Organic India USA, LLC

Consolidated Financial Report

March 31, 2021

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Independent Auditor's Report

To the Board of Directors
Organic India USA, LLC

We have audited the accompanying consolidated financial statements of Organic India USA, LLC and its subsidiary (the "Company"), which comprise the consolidated balance sheet as of March 31, 2021 and 2020 and the related consolidated statements of operations, member's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Organic India USA, LLC and its subsidiary as of March 31, 2021 and 2020 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in the *Dependence on Parent* paragraph in Note 2, the Company has required financial assistance from its parent to sustain operations, and, due to the significance of transactions with its parent, the Company's results of operations may not be indicative of what they would be if such transactions were with a third party in arm's-length transactions. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

July 19, 2021

Consolidated Balance Sheet

March 31, 2021 and 2020

	2021	2020
Assets		
Current Assets		
Cash	$ 1,385,104	$ 1,883,279
Accounts receivable - Net:		
Trade	2,639,493	1,555,118
Related party	222,835	370,386
Inventory - Net	4,469,237	4,269,042
Prepaid expenses and other current assets	276,111	230,103
Total current assets	8,992,780	8,307,928
Property and Equipment - Net	149,628	216,733
Goodwill - Net	2,306,900	2,632,580
Intangible Assets - Net	1,225,416	1,398,416
Deposits	27,481	131,744
Other Assets		
Note receivable - Related party	54,000	54,000
Other noncurrent assets	103,039	134,623
Total other assets	157,039	188,623
Total assets	**$ 12,859,244**	**$ 12,876,024**
Liabilities and Member's Equity		
Current Liabilities		
Accounts payable:		
Trade	$ 318,685	$ 580,031
Related party	2,785,932	2,039,359
Line of credit	1,950,000	1,700,000
Notes payable - Related party - Current	-	750,000
Accrued and other current liabilities	1,127,733	894,182
Total current liabilities	6,182,350	5,963,572
Notes Payable - Related party	1,700,000	1,950,000
Other Long-term Liabilities		
Deferred tax liabilities	306,844	357,706
Deferred rent	-	33,380
Total liabilities	8,189,194	8,304,658
Member's Equity	4,670,050	4,571,366
Total liabilities and member's equity	**$ 12,859,244**	**$ 12,876,024**

See notes to consolidated financial statements.

Consolidated Statement of Operations

Years Ended March 31, 2021 and 2020

	2021	2020
Net Sales		
Sales	$ 29,415,255	$ 25,315,795
Trade spend	(7,816,721)	(7,070,123)
Total net sales	21,598,534	18,245,672
Total Delivered Costs	12,440,980	10,425,127
Gross Profit	9,157,554	7,820,545
Operating Expenses	9,018,326	7,850,600
Operating Income (Loss)	139,228	(30,055)
Nonoperating Income (Expense)		
PPP loan forgiveness	586,720	-
Interest expense	(153,331)	(255,941)
Other (expense) income	(107,418)	86,057
Total nonoperating income (expense)	325,971	(169,884)
Income (Loss) before Income Taxes	465,199	(199,939)
Income Tax Benefit (Expense)		
Deferred income tax benefit	50,862	50,862
Current income tax expense	(244,222)	(242,350)
Total income tax expense	(193,360)	(191,488)
Consolidated Net Income (Loss)	**$ 271,839**	**$ (391,427)**
Amounts Attributable to Noncontrolling Interest and Organic India USA, LLC		
Consolidated net income (loss) attributable to:		
Noncontrolling interest	$ 69,311	$ 108,814
Organic India USA, LLC	202,528	(500,241)
Consolidated net income (loss)	**$ 271,839**	**$ (391,427)**

Consolidated Statement of Member's Equity

Years Ended March 31, 2021 and 2020

	Member's Equity	Employee Notes Receivable	Noncontrolling Interest	Total Equity
Balance - March 31, 2019	$ 2,307,905	$ -	$ 2,654,888	$ 4,962,793
Net (loss) income	(500,241)	-	108,814	(391,427)
Balance - March 31, 2020	1,807,664	-	2,763,702	4,571,366
Net income	202,528	-	69,311	271,839
Employee notes receivable in conjunction with issuance of equity bonus plan units	1,415,298	(1,415,298)	-	-
Share-based award compensation expense associated with equity bonus plan	201,770	-	-	201,770
Distributions	-	-	(374,925)	(374,925)
Balance - March 31, 2021	**$ 3,627,260**	**$ (1,415,298)**	**$ 2,458,088**	**$ 4,670,050**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended March 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Consolidated net income (loss)	$ 271,839	$ (391,427)
Adjustments to reconcile consolidated net income (loss) to net cash from operating activities:		
Depreciation and amortization	621,236	611,758
Amortization of loan costs	20,701	27,267
Deferred income tax benefit	(50,862)	(50,862)
Loss on disposal of property and equipment	103,662	3,224
Deferred rent	(33,380)	(4,735)
Share-based award compensation expense	201,770	-
PPP loan forgiveness	(586,720)	-
Bad debt expense	-	124,025
Changes in operating assets and liabilities:		
Accounts receivable	(1,084,375)	170,680
Related party receivable	147,551	280,913
Inventory	(200,195)	1,283,594
Prepaid expenses, deposits, and other assets	50,051	(85,689)
Accounts payable	(261,346)	276,841
Related party payable	746,573	(966,253)
Accrued and other current liabilities	233,551	(680,947)
Net cash provided by operating activities	180,056	598,389
Cash Flows from Investing Activities		
Purchase of property and equipment	(92,234)	(42,951)
Purchase of other assets	(21,148)	(71,273)
Issuance of note receivable	-	(54,000)
Net cash used in investing activities	(113,382)	(168,224)
Cash Flows from Financing Activities		
Proceeds from (payments on) line of credit	250,000	(700,000)
Proceeds from PPP loan	586,720	-
Payments on related party note payable	(1,000,000)	-
Loan costs	(26,644)	(26,597)
Distributions	(374,925)	-
Net cash used in financing activities	(564,849)	(726,597)
Net Decrease in Cash	(498,175)	(296,432)
Cash - Beginning of year	1,883,279	2,179,711
Cash - End of year	**$ 1,385,104**	**$ 1,883,279**
Supplemental Cash Flow Information - Cash paid for		
Interest	$ 166,186	$ 208,679
Income taxes	202,406	76,927

