



SMR Automotive Systems USA, Inc.

Financial Statements March 31, 2020 and 2019

SMR Automotive Systems USA, Inc. is a wholly owned subsidiary of SMR Automotive Systems, Inc. (SMR) and is a public company. The financial statements are prepared in accordance with the accounting principles generally accepted in the United States of America.

The financial statements are prepared on a consolidated basis and include the accounts of SMR Automotive Systems USA, Inc. and its wholly owned subsidiaries.

The financial statements are prepared on a going concern basis. Management believes that the company has sufficient resources to meet its obligations for the next twelve months.

The financial statements are prepared on a historical cost basis. The carrying amount of the assets and liabilities is used as the basis for determining the fair value of the assets and liabilities.

The financial statements are prepared on a cash basis. The carrying amount of the cash and cash equivalents is used as the basis for determining the fair value of the cash and cash equivalents.

The financial statements are prepared on a cost of sales basis. The carrying amount of the cost of sales is used as the basis for determining the fair value of the cost of sales.

The financial statements are prepared on a depreciation and amortization basis. The carrying amount of the depreciation and amortization is used as the basis for determining the fair value of the depreciation and amortization.

The financial statements are prepared on a provision for doubtful accounts basis. The carrying amount of the provision for doubtful accounts is used as the basis for determining the fair value of the provision for doubtful accounts.

The financial statements are prepared on a provision for inventory obsolescence basis. The carrying amount of the provision for inventory obsolescence is used as the basis for determining the fair value of the provision for inventory obsolescence.

The financial statements are prepared on a provision for warranty basis. The carrying amount of the provision for warranty is used as the basis for determining the fair value of the provision for warranty.

The financial statements are prepared on a provision for income taxes basis. The carrying amount of the provision for income taxes is used as the basis for determining the fair value of the provision for income taxes.

The financial statements are prepared on a provision for other liabilities basis. The carrying amount of the provision for other liabilities is used as the basis for determining the fair value of the provision for other liabilities.



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Date: July 24, 2020

Dear Sirs,

Re: Financial Statements as at and for the year ended March 31, 2020

This letter of representations is provided in connection with the financial statements of SMR Automotive Systems USA Inc ("SMR USA")/("the Company") as of March 31, 2020 and for the year then ended, we recognize this letter is a significant procedure enabling users to form an opinion that the reporting package present fairly, in all material respects, the financial position and results of.

The reporting package gives a true and fair view in all material respects, the financial position of SMR Automotive Systems USA Inc. ("SMR USA") as of March 31, 2020 and of its financial performance including other comprehensive income, cash flows and changes in equity of the Company for the year then ended.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves

A. REPORTING PACKAGE AND FINANCIAL RECORDS

1. We acknowledge, as members of management of the Company, our responsibility for the preparation of the reporting package that give a true and fair view of the financial position, financial performance including other comprehensive income, cash flows and changes in equity of the Company and are free of material misstatements, including omissions. We have prepared the reporting package and the same have been approved.
2. As members of management of the Company, we believe that the Company has a system of internal controls adequate to enable the preparation and presentation of accurate and complete reporting package free from material misstatement, whether due to fraud or error.
3. There are no unadjusted audit differences identified during the current period and pertaining to the latest period presented.

B. STATEMENTS OF PROFIT & LOSS, BALANCE SHEET AND CASH FLOWS:

1. All materials transactions have been adequately disclosed and full provision has been made in the reporting package for all claims and losses of material amount which have resulted or may be expected to result from events which occurred or from commitments which were entered into on or before the date of balance sheet, including losses resulting from forward purchase and/or sale contracts.

C. GENERAL:

1. The Company has complied with all aspects of contractual agreements that could have a material effect on the reporting package in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the reporting package in the event of non-compliance.
2. The Company has not entered into any non-cash transactions with directors or persons connected with them.
3. At the year end, the Company had no unusual commitments or contractual obligations of any sort which were not in the ordinary course of business and which might have an adverse effect upon the company (e.g., contracts or purchase agreements above market price; repurchase or other agreements not in the ordinary course of business; material commitments for the purchase of property, plant and equipment; significant foreign exchange commitments; open balances on letters of credit; purchase commitments for inventory quantities

in excess of normal requirements or at prices in excess of the prevailing market prices; losses from fulfillment of, or inability to fulfill, sales commitments, etc.)

