

**RENAISSANCE JEWELRY NEW YORK, INC.
AND SUBSIDIARIES**

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2022

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of Renaissance Jewelry New York, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Renaissance Jewelry New York, Inc. and subsidiaries (the "Company"), which comprise the consolidated balance sheet as of March 31, 2022, and the related consolidated statements of income, changes in stockholder' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Renaissance Jewelry New York, Inc. and subsidiaries as of March 31, 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent Renaissance Jewelry New York, Inc. and subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Renaissance Jewelry New York, Inc. and subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of

assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Renaissance Jewelry New York, Inc. and subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Renaissance Jewelry New York, Inc. and subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Related Party Transactions

As discussed in Note 13 to the consolidated financial statements, Renaissance Jewelry New York, Inc. and Subsidiaries have significant transactions with related parties. Our opinion is not modified with respect to that matter.

UHY LLP

New York, New York
May 19, 2022

CONSOLIDATED FINANCIAL STATEMENT

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
As of March 31, 2022

ASSETS

CURRENT ASSETS

Cash	\$ 15,104,199
Accounts receivable, net	24,537,302
Accounts receivable, related parties	6,443,399
Inventory	69,949,034
Loans receivable	114,505
Prepaid expenses and other current assets	<u>1,402,058</u>
Total current assets	117,550,497

PROPERTY AND EQUIPMENT, NET	1,402,346
GOODWILL	369,036
INTANGIBLE ASSETS, NET	256,990
DEFERRED TAX ASSETS, NET	1,226,002
OTHER ASSETS	<u>1,016,093</u>
Total assets	<u>\$ 121,820,964</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Short-term borrowings	\$ 35,341,868
Accounts payable, trade	2,620,083
Accounts payable, related party	19,700,309
Accrued expenses and other payables	1,003,416
Customer refund liabilities	4,353,594
Notes payable - current portion, net	9,157,837
Deferred rent, short-term	60,154
Leases at below-market rate, current portion	<u>106,345</u>
Total current liabilities	72,343,606

NOTES PAYABLE, LESS CURRENT PORTION	118,871
LEASES AT BELOW-MARKET RATE, LESS CURRENT PORTION	<u>54,041</u>
Total liabilities	72,516,518

COMMITMENTS AND CONTINGENCIES (NOTE 12)

STOCKHOLDERS' EQUITY

Common stock, no par value; 1000 shares authorized; issued and outstanding 202 shares	32,241,596
Retained earnings	<u>17,062,850</u>
Total stockholders' equity	<u>49,304,446</u>
Total liabilities and stockholders' equity	<u>\$ 121,820,964</u>

See notes to consolidated financial statements.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
For the year ended March 31, 2022

Sales, net	\$ 184,120,472
Cost of sales	<u>157,852,711</u>
Gross profit	<u>26,267,761</u>
Operating expenses	
General and administrative expenses	21,065,584
Depreciation and amortization expense	<u>1,207,495</u>
Total operating expenses	<u>22,273,079</u>
Operating income	<u>3,994,682</u>
Other expense (income)	
Interest expense, net	1,687,467
Forgiveness of loans	(1,719,918)
Other income, net	<u>(58,644)</u>
Total other expenses	<u>(91,095)</u>
Income before income tax expense	4,085,777
Income tax expense	<u>681,303</u>
Net income	<u>\$ 3,404,474</u>

See notes to consolidated financial statements.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the year ended March 31, 2022

	<u>Common Stock</u>		<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	<u>Stockholders'</u>
				<u>Equity</u>
Balance at April 1, 2021	192	\$ 29,989,554	\$ 13,658,376	\$ 43,647,930
Issuance of common stock	10	2,252,042	-	2,252,042
Net Income	-	-	3,404,474	3,404,474
Balance at March 31, 2022	<u>202</u>	<u>\$ 32,241,596</u>	<u>\$ 17,062,850</u>	<u>\$ 49,304,446</u>

See notes to consolidated financial statements.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended March 31, 2022

OPERATING ACTIVITIES

Net income	\$ 3,404,474
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	1,207,494
Deferred taxes	(171,002)
Deferred rent	(29,113)
Lease at below-market rate	(102,721)
Imputed interest	438,889
Changes in:	
Accounts receivable, net	(264,187)
Accounts receivable, related parties	(591,504)
Inventory	5,735,377
Prepaid expenses and current other assets	(859,361)
Loans receivable	(1,488)
Accounts payable	1,210,111
Accounts payable to related parties	1,310,018
Accrued expenses and other payables	589,429
Customer refund liabilities	<u>(61,752)</u>
Net cash provided by operating activities	<u>11,814,664</u>

