>(3,478,663)</u>
Total stockholders' equity (deficiency)	<u>7,666,259</u>	<u>(900,000)</u>	<u>11,865,951</u>	<u>(3,299,692)</u>
Total liabilities and stockholders' equity (deficiency)	<u>\$10,431,523</u>	<u>\$ (8,785,927)</u>	<u>\$15,139,813</u>	<u>\$ 4,077,637</u>

See independent auditor's report.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
CONSOLIDATING STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2021

	<u>Consolidated</u>	<u>Eliminations</u>	ADF Holdings (USA) Ltd.	ADF Foods (USA) Ltd.
Net sales	\$17,448,400	\$	\$ 9,855,474	\$ 7,592,926
Cost of goods sold	<u>13,262,330</u>	<u> </u>	<u>8,150,604</u>	<u>5,111,726</u>
Gross profit	<u>4,186,070</u>	<u> </u>	<u>1,704,870</u>	<u>2,481,200</u>
Operating expenses	<u>1,921,087</u>	<u> </u>	<u>570,434</u>	<u>1,350,653</u>
Operating income	<u>2,264,983</u>	<u> </u>	<u>1,134,436</u>	<u>1,130,547</u>
Other income (expense)				
Penalties	(1,457)		(1,457)	
PPP forgiveness	18,100			18,100
Depreciation expense	(301)			(301)
Bad debt recovered	149,600			149,600
Interest income	95	(88,179)	88,274	
Interest expense	<u>(220)</u>	<u>88,179</u>	<u>(220)</u>	<u>(88,179)</u>
Total other income, net	<u>165,817</u>	<u> </u>	<u>86,597</u>	<u>79,220</u>
Income before income tax	2,430,800		1,221,033	1,209,767
Income tax expense	<u>(556,317)</u>	<u> </u>	<u>(296,244)</u>	<u>(260,073)</u>
Net income	1,874,483		924,789	949,694
Accumulated deficit - beginning	(4,652,250)		(223,893)	(4,428,357)
Preference share dividend	<u>(78)</u>	<u> </u>	<u>(78)</u>	<u> </u>
Accumulated deficit - ending	<u>\$ (2,777,845)</u>	<u>\$</u>	<u>\$ 700,818</u>	<u>\$ (3,478,663)</u>

See independent auditor's report.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
CONSOLIDATING SCHEDULE OF COST OF GOODS SOLD
FOR THE YEAR ENDED MARCH 31, 2021

	<u>Consolidated</u>	<u>Eliminations</u>	ADF Holdings (USA) Ltd.	ADF Foods (USA) Ltd.
Inventories - beginning	\$ 3,576,126	\$	\$ 2,897,810	\$ 678,316
Purchases	14,911,798		9,715,076	5,196,722
Clearing and forwarding	43,992		43,992	
Incoming and warehousing costs	<u>543,283</u>	<u> </u>	<u>309,070</u>	<u>234,213</u>
Goods available for sale	19,075,199		12,965,948	6,109,251
Less: inventories - ending	<u>(5,812,869)</u>	<u> </u>	<u>(4,815,344)</u>	<u>(997,525)</u>
Cost of goods sold	<u>\$13,262,330</u>	<u>\$ </u>	<u>\$ 8,150,604</u>	<u>\$ 5,111,726</u>

See independent auditor's report.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
CONSOLIDATING SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED MARCH 31, 2021

	<u>Consolidated</u>	<u>Eliminations</u>	ADF Holdings (USA) Ltd.	ADF Foods (USA) Ltd.
Salaries	\$ 335,136	\$	\$ 74,168	\$ 260,968
Advertisement and business promotion	433,770			433,770
Sales and distribution expenses	304,797			304,797
Consulting fee	74,843			74,843
Sales commission	401,589		380,000	21,589
Payroll taxes and expenses	51,810		8,919	42,891
Office expenses	14,248		(1,361)	15,609
Insurance expense	94,905		14,268	80,637
Rent	20,198			20,198
Taxes and license fee	6,439		1,915	4,524
Telephone and telex	10,500			10,500
Legal and professional	20,718		20,718	
Postage and delivery	2,647		1,931	716
Bank charges	6,500		4,259	2,241
Dues and subscription	17,974			17,974
Accounting fee	91,500		48,500	43,000
Directors fee	3,500		1,750	1,750
Travel	18,862		15,367	3,495
R&D costs	<u>11,151</u>			<u>11,151</u>
Total operating expenses	<u>\$ 1,921,087</u>	<u>\$</u>	<u>\$ 570,434</u>	<u>\$ 1,350,653</u>

See independent auditor's report.