4. The reporting package are free of material misstatements, including omissions.

D. ESTIMATES

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the Company's accounting policies.

E. TAXES

1. Deferred income tax assets and liabilities are recorded for the estimated future tax consequences attributable to the differences between the financial carrying amounts of existing assets and liabilities and their respective tax basis. Deferred income tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be realized. A valuation allowance is recorded for deferred tax assets when the Company is unable to conclude that realization of the deferred tax assets is more likely than not.

The benefit of an uncertain tax position is recognized in the financial statements if it meets a minimum recognition threshold. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more-likely-than-not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. Interest and penalties are recorded in income taxes in the accompanying statements of income, if any.

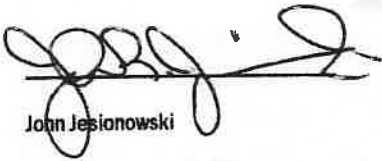
F. SUBSEQUENT EVENTS:

1. There have been no events or transactions which have occurred since the date of Balance Sheet or are pending that would have a material effect on the reporting package and requires adjustment to the accounting estimates and disclosures included in the reporting package at that date or for the period then ended, other than those reflected or fully disclosed in the reporting package.
2. Regarding impairment of Long Lived Assets, COVID-19 and Going Concern: SMR's has been affected by COVID-19 related closures and daily production sales essentially reduced to near zero. The financial impact of the ongoing shutdown on the Company's subsidiaries was a key activity in late March & April to ascertain the impact to the Company. The major working capital impacts were supported by SMR subsidiary securing of the PPP loan critical to maintaining the business during the OEM production stoppage. As of the writing of these financials, all our OEM customers are at various stages of normalizing their production. With the latest inputs to forecast management has evaluated the 12 months going forward and anticipates no impact to itself as a going concern, our inventory valuations or other financial assets.
3. Regarding potential impairment, the Company assesses the impairment of its long-lived assets whenever economic events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Long-lived assets are considered to be impaired when the sum of the expected future operating cash flows, undiscounted and without interest charges, is less than the carrying amounts of the related assets. If estimated undiscounted cash flows are not sufficient to recover the carrying value of the assets, an impairment charge is recorded for the amount by which the carrying value of the assets exceeds the fair value. No long-lived assets were determined to be impaired at March 31, 2020 and 2019."

G. GOING CONCERN:

- 1. We confirm that we are not aware of any matters that are relevant to the Company's ability to continue as a going concern, including significant conditions and events.**

Truly Yours,



John Jesionowski

Finance and IT Director

Date: July 24, 2020

SMR Automotive Systems USA, Inc.
Index
March 31, 2020 and 2019

	Page(s)
Financial Statements	
Balance Sheets.....	2
Income Statements.....	3
Statements of Changes in Stockholder's Equity.....	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6-16

SMR Automotive Systems USA, Inc.
Balance Sheets
March 31, 2020 and 2019



<i>(in thousands)</i>	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 7,997	\$ 6,252
Accounts receivable, net	20,281	32,523
Inventories	10,819	9,405
Tooling Inventory	12,680	3,023
Refundable income taxes	559	6
Prepaid expenses	400	815
Total current assets	52,736	52,024
Property, plant and equipment, net	64,994	68,008
Other assets	410	233
Total assets	\$ 118,140	\$ 120,265
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	64,274	47,740
Accrued liabilities	4,170	4,459
Deferred grant credit	-	-
Total current liabilities	68,444	52,199
Deferred income taxes	790	6,113
Total liabilities	69,234	58,312
Stockholder's equity		
Common stock	75	75
Additional paid in capital	52,976	66,023
Accumulated deficit	(4,145)	(4,145)
Total stockholder's equity	48,906	61,953
Total liabilities and stockholder's equity	\$ 118,140	\$ 120,265