INVESTING ACTIVITIES

Intangible assets	(881,356)
Leasehold construction in progress	<u>(1,249,587)</u>
Net cash used in investing activities	<u>(2,130,943)</u>

FINANCING ACTIVITIES

Issuance of common stock	2,252,042
Issuance of note payable - Paycheck Protection Program	730,290
Borrowing of loans payable, related parties	1,653,750
Repayment of loans payable, related parties	(1,653,750)
Cash paid for security deposit	(618,750)
Repayments of notes payable	<u>(4,307,748)</u>
Net cash used in financing activities	<u>(1,944,166)</u>

Net increase in cash	7,739,555
CASH, beginning	<u>7,364,644</u>
CASH, ending	<u>\$ 15,104,199</u>

Supplemental Disclosures of Cash Flow Information

Cash paid for interest	<u>\$ 1,317,240</u>
Cash paid for income tax	<u>\$ 1,054,579</u>

See notes to consolidated financial statements.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended March 31, 2022

NOTE 1 — NATURE OF BUSINESS

Nature of Business

Renaissance Jewelry New York, Inc. (“Renaissance”) is a minority owned subsidiary of Renaissance Global Limited 49.50% a company based in India and a majority owned subsidiary of Verigold Jewellery DMCC 50.50%, a company based in Dubai. Renaissance was incorporated on April 23, 2007 under the laws of the State of New York. Jay Gems Inc. (“Jay Gems”) is a wholly owned subsidiary of Renaissance that was incorporated on November 22, 2000 in New York. Essar Capital LLC (“Essar”) is a wholly owned subsidiary of Jay Gems that was formed on March 13, 2014 in New York.

The accompanying consolidated financial statements represent the operations of Renaissance, Jay Gems, and Essar. All material intercompany transactions and balances have been eliminated.

Renaissance Jewelry New York, Inc. and Subsidiaries (the “Company”) is an importer and wholesaler of diamonds and jewelry whose customers are located primarily throughout the United States of America. Large retail chains comprise a significant portion of the Company's customer base. Management believes that credit risk resulting from concentrations is limited due to the large number of entities comprising this base and their dispersion across many different geographic regions.

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash balances in banks are insured by the Federal Deposit Insurance Corporation subject to certain limitations. The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended March 31, 2022

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and accounts receivable. The Company places its cash primarily in checking accounts with high quality financial institutions which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") coverage limit, the composition and maturities of which are regularly monitored by management.

The Company extends credit based on an evaluation of the customer's financial condition, generally without requiring collateral. Exposure to losses on accounts receivable is principally dependent on each customer's financial condition. The Company monitors its exposure for credit losses and maintains allowances for anticipated losses when required. Credit losses, when realized, have been within the range of the Company's expectations and, historically, have not been significant.

Accounts Receivable

Accounts receivable are stated at original amount less an allowance for doubtful accounts. An allowance for doubtful accounts is determined through an analysis of the aging of accounts receivable at the date of the consolidated financial statements, assessments of collectability based on an evaluation of historic and anticipated trends, the financial condition of the Company's customers, and an evaluation of the impact of economic conditions.

Estimated costs associated with trade discounts, advertising allowances, markdowns, and allowance for returns which constitute variable consideration are reflected as a reduction of sales and classified as current liabilities. The Company makes allowances against known chargebacks, as well as for an estimate of potential future deductions by customers. These allowances result from negotiations with the Company's customers, historic deduction trends and the evaluation of current market conditions.

Inventories

Inventories, which consist primarily of finished goods, are stated at the lower of cost and net realizable value. Cost is determined in accordance with the FIFO (First-In, First-Out) method.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended March 31, 2022

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are stated at cost and depreciation is calculated using the straight-line method over the estimated useful lives of the related assets which are as follows:

	<u>Years</u>
Furniture and fixtures	5-7
Model and display	5-7
Machinery and equipment	3-7
Leasehold improvements (shorter of lease term or the useful life of the related asset)	10

Business Combination

The Company accounts for its business combinations in accordance with the accounting guidance in ASC 805. The purchase price of an acquired business is allocated to its identifiable assets and liabilities based on estimated fair values. The excess of the purchase price over the amount allocated to the assets and liabilities, if any, is recorded as goodwill. Determining the fair values of assets acquired and liabilities assumed requires management's judgment, the utilization of independent appraisal firms and often involves the use of significant estimates and assumptions with respect to the timing and amount of future cash flows, market rate assumptions, actuarial assumptions, and appropriate discount rates, among other items.

