

Independent Auditors' Report

To the Board of Directors and Shareholder
SarlaFlex, Inc.
Walterboro, South Carolina

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **SarlaFlex, Inc. and Subsidiaries** which comprise the consolidated balance sheets as of March 31, 2017 and 2016, and the related consolidated statements of operations, shareholders' deficit, 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 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 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 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management as well as evaluating the overall presentation of the consolidated financial statements.

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

- 1 -

Members

SC Association of Certified Public Accountants
NC Association of Certified Public Accountants

Members

Division for CPA Firms, AICPA

An independently owned member
RSM US Alliance



100 S. Main Street, Suite J
PO Box 1588 (29484)
Summerville, SC 29483
843-873-4400 Fax 843-873-7227
www.websterrogers.com

RSM US Alliance provides its members with access to resources of RSM US LLP. RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International. Visit rsmus.com/aboutus for more information regarding RSM US LLP and RSM International. The RSM™ logo is used under license by RSM US LLP. RSM US Alliance products and services are proprietary to RSM US LLP.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SarlaFlex, Inc. and Subsidiaries as of March 31, 2017 and 2016, 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.

Change in Accounting Principle – Debt Issuance Costs

As described in Note 13 to the financial statements, the Company implemented ASU 2015-3, *Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs* with these financial statements, as required by generally accepted accounting principles. Our opinion is not modified with respect to that matter.



Summerville, South Carolina
August 1, 2017

SARLAFLEX, INC. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS
MARCH 31, 2017 AND 2016**

ASSETS	<u>2017</u>	<u>2016</u> (as restated)
Current Assets		
Cash and cash equivalents	\$ 199,889	\$ 1,167,904
Accounts receivable, net	1,283,083	1,148,902
Inventories	2,147,016	3,141,434
Prepaid expenses	45,752	165,150
Other current assets	<u>1,282</u>	<u>1,282</u>
Total current assets	<u>3,677,022</u>	<u>5,624,672</u>
Property and equipment, net	<u>9,093,378</u>	<u>10,006,207</u>
Other Assets		
Restricted cash	233,440	301,531
Deposit	60	60
Due from related party	50,000	50,000
Note receivable	9,123,924	9,123,924
Deferred tax assets	<u>790,000</u>	<u>1,297,000</u>
Total other assets	<u>10,197,424</u>	<u>10,772,515</u>
TOTAL ASSETS	<u>\$ 22,967,824</u>	<u>\$ 26,403,394</u>

(Continued)

SARLAFLEX, INC. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS
MARCH 31, 2017 AND 2016**

(Continued)

	2017	2016 (as restated)
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable and accrued expenses	\$ 972,879	\$ 1,167,007
Line of credit	2,000,000	2,000,000
Current portion of long-term debt	1,778,002	1,594,110
Total current liabilities	4,750,881	4,761,117
Long-Term Liabilities		
Due to related party	14,239,207	11,824,587
Long-term debt, less current maturities and net of unamortized debt issue costs	12,994,166	14,554,552
Other long-term liabilities	92,027	136,609
Total long-term liabilities	27,325,400	26,515,748
Total liabilities	32,076,281	31,276,865
Shareholders' Deficit		
Common stock - \$.0001 par value; 1,000,000 shares authorized, issued, and outstanding	100	100
Additional paid-in capital	988,900	988,900
Accumulated earnings (deficit)	(10,112,213)	(5,872,701)
Shareholder's deficit controlling	(9,123,213)	(4,883,701)
Shareholder's equity noncontrolling	14,756	10,230
Total shareholders' deficit	(9,108,457)	(4,873,471)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	\$ 22,967,824	\$ 26,403,394

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

SARLAFLEX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED MARCH 31, 2017 AND 2016

	2017	2016 (as restated)
Sales	\$ 5,031,494	\$ 8,311,054
Cost of goods sold	7,835,341	8,685,341
Gross deficit	(2,803,847)	(374,287)
Selling, general and administrative expenses	780,322	1,063,966
Loss from operations	(3,584,169)	(1,438,253)
Other income (expense)		
Other income	88,573	60,560
Interest expense	(323,629)	(330,568)
Interest income	91,239	91,240
Total other income (expense)	(143,817)	(178,768)
Net loss before income tax benefit	(3,727,986)	(1,617,021)
Income tax benefit (provision)	(507,000)	299,000
Net loss	\$ (4,234,986)	\$ (1,318,021)

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.