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

SMR Automotive Systems USA, Inc.
Income Statements
March 31, 2020 and 2019



<i>(in thousands)</i>	Year Ended 2020	Year Ended 2019
Net sales	\$ 426,260	\$ 455,765
Cost of sales	<u>335,805</u>	<u>356,321</u>
Gross profit	<u>90,455</u>	<u>99,444</u>
Selling expenses	1,528	1,673
Engineering expenses	7,680	6,754
Administrative expenses	17,303	14,332
Distribution expenses	<u>2,643</u>	<u>2,805</u>
	<u>29,154</u>	<u>25,564</u>
Operating income	61,301	73,880
Interest expense, net	1,338	1,561
Other income, net	<u>(5,088)</u>	<u>(4,486)</u>
Income before taxes	65,051	76,805
Income tax expense	<u>12,806</u>	<u>16,057</u>
Net income	<u>\$ 52,245</u>	<u>\$ 60,748</u>

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

SMR Automotive Systems USA, Inc.
Statements of Changes in Stockholder's Equity
March 31, 2020 and 2019



<i>(in thousands)</i>	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total Stockholder's Equity
Balances at March 31, 2016	\$ 75	\$ 79,825	\$ (11,641)	\$ 68,259
Net income			45,562	45,562
Cash dividends		(9,844)	(45,562)	(55,406)
Balances at March 31, 2017	\$ 75	\$ 69,981	\$ (11,641)	\$ 58,415
Net income			54,803	54,803
Cash dividends			(47,307)	(47,307)
Balances at March 31, 2018	\$ 75	\$ 69,981	\$ (4,145)	\$ 65,911
Net income			60,748	60,748
Cash dividends		(3,958)	(60,748)	(64,706)
Balances at March 31, 2019	\$ 75	\$ 66,023	\$ (4,145)	\$ 61,953
Net income			52,245	52,245
Cash dividends		(13,047)	(52,245)	(65,292)
Balances at March 31, 2020	\$ 75	\$ 52,976	\$ (4,145)	\$ 48,906

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

SMR Automotive Systems USA, Inc.
Statements of Cash Flows
Years Ended March 31, 2020 and 2019



<i>(in thousands)</i>	2020	2019
Cash flows from operating activities		
Net income	\$ 52,245	\$ 60,748
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	10,707	11,142
Loss on disposal of fixed assets	22	3
Deferred income taxes	(5,323)	7,891
Provision for doubtful accounts	70	(41)
Inventory reserves	814	479
Changes in operating assets and liabilities		
Accounts receivable	11,783	(14,914)
Inventories	(11,885)	83
Refundable income taxes	(961)	9,993
Prepaid expenses	311	1,709
Other assets	212	257
Accounts payable	17,091	(10,746)
Accrued liabilities	(334)	1,224
Deferred grant credit	-	(158)
Net cash provided by operating activities	<u>74,752</u>	<u>67,670</u>
Cash flows from investing activities		
Capital expenditures	(7,715)	(5,235)
Issuance of notes receivable	-	-
Proceeds from notes receivable	-	-
Proceeds from sales of PP&E	-	-
Net cash used in investing activities	<u>(7,715)</u>	<u>(5,235)</u>
Cash flows from financing activities		
Payment of dividends	(65,292)	(64,706)
Net cash used in financing activities	<u>(65,292)</u>	<u>(64,706)</u>
Net increase/(decrease) in cash	1,745	(2,271)
Cash and cash equivalents		
Beginning of year	6,252	8,523
End of year	<u>\$ 7,997</u>	<u>\$ 6,252</u>

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

SMR Automotive Systems USA, Inc.
Notes to the Financial Statement
Year Ended March 31 2020

1. Nature of Operations

SMR Automotive Systems USA Inc. (the "Company") is a global supplier of rearview automotive mirrors for the North American automotive industry.

The Company has manufacturing facilities in Marysville and Port Huron Michigan, USA.

2. Significant Accounting Policies

The following is a summary of significant accounting policies followed in the preparation of the accompanying financial statements:

Basis of Presentation

The accompanying financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America.

