



Independent Auditors' Report

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

Report on 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, 2018, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the year then ended, and the related notes to 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.

Turner, Stone & Company, L.L.P.
Accountants and Consultants

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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, 2018, 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.

Emphasis-of- Matter – Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has temporarily suspended operations, has suffered operating losses since inception and has insufficient working capital to sustain operations. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Other Matter – Prior Period Audited Financial Statements

The consolidated financial statements for the year ended March 31, 2017 were audited by other auditors who expressed an unmodified opinion on those consolidated financial statements in their report dated August 1, 2017, which also included an emphasis-of-matter paragraph related to a change in accounting principle.

Tusam, Stone & Company, LLP

Dallas, Texas
May 16, 2018

SARLAFLEX, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2018 AND 2017

Assets

	<u>2018</u>	<u>2017</u>
Current assets:		
Cash	\$ 225,571	\$ 199,889
Accounts receivable, trade, net of allowance for uncollectible amounts of \$0 and \$162,102, respectively	300,602	1,283,083
Inventories	1,678,483	2,147,016
Prepaid expenses and other assets	21,952	47,094
Total current assets	2,226,608	3,677,082
Property and equipment, at cost:		
Land	95,000	95,000
Buildings	2,836,167	2,836,167
Machinery and equipment	9,861,713	9,861,713
Furniture and equipment	78,599	78,599
Transportation equipment	31,927	31,927
	12,903,406	12,903,406
Less accumulated depreciation	(4,891,708)	(3,810,028)
Net property and equipment	8,011,698	9,093,378
Other assets:		
Restricted cash	182,372	233,440
Due from related party	50,000	50,000
Note receivable	9,123,924	9,123,924
Deferred tax assets	474,000	790,000
Total other assets	9,830,296	10,197,364
	\$ 20,068,602	\$ 22,967,824

The accompanying notes are an integral part of these financial statements.

SARLAFLEX, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2018 AND 2017

Liabilities and Stockholders' Deficit

	<u>2018</u>	<u>2017</u>
Current liabilities:		
Accounts payable and accrued expenses	\$ 426,372	\$ 972,879
Accounts payable, related parties	172,519	191,291
Line of credit	2,000,000	2,000,000
Current portion of notes payable	687,918	1,778,002
Total current liabilities	3,286,809	4,942,172
Due to related parties	16,702,916	14,047,916
Notes payable, net of current portion and deferred financing costs	12,342,180	12,994,166
Other long-term liabilities	-	92,027
Total long-term liabilities	29,045,096	27,134,109
Total liabilities	32,331,905	32,076,281
Commitments and contingencies (Note 10)		
Stockholders' deficit:		
Common stock, \$0.0001 par value, 1,000,000 shares authorized, issued and outstanding	100	100
Additional paid-in capital	988,900	988,900
Accumulated deficit	(13,271,556)	(10,112,213)
Stockholders' deficit controlling	(12,282,556)	(9,123,213)
Stockholders' equity noncontrolling	19,253	14,756
Total stockholders' deficit	(12,263,303)	(9,108,457)
Total liabilities and stockholders' deficit	\$ 20,068,602	\$ 22,967,824

The accompanying notes are an integral part of these financial statements.

SARLAFLEX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED MARCH 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Sales, net	\$ 1,812,418	\$ 5,031,494
Cost of goods sold	<u>4,082,314</u>	<u>7,835,341</u>
Gross deficit	(2,269,896)	(2,803,847)
Operating expenses:		
Selling, general and administrative expenses	<u>646,234</u>	<u>780,322</u>
Loss from operations	<u>(2,916,130)</u>	<u>(3,584,169)</u>
Other income (expense):		
Other income	303,151	88,573
Interest expense	(317,106)	(323,629)
Interest income	<u>91,239</u>	<u>91,239</u>
Total other income (expense):	<u>77,284</u>	<u>(143,817)</u>
Loss before federal and state income taxes	(2,838,846)	(3,727,986)
Provision for federal and state income taxes	<u>(316,000)</u>	<u>(507,000)</u>
Net loss	<u>\$ (3,154,846)</u>	<u>\$ (4,234,986)</u>

The accompanying notes are an integral part of these financial statements.