Goodwill

Goodwill represents the excess of acquisition cost over the fair value of net assets acquired using the acquisition method of accounting as prescribed under ASC 805, *Business Combinations*. In accordance with ASC 350, *Intangibles-Goodwill and Other*, the Company evaluates goodwill for possible impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

The Financial Accounting Standards Board (FASB) Issued Accounting Standards Update ("ASU") No. 2021- 03, *Accounting Alternative for Evaluating Triggering Events*. The amendments allow an entity to elect not to monitor for goodwill impairment triggering events during the reporting period and, instead, to evaluate the facts and circumstances as of the end of the reporting period to determine whether it is more likely than not that goodwill is impaired. The Company adopted this ASU in December 2021. In 2021, due to current results and economic conditions, the Company did not perform an impairment test as there was no triggering event.

Intangible Assets

Intangible assets consist of various assets which have finite useful lives and are carried at cost less accumulated amortization. Amortization is provided using the straight-line method over the estimated useful lives of the intangible assets ranging from 5 to 15 years.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended March 31, 2022

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lease at Below-Market Rate

A lease at below-market rate, represents the difference between the contract in place and market value contracts available at the time of acquisition. The liability was recorded at the present value of future cash flows, utilizing an imputed interest rate of 3.57%. Amortization is recorded using the straight-line method over the life of the lease. At March 31, 2022, the balance included \$106,345 in current liabilities and \$54,041 in long-term liabilities.

Long Lived Assets

The Company reviews the carrying values of its long-lived assets including finite-lived intangible assets in accordance with accounting for *Long-Lived Assets*, when events or changes in circumstances would indicate that it is more likely than not their carrying values may exceed their realizable values, and records impairment charges when considered necessary.

When circumstances indicate that impairment may have occurred, the Company tests such assets for recoverability by comparing the estimated undiscounted future cash flows expected to result from the use of such assets and their eventual disposition to their carrying amounts. In estimating these future cash flows, assets and liabilities are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows generated by other such groups. If the undiscounted future cash flows are less than the carrying amount of the asset, an impairment loss, measured as the excess of the carrying value of the asset over its estimated fair value, is recognized. Fair values are determined based on discounted cash flows, quoted market values or external appraiser as applicable. There was no impairment of the Company's long-lived assets during the year ended March 31, 2022.

Revenue Recognition

Revenue is recognized when the contract is in place, obligations under the terms of the contract are satisfied and control is transferred to the customer. The Company considers control to have been transferred when the Company has transferred the physical possession of the product, the Company has a right to payment for the product, the customer has legal title to the product and the customer has significant risks and rewards of the product. Revenue is recognized for an amount that reflects the consideration to which the Company is entitled in exchange for the product. The Company records variable considerations as a reduction of revenue arising from implicit or explicit obligation in the period the related product revenue is recognized. Variable consideration includes trade discounts, markdowns, co-op advertising, sales returns and other customer allowances. Variable consideration is estimated based on historical experience, customer agreements and expectations, statutory requirements, current economic conditions and other factors that arise in the normal course of business.

Cost of Goods Sold

Cost of goods sold consist of expenses incurred to acquire and prepare inventory for sale, including freight, import costs, packaging materials and other costs.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended March 31, 2022

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising and Promotional Expenses

Advertising and promotional expenses are expensed during the year in which they are incurred. For the year ended March 31, 2022, advertising and promotional expenses amounted to approximately \$5,151,000 and is reflected in general and administrative expenses on the consolidated statement of income. The Company also participates in the co-op advertising program with certain customers. For the year ended March 31, 2022, co-op advertising expense amounted to approximately \$8,714,000.

Shipping and Handling Costs

The Company included shipping and handling costs associated with outbound freight in operating expenses. For the years ended March 31, 2022, shipping and handling costs amounted to approximately \$827,000.

Deferred Rent

The Company's operating lease contains predetermined fixed escalations of minimum rent payments during the original lease term. For the lease, the Company recognizes the related rental expense on a straight-line basis over the life of the lease and records the difference between the amounts charged to operations and amounts paid as deferred rent.

Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is required if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are based on the current period taxable income for Federal, state and local income tax reporting purposes.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended March 31, 2022

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES (Continued)

Uncertain Tax Positions

The Company follows guidance issued by the Financial Accounting Standards Board (“FASB”) ASC 740 Accounting for Income Taxes, regarding accounting for uncertainty in income taxes. This guidance clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the consolidated financial statements and applies to all income tax positions. 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 consolidated financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement.

The Company records income tax related interest and penalties as a component of the provision for income tax expense. As of March 31, 2022, the Company determined there were no uncertain tax positions.

The Company believes that there are no tax positions taken or expected to be taken that would significantly increase or decrease unrecognized tax benefits within 12 months of the reporting date.

Subsequent Events

For purposes of preparing these consolidated financial statements, the Company considered events through May 19, 2022, the date these consolidated financial statements were available to be issued.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended March 31, 2022

NOTE 3 — BUSINESS COMBINATION

On September 1, 2021, pursuant to an Asset Purchase Agreement, the Company acquired the assets of Everyday Elegance Jewelry. (“Everyday Elegance”). Everyday Elegance was is in the business of the design and sale of jewelry. The assets acquired included inventory. The total consideration paid for the aforementioned net assets upon closing was \$881,356. In accordance with ASC 805 – Business Combinations, the Company recognized the assets and liabilities of Everyday Elegance at fair value.

The following table presents the consideration paid for Everyday Elegance acquisition and the allocation to net assets acquired based upon their relative fair value:

Inventory	\$ 447,320
Goodwill	369,036
TradeMarks	60,000
Non-compete covenants	<u>5,000</u>
	<u>\$ 881,356</u>

NOTE 4 — ACCOUNTS RECEIVABLE, NET

Accounts receivable are presented net of the following reserves at March 31, 2022:

Accounts Receivable	\$ 24,767,258
Accounts Receivable, Related Parties	<u>6,443,399</u>
Allowance for doubtful account	<u>(229,956)</u>
Accounts Receivable, total	<u>\$ 30,980,701</u>

NOTE 5 — INVENTORIES

At March 31, 2022, inventories of \$69,949,034 consisted of finished goods.

NOTE 6 — PROPERTY AND EQUIPMENT

Property and equipment consist of the following at March 31, 2022:

Furniture and fixtures	\$ 262,645
Computers and equipment	387,103
Model and display	346,632
Leasehold improvements	732,957
Other depreciable property	95,200
Leasehold construction in progress	<u>1,249,587</u>
	3,074,124
Less: accumulated depreciation	<u>1,671,778</u>
	<u>\$ 1,402,346</u>

Depreciation expense for the year ended March 31, 2022 was \$112,158.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended March 31, 2022

NOTE 7 — INTANGIBLE ASSET

Intangible assets consist of the following at March 31, 2022:

License agreement	\$ 4,000,000
Customer list	2,000,000
Non-compete covenants	370,000
Trademarks	<u>93,500</u>
	6,463,500
Less: accumulated amortization	<u>6,206,510</u>
	<u>\$ 256,990</u>

Estimated amortization expense for the next four fiscal years and thereafter is as follows:

Year Ending	
<u>March 31,</u>	
2023	\$ 179,669
2024	32,127
2025	6,694
2026	6,000
2027	6,000
Thereafter	<u>26,500</u>
	<u>\$ 256,990</u>

Amortization expense for the year ended March 31, 2022 was \$1,095,337.

NOTE 8 — CREDIT FACILITY

The Company has credit facilities with two different financial institutions allowing for total maximum borrowings of \$50,000,000 for working capital purposes.

The Company has a credit facility with a bank allowing for maximum borrowing of \$25,000,000 to be utilized for working capital purposes. Borrowing under this facility are subject to a borrowing base limitation consisting of specified percentages of eligible accounts receivable and inventories. Interest of these borrowings is calculated as a function of the bank's prime rate (4.00% at March 31, 2022) or LIBOR (0.33% at March 31, 2022). At March 31, 2022, the outstanding borrowings were \$17,670,934 which are secured by substantially all assets of the Company, as well as various guarantees and subordinations. This credit facility agreement expires on July 30, 2022. The bank is also the loss payee on the jewelers' block policy the Company holds. This facility contains various restrictive covenants. As of March 31, 2021, the Company was in compliance with these covenants.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended March 31, 2022

NOTE 8 — CREDIT FACILITY (Continued)

The Company has a credit facility with a bank allowing for maximum borrowing of \$25,000,000 to be utilized for working capital purposes. Borrowing under this facility is subject to a borrowing base limitation consisting of specified percentages of eligible accounts receivable and inventories. Interest on these borrowings is calculated as a function of the bank's prime rate (3.50% at March 31, 2022) or LIBOR (0.33% at March 31, 2022). At March 31, 2022, the outstanding borrowings were \$17,670,934 which are secured by substantially all assets of the Company, as well as various guarantees and subordinations. This credit facility agreement expires on July 30, 2022. The bank is also the loss payee on the jewelers' block insurance policy the Company holds. This facility contains various restrictive covenants. As of March 31, 2022, the Company was in compliance with these covenants.