Fiscal Year

The Company's fiscal year is from April 1 to March 31.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as revenues and expenses. While actual results could differ from those estimates, management believes that the estimates are reasonable.

Concentration of Credit Risk

The Company places its cash and cash equivalents with high credit quality financial institutions and limits the amount of credit exposure to any one financial institution. Cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. The Company's cash balances with financial institutions typically exceed FDIC insured limits. The Company has not experienced any losses on such deposits in the past.

During the years ended March 31, 2020 and 2019, the Company had certain customers whose revenue individually represented 10% or more of the Company's total revenue. For the years ended March 31, 2020 and 2019, the company had sales to four customers that amounted to approximately 83% and 81%, respectively, of total net revenue.

As of March 31, 2020 and 2019, accounts receivable from these four customers amounted to approximately 77% and 73%, respectively, of total trade accounts receivable.

Revenue Recognition

Revenue from the sale of goods is recognized only when, pursuant to the sales agreement, the delivery of goods has occurred, and the risk of loss has transferred to the customer, the sales price is fixed and determinable and the collectability of revenue is reasonably assured.

SMR Automotive Systems USA, Inc.
Notes to the Financial Statements
March 31, 2020 and 2019



Tooling Revenue Recognition

Revenue from program specific development and tooling and the related contribution is recognized upon completion and acceptance by the customer. This acceptance is through the Purchase Part Approval Process (PPAP). Any estimated cost in excess of recovery from the customer is expensed as incurred.

Shipping and Handling Costs

Shipping and handling costs are included in cost of goods sold in the accompanying income statement.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less, when purchased, to be cash equivalents.

Trade Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded for sales transactions and are stated at net realizable value ("NRV"). The NRV includes any accrued customer pricing adjustments. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the existing accounts receivable. The allowance for doubtful accounts is reviewed regularly on an individual basis for collectability. Account balances are charged off against the allowance when it is probable that the receivable will not be recovered.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the average cost method. Cost includes materials, labor and manufacturing overhead costs.

Tooling Inventory

Tooling inventory consists of accumulated direct costs incurred by the Company related to production tools and is held for sale to customers. Tooling inventory is valued at the lower of cost or the recoverable amount on a specific project basis.

Property, Plant and Equipment

Property, plant and equipment are recorded at the historical acquisition cost. Depreciation is calculated using the straight line method over the estimated useful lives of the assets. The useful lives range from 3–15 years for machinery and equipment, 3-39 years for buildings and improvements, 3-10 years for furniture and fixtures, 3-7 years for returnable packaging, 3-10 years for tools and 3-20 years for land improvements.

Costs related to repairs and maintenance are expensed when incurred. Expenditures which materially increase values or extend useful lives of long-lived assets are capitalized. Upon the disposal of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the statement of income.

Impairment of Long Lived Assets

The Company assesses the impairment of its long-lived assets whenever economic events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Long-lived assets are considered to be impaired when the sum of the expected future operating cash flows, undiscounted and without interest charges, is less than the carrying amounts of the related assets. If estimated undiscounted cash flows are not sufficient to recover the carrying value of the assets, an impairment charge is recorded for the amount by which the carrying value of the

SMR Automotive Systems USA, Inc.
Notes to the Financial Statements
March 31, 2020 and 2019



assets exceeds the fair value. No long-lived assets were determined to be impaired at March 31, 2020 and 2019.

Income Taxes

Deferred tax liabilities are recognized for temporary differences between financial reporting and tax basis accounting which will result in taxable amounts in future years. Deferred tax assets are recognized for temporary differences which will result in deductible amounts in future years and for tax loss and credit carryforwards. Deferred tax assets and liabilities are measured using currently stated statutory tax rates in effect for the tax year in which the differences are expected to be recorded or settled. The effect on deferred tax assets and liabilities of changes in tax rate is recognized in the income statement in the period in which the change is enacted. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that is more likely than not to be realized.

Research and Development Costs

Expenditures for research activities related to development of new and existing products and processes are charged to expense when incurred. The Company incurred research and development cost of approximately \$12,062 and \$8,323 for the years ended March 31, 2020 and 2019, respectively. These costs are shown in the engineering expenses and cost of sales on the income statement.