NOTE 9 – NOTES PAYABLE

In 2014, Essar acquired the net assets of M.A. Reich & Co., Inc. for a purchase price of \$2,103,033. In connection with this acquisition, Essar issued a \$1,300,000 non-interest bearing note at a total discount of \$164,307. At March 31, 2022, Essar had a note payable of \$195,000, payable in semi-annual principal installments of \$32,500 through March 31, 2024. The note is recorded at the present value of the future cash flows, utilizing an imputed interest rate of 3.75%.

At March 31, 2022, the future principal payments of this note were as follows:

<u>Years ending March 31,</u>	
2023	\$ 65,000
2024	<u>65,000</u>
	130,000
Less: unamortized discount	<u>5,917</u>
	<u>\$ 124,083</u>

For the year ended March 31, 2022, the amortization of discounts on these notes amounted to \$6,357.

On August 2, 2018, Renaissance acquired 100% of the shares in Jay Gems for the total purchase price of \$12,405,547 at a total discount of \$1,645,520. In connection with this acquisition, Renaissance issued non-interest-bearing notes to the former stockholders of Jay Gems which were recorded at the present value of the future cash flows, utilizing an imputed interest rate of 3.57%.

At March 31, 2022, the future principal payments of these notes were as follows:

<u>Years ending March 31,</u>	
2023	9,200,000
2024	<u>57,702</u>
	9,257,702
Less: unamortized discount	<u>105,077</u>
	<u>\$ 9,152,625</u>

For the year ended March 31, 2022, the amortization of discounts on these notes amounted to \$321,538.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended March 31, 2022

NOTE 10 — NOTES PAYABLE - PAYCHECK PROTECTION PROGRAM

On April 24, 2020, the Company entered into the Paycheck Protection Plan (“PPP”) loan with Key Bank pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”). The PPP Loan in the amount of \$989,628 matured on April 21, 2022 and bearded interest at a rate of 1.0% per annum. Monthly amortized principle and interest payments were deferred for six months after the date of the loan. The PPP Loan funds were received on April 24, 2020. The Payroll Protection Program provides that (1) the use of PPP Loan amount shall be limited to certain qualifying expenses, (2) 100 per cent of the principal amount of the loan is guaranteed by the Small Business Administration and (3) an amount up to the full principal amount may qualify for loan forgiveness in accordance with the terms of the CARES Act. The Company received forgiveness for the full amount of the loan on June 17, 2021. The amount is reflected as other income on the consolidated income statement.

On April 21, 2021, the Company entered into a second PPP loan with Key Bank pursuant to the Paycheck Protection Program under the CARES Act). The PPP Loan in the amount of \$730,290 matured on April 21, 2024 and bearded interest at a rate of 1.0% per annum. Monthly amortized principle and interest payments were deferred for six months after the date of the loan. The PPP Loan funds were received on April 23, 2021. The Paycheck Protection Program provides that (1) the use of PPP Loan amount shall be limited to certain qualifying expenses, (2) 100 per cent of the principal amount of the loan is guaranteed by the Small Business Administration and (3) an amount up to the full principal amount may qualify for loan forgiveness in accordance with the terms of the CARES Act. The Company received forgiveness for the full amount of the loan on February 16, 2022. The amount is reflected as other income on the consolidated income statement.

NOTE 11 — 401(K) PLAN

The Company has established a 401(k) savings plan (“the Plan”) which covers substantially all employees that meet certain requirements. At the discretion of the Company, the Plan provides for an employer contribution election which is discretionary and is based on eligible amounts contributed to the Plan by its participants. There were no discretionary contributions for the year ended March 31, 2022.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES
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NOTE 12 — COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company is obligated under three non-cancellable operating leases for office space and facilities. One lease is in effect until September 30, 2023. The second is in effect until February 28, 2023. The third is in effect until July 31, 2037.