3. Accounts Receivable

Accounts receivable at March 31, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Trade receivables, net	\$ 2,351	\$ 15,285
Amounts owed by related parties	17,882	16,801
Short term portion of unamortized tooling receivable	48	437
Total accounts receivable, net	\$ 20,281	\$ 32,523

The company provides an allowance for doubtful accounts that is based upon a review of outstanding receivables, historical collection information and existing economic conditions. The allowance for doubtful accounts were approximately \$566 and \$637 at March 31, 2020 and 2019, respectively.

The Company has entered into a factoring agreement with a foreign financial institution to sell certain accounts receivable under a nonrecourse agreement. The transactions are accounted for as a reduction in accounts receivable as the agreements transferred effective control over and risk related to the receivables to the buyers. The Company utilizes this factoring arrangement as an integral part of its financing. The cost of factoring such accounts receivable is reflected in the statement of income as interest expense. The cost for factoring such accounts receivable was approximately \$1,340 and \$1,595 for the years ended March 31, 2020 and 2019, respectively. The gross amount factored under this facility at March 31, 2020 and 2019 was approximately \$47,067 and \$48,695, respectively.

SMR Automotive Systems USA, Inc.
Notes to the Financial Statements
March 31, 2020 and 2019



4. Inventories

Inventories at March 31, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Raw materials	\$ 8,169	\$ 7,628
Work in process	1,805	1,587
Finished goods	2,488	2,647
Total gross inventory	<u>12,462</u>	<u>11,862</u>
Inventory reserves	<u>(1,643)</u>	<u>(2,457)</u>
Total net inventory	<u>\$ 10,819</u>	<u>\$ 9,405</u>

5. Tooling Inventories

Inventories at March 31, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Tooling inventory – inventory cost	\$ 12,178	\$ 4,804
Tooling inventory – customer progress billings	<u>502</u>	<u>(1,781)</u>
Total net tooling inventory	<u>\$ 12,680</u>	<u>\$ 3,023</u>

6. Other Assets

Other assets at March 31, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Company owned life insurance	<u>410</u>	<u>233</u>
Total other assets	<u>\$ 410</u>	<u>\$ 233</u>

7. Property, Plant and Equipment

Property, plant and equipment at March 31, 2020 and 2019 consisted of the following (in thousands):

SMR Automotive Systems USA, Inc.
Notes to the Financial Statements
March 31, 2020 and 2019



	2020	2019
Machinery and equipment	\$ 89,096	\$ 87,842
Buildings and improvements	40,189	40,248
Furniture and fixtures	9,938	8,854
Returnable packaging	7,044	6,884
Tools	1,715	1,513
Land and improvements	1,482	1,482
Construction in progress	5,838	1,802
Total property, plant and equipment	155,302	148,625
Less: Accumulated depreciation	(90,308)	(80,617)
Property, plant and equipment, net	\$ 64,994	\$ 68,008

Depreciation expense for the years ended March 31, 2020 and 2019 was approximately \$10,707 and \$11,142, respectively. This is primarily recorded in cost of sales on the income statement but is also partially recorded in the other expenses. The difference between depreciation expense and the movement in accumulated depreciation is from fixed asset disposals with no book value.

All of the assets of SMR Automotive Systems USA Inc. are pledged on behalf of SMRPBV, Netherlands, Company's immediate Parent company.

8. Accounts Payable

Accounts payable at March 31, 2020 and 2019 consisted of the following:

	2020	2019
Trade payables	\$ 45,122	\$ 41,437
Amounts owed to related parties	19,152	6,303
Total accounts payable	\$ 64,274	\$ 47,740

9. COVID-19 & CARES Act

Operations

The novel coronavirus known as COVID-19 has deeply impacted financial activities, with this impact also being felt in the automotive industry. Although the situation surrounding COVID-19 is improving, we expect it will take more time until this pandemic ends, along with the full recovery of the economy.