Future minimum rental payments are as follows:

<u>Years Ending March 31,</u>	
2023	\$ 1,952,474
2024	1,439,493
2025	1,284,324
2026	1,315,378
2027	1,348,262
Thereafter	<u>16,062,733</u>
	<u>\$ 23,402,664</u>

Rent expense is recognized on a straight-line basis over the term of the lease, including free rent periods. Differences between rent expense recognized and contractual amounts due under the lease agreement are recorded as deferred rent liability. Rent expense was \$898,465 for the year ended March 31, 2022.

The Company has a sublease agreement for one of its office spaces which expires on September 30, 2023.

At March 31, 2022, the future minimum rental income were as follows:

<u>Years Ending March 31,</u>	
2023	\$ 282,204
2024	<u>141,102</u>
	<u>\$ 423,306</u>

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES
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NOTE 13 – RELATED PARTIES TRANSACTIONS

As of March 31, 2022, the Company had outstanding accounts receivables of \$6,443,399 from various affiliates which are disclosed under accounts receivable, related party.

As of March 31, 2022, Jay Gems had outstanding loans receivable of \$105,405 from an officer of Jay Gems and a company owned by one of the officers of Jay Gems included in loans receivable on the Company's balance sheet. These loans are due on a demand basis. The loans receivable from a company owned by one of the officers of Jay Gems bears interest at 2% per annum. For the year ended March 31, 2022, interest on these loans amounted to \$1,064.

As of March 31, 2022, Renaissance had outstanding notes payable of \$9,152,625 to former shareholders of Jay Gems.

As of March 31, 2022, the Company had accounts payable of \$19,700,309 to various affiliates which are disclosed under accounts payable, related party.

For the year ended as of March 31, 2022, the Company had sales to various affiliates of \$19,269,540 which make up approximately 11% of the total Company sales.

For the year ended March 31, 2022, the Company had net purchases from various affiliates of \$135,521,641 which make up approximately 95% of the total Company purchases.

For the year ended March 31, 2022, the Company had rental income of \$52,367 from an affiliate under a sublease agreement.

For the year ended March 31, 2022, the Company had reimbursement of expenses of \$180,704 from various affiliates of the Company.

NOTE 14 — INCOME TAXES

The components of income tax expense (benefit) for the year ended March 31, 2022, were as follows:

Current:

Federal	\$ 700,845
State	<u>151,458</u>
	<u>852,303</u>

Deferred:

Federal	(156,000)
State	<u>(15,000)</u>
	<u>(171,000)</u>

Income tax expense	<u>\$ 681,303</u>
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RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended March 31, 2022

NOTE 14 — INCOME TAXES (Continued)

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The tax effects of temporary differences that give rise to significant portions of the net deferred tax asset are presented below:

Current deferred tax assets:

Allowance for bad debts	\$ 51,418
Allowance for returns	22,706
Deferred rent - current portion	13,658
Unfavorable leases	28,490
Amortization	972,036
263a costs	<u>144,341</u>
Total current deferred tax asset	<u>\$ 1,232,649</u>

Non-current deferred tax assets (liabilities):

Depreciation	<u>(6,647)</u>
Total non current deferred tax (liabilities)	<u>\$ (6,647)</u>

Net deferred tax asset	<u>\$ 1,226,002</u>
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The expected income tax rate for the year ended March 31, 2022 was 22.7% whereas the actual rate was 22.7%. The Company does not currently anticipate any significant increase or decrease of the total amount of unrecognized tax benefits within the next twelve months. None of the Company's Federal or state income tax returns is currently under examination by the Internal Revenue Service or state authorities.

NOTE 15 — MAJOR CUSTOMERS AND VENDORS

For the year ended March 31, 2022, sales to two customers represented approximately 26%, and 11% of net sales, respectively. One customers represented 34% of accounts receivable at March 31, 2022.

For the year ended March 31, 2022, the Company made purchases from two vendors, which are also related parties, which represented approximately 54% and 38% of net purchases, respectively. These vendors also represented 55% and 33% of accounts payable at March 31, 2022, respectively.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES
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NOTE 16 — COVID-19

In December 2019, a novel strain of coronavirus disease (“COVID-19”) was first reported in Wuhan, China. Less than four months later, on March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The extent of COVID-19’s effect on the Company’s operational and financial performance will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult to predict considering the rapid evolving landscape. The Company was closed on March 22, 2020 due to New York State closing all nonessential businesses. The Company resumed operations starting June 15, 2020 as part of the phase one reopening of New York City. The Company continues to monitor the impact COVID-19 will have on the Company’s business.