SMR has, and continues to follow, guidelines set by both US federal and state government & agency guidelines aimed to contain the effects of the COVID-19 pandemic, carrying out initiatives such as work-at-home programs and business shutdowns as well as numerous internal safety enhancements designed to maintain a safe workplace.

SMR Automotive Systems USA, Inc.
Notes to the Financial Statements
March 31, 2020 and 2019



Liquidity, Capital Resources & Government Assistance

With the ominous impact of COVID-19 looming in late March, On Friday, March 27th Congress & the President of the United States established the PPP to provide relief to small businesses during the coronavirus pandemic as part of the \$2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, P.L. 116-136. The legislation authorized Treasury to use the SBA's 7(a) small business lending program to fund loans of up to \$10 million per borrower that qualifying businesses could spend to cover payroll, mortgage interest, rent, and utilities.

In the wake of COVID-19-induced shutdown of the plant commencing March 23rd, 2020, SMR quickly analyzed its requirements and, after consultation with corporate parents, pursued and received government assistance in the form of a Paycheck Protection Program (PPP) loan in the amount of \$10.0M. This loan was applied for subsequent to the yearend (Tuesday, April 7th) and funded shortly after (Monday, April 13th).

Going Concern

All of SMR's customers were affected by COVID-19 related closures and daily production sales essentially reduced to near zero. The financial impact of the ongoing shutdown and evaluating the return of production were key activities in late March & April to ascertain the impact to the Company. Government mandated closure guidance in the State of Michigan, coupled with each OEM customer's return to production plans were incorporated in this forecasting activity. The major impact was to working capital, however SMR securing of the PPP loan was critical to maintaining the business during the time OEM production was stopped. As of the writing of these financials, all our OEM customers are at various stages of normalizing their production. With the latest inputs to forecast management has evaluated the 12 months going forward and anticipates no impact to itself as a going concern, our inventory valuations or other financial assets.

Accrued Liabilities

Accrued liabilities at March 31, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Warranty provision	\$ 1,489	\$ 1,272
Accrued payroll	565	1,191
Medical IBNR	651	549
Audit and tax expenses	275	343
Other	1,190	1,104
Total accrued liabilities	\$ 4,170	\$ 4,459

10. Deferred Grant Credit

The company received a grant from the State of Michigan related to allowing businesses economic assistance for creating a certain number of jobs by a specific date. Based on the grant agreement, the Company will receive specified dollar amounts when employment milestones are achieved. The grant agreements possessed clawback provisions should the Company not maintain certain fulfillment obligations, however these are fully completed as of March 31, 2019. Thus,

SMR Automotive Systems USA, Inc.
Notes to the Financial Statements
March 31, 2020 and 2019



management recognizes the revenue on the amounts received ratably over the period specified in the grant agreement.

New jobs creation grant at March 31, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Beginning Balance	\$ -	\$ 158
Grant proceeds received from State of Michigan	-	-
Amount recognized as other income in current year	-	(158)
Total deferred grant credit	\$ -	\$ -

In addition, the Company is eligible to receive a grant from the State of Michigan related to allowing business economic assistance for creating a certain number of jobs by a specific date. Based on the grant agreement, the Company is entitled to receive \$2,000, when employment milestones are achieved. As of March 31, 2018, the Company recorded \$1,900 as other income and a receivable as the amount was not paid.

11. Employee Benefit Plans

The Company sponsors a 401(k) savings plan. All full time employees are eligible to participate in this plan. The 401(k) plan permits participants to make contributions to the plan on a pre-tax salary reduction basis as defined in the plan. The Company also matches participant contributions up to a specified limit. Employees are eligible to participate in the plan after 90 days of employment. The Company match vests at 20% per year until the vesting is 100% after five years. Company matching contributions were approximately \$1,618 and \$1,338 for the years ended March 31, 2020 and 2019, respectively.

12. Income Taxes

Deferred income tax assets and liabilities are recorded for the estimated future tax consequences attributable to the differences between the financial carrying amounts of existing assets and liabilities and their respective tax basis. Deferred income tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be realized. A valuation allowance is recorded for deferred tax assets when the Company is unable to conclude that realization of the deferred tax assets is more likely than not. The benefit of an uncertain tax position is recognized in the financial statements if it meets a minimum recognition threshold. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more-likely-than-not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. Interest and penalties are recorded in income taxes in the accompanying statements of income, if any.

Income tax expense at March 31, 2020 and 2019 was categorized as the following (in thousands):

SMR Automotive Systems USA, Inc.
Notes to the Financial Statements
March 31, 2020 and 2019



	2020	2019
Federal	\$ 14,418	\$ 14,988
State and local	3,679	3,359
Deferred	(5,291)	(2,290)
Total income tax expense	\$ 12,806	\$ 16,057

The difference between the effective tax rate used in the income statement and the expected tax rate is as follows for the years ended March 31, 2020 and 2019, respectively (in thousands):

	2020	2019
Income tax at statutory federal income tax rate	\$ 15,146	\$ 15,441
Research and development credits utilized	(5,588)	(1,188)
State taxes net of federal benefits	3,317	2,575
Change in tax rate applied to deferreds	-	(892)
Other	(69)	121
Income tax expense	\$ 12,806	\$ 16,057

As of March 31, 2020 the company in assessing the realizability of deferred tax assets, considered whether it is more likely than not some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. The Company is a member of a group of entities that files consolidated tax returns for which realizability of deferred tax assets must be considered. As a result of the Company's evaluation of all available evidence, including evidence of profitability and expiration dates of certain loss carryforwards, the Company recorded a full valuation allowance against federal net deferred income tax assets of \$2,393,564 at March 31, 2020.

In response to the COVID-19 pandemic many governments have enacted or are contemplating measures to provide aid and economic stimulus. On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief, and Economic Security (CARES) Act." The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferral of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property.

On a consolidated basis, the Company intends to file NOL carryback pursuant to the CARES act, which will result in the reversal of previously claimed research and development tax credit of \$8,203,749 subject to realizability of consolidated basis. No other material impacts on the financial statements.

The Company calculates a credit for research and development costs incurred and is subject to examination by the IRS for three years following the date the tax return is filed.

SMR Automotive Systems USA, Inc.
Notes to the Financial Statements
March 31, 2020 and 2019



The Company is a member of a group of entities that files consolidated tax returns. For financial reporting purposes, the Company accounts for income taxes on benefits for loss method.

The Company has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The periods subject to examination under the statute of limitations are the March 31, 2017 through current tax year for the Company's federal tax returns and the March 31, 2016 through current tax year for the Company's state tax returns.

The tax effect of temporary differences, which gives rise to deferred tax assets and liabilities are as follows at March 31, 2020 and 2019 (in thousands):

	2020	2019
Deferred tax assets		
Excess inventory and obsolescence reserve	\$ 411	\$ 605
Returns and allowances	1,244	66
Amortization	-	-
Accrued warranty expense	372	313
Federal benefit of state deferred	-	119
Inventory capitalization	71	63
Fixed asset bonus	599	591
R&D credit carryforward	8,204	1,661
Other	730	225
Total deferred tax assets	<u>\$ 11,631</u>	<u>\$ 3,643</u>
Deferred tax liabilities		
Fixed asset depreciation	\$ (7,153)	\$ (7,812)
Michigan jobs grant	(1,474)	(1,453)
Returns and allowances	-	-
Other accrued expenses	-	(160)
UTP	(865)	(248)
Unrealized exchange rate gain	(84)	(83)
Valuation allowance	(2,394)	-
Other	(451)	-
Total deferred tax liabilities	<u>\$ (12,421)</u>	<u>\$ (9,756)</u>

The Company follows authoritative guidance on accounting for and disclosure of uncertainty in tax positions. The guidance contains a two-step approach to recognizing and measuring uncertain tax positions (tax contingencies). 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 considers many factors when evaluating and estimating its tax positions and benefits, which may require periodic adjustment as actual results may differ from those estimates.

The Company calculates a credit for research and development costs incurred and is subject to examination by the IRS for three years following the date the tax return is filed. The Company

SMR Automotive Systems USA, Inc.
Notes to the Financial Statements
March 31, 2020 and 2019



records interest and fees related to unrecognized tax benefits as a component of income tax expense.

The Company is a member of a group of entities that files consolidated tax returns. For financial reporting purposes, the Company accounts for income taxes as if it files its own federal and state income tax returns.

The Company is subject to taxation in the U.S. and various State jurisdictions. As of March 31, 2020 the Company is no longer subject to Federal examination prior to March 31, 2016 and State examination prior to March 31, 2012.

13. Legal Commitments and Contingencies

The Company is engaged in various legal proceedings and other matters in the normal course of business.

The Company assesses its exposure to loss contingencies and provides for an exposure if it is judged to be probable and estimable.

Although the outcome of litigation is always subject to uncertainties, management believes the likelihood is remote that, individually or in the aggregate, any amounts required to be paid in excess of amounts recorded related to these matters will not have a material adverse effect on the results of operations or financial position of the Company. The Company had made commitments for a start-up related party for the lease of computer equipment and furniture. The company is only obligated under these guarantees only if the related party fails to make timely payments. There have been no failed payments where the company has been required to pay on behalf of the related party. At this time there is no perceived risk for the company to make payments on behalf of the related party.

SMR has provided certain guarantees on behalf of SMP Automotive USA, Inc. by serving as Guarantor for their auto leases, office furniture & certain computer equipment. SMP has primary role in managing payment of these leases and they do not impact SMR's operation.

14. Operating Lease Commitments

The Company leases equipment under leasing agreements that expire at various dates. Rental expense was approximately \$500 and \$598 for the years ended March 31, 2020 and 2019, respectively. Future annual rental payments as of March 31, 2020 are as follows (in thousands):

Year Ending March 31,	
2021	\$ 324
2022	37
2023	38
2024	19
2025	-
Thereafter	-
Total future rental payments	\$ 418

SMR Automotive Systems USA, Inc.
Notes to the Financial Statements
March 31, 2020 and 2019



The future annual rental payments are declining due to the current leasing contracts expiring.

15. Shareholder's Equity

Pursuant to the terms of the formation and operating agreements, ownership of the Company is evidenced by one class of common stock at \$10.00 par value. There were 10,000 authorized shares with 7,500 shares issued and outstanding at March 31, 2020 and 2019.

16. Related Party Transactions

The Company is involved in transactions with related parties through common ownership in the normal course of business. The Company purchases inventory from related parties and pays group charges for managing certain aspects of global functions. The Company also bills related parties for management services, design and development and other expenses.

Total revenue from related parties for the years ended March 31, 2020 and 2019 amounted to approximately \$7,984 and \$7,527, respectively. Total due from related parties as of March 31, 2020 and 2019 amounted to approximately \$18,095 and \$16,801 respectively. Included in the total due from related parties is an intercompany tax receivable from SMR Vision Systems USA in the amount of \$0 and \$10,881 as of March 31, 2020 and 2019 respectively. Total related party purchases and expenses for the years ended March 31, 2020 and 2019 amounted to approximately \$68,361 and \$70,013, respectively, and total due to related parties amounted to approximately \$21,601 and \$6,303 as of March 31, 2020 and 2019, respectively. Included in the amounts due to related parties is an intercompany tax payable to SMR Vision System Operations USA in the amount of \$13,611 and \$0 as of March 31, 2020 and 2019 respectively.

17. Supplemental Cash Flow Information

Cash paid for income taxes, net of refunds, amounted to approximately -\$8,921 and \$4,510 for the years ended March 31, 2020 and 2019, respectively. Interest payments for the years ended March 31, 2020 and 2019 amounted to approximately \$1,340 and \$1,623, respectively.

Noncash Investing Activities

At March 31, 2020 and 2019, accounts payable to acquire plant and equipment totaled approximately \$4,446 and \$319, respectively.

18. Subsequent Events

The Company has evaluated subsequent events through July 19, 2020, the date financial statements are available to be issued, and determined that there were no subsequent events that would require adjustment to or disclosures not already included elsewhere in the financial statements.