Note 1 - Nature of Business

Organic India USA, LLC (OI USA), a Colorado limited liability company (LLC), was formed on October 15, 2001, with its headquarters in Boulder, Colorado. Upon formation, OI USA, through its sole member, began working cooperatively with farms in northern India to grow Tulsi Holy Basil, which was used to create the flagship product, the Original Tulsi Tea. OI USA then expanded its program to include other Indian herb, food, and spice crops by contracting with more Indian farmers through its sole member. OI USA markets certified organic, biodynamic, and ethically wildcrafted products throughout the United States and in Canada.

On April 25, 2018, OI USA acquired a 50.01 percent equity stake in CLEAN Program Corp (CLEAN). CLEAN primarily manufactures (through co-manufacturers) and sells supplements and protein shakes direct to consumers through its website.

OI USA and CLEAN are collectively referred to as the "Company."

Note 2 - Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of OI USA and its subsidiary, CLEAN. The equity attributable to the 49.99 percent ownership of CLEAN is reported as a noncontrolling interest. All material intercompany accounts and transactions have been eliminated in consolidation.

Dependence on Parent

During the years ended March 31, 2021 and 2020, the Company funded its activities primarily through inventory purchases and payables due to its sole member, ORGANIC INDIA Private Limited (the "Parent"), which has represented that it will continue to fund operations until such time as the Company achieves positive cash flows necessary to independently sustain operations. Management believes that cash on hand and access to the line of credit (see Note 6), combined with continued support from its sole member, will provide the Company with adequate funding to sustain its operations and continue as a going concern through at least 12 months from the date of the accompanying independent auditor's report.

Basis of Accounting

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Company has elected to adopt certain accounting alternatives for private companies developed by the Private Company Council, including accounting for goodwill and certain intangible assets acquired in a business combination.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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 the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash

As of the consolidated balance sheet date and periodically throughout the year, the Company has maintained balances in various operating accounts in excess of federally insured limits.

Note 2 - Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable are stated at net invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. In addition, a general valuation allowance is established for other accounts receivable based on historical loss experience. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The allowance for doubtful accounts on accounts receivable balances was $22,275 and $151,726 as of March 31, 2021 and 2020, respectively.

Credit Risk, Major Customers, and Suppliers

The Company extends trade credit to its customers on terms that are generally practiced in the industry.

Three and five major customers accounted for approximately 89 and 66 percent of total accounts receivable as of March 31, 2021 and 2020, respectively.

Three and two major customers accounted for 47 and 46 percent of total revenue for the years ended March 31, 2021 and 2020, respectively.

OI USA purchases 100 percent of its inventory from the Parent, as further discussed in Note 8.

Inventory

Inventory primarily consists of finished goods and is stated at the lower of cost or net realizable value, determined using the average cost method. The Company periodically assesses the need for an allowance for obsolete inventory, with obsolete inventory being expensed to cost of goods sold. The Company had an allowance for obsolete inventory of $20,169 and $409,237 as of March 31, 2021 and 2020, respectively.

Prepaid Expenses

Prepaid expenses primarily consist of prepaid travel, rent, marketing costs, and other expenses paid in advance.

Property and Equipment

Property and equipment are recorded at cost. The straight-line method is used for computing depreciation. Assets are depreciated over their estimated useful lives. The cost of leasehold improvements is depreciated over the lesser of the length of the related leases or the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

Goodwill

The recorded amounts of goodwill from business combinations are based on management's best estimates of the fair values of assets acquired and liabilities assumed at the date of acquisition and represents the difference between business combination consideration and the net identifiable assets acquired.

The Company has elected to apply the private company accounting alternative for goodwill developed by the Private Company Council. Under the accounting alternative, goodwill is amortized on a straight-line basis over a 10-year period. Additionally, customer-related intangibles and amounts ascribed to noncompete agreements have been subsumed into goodwill, and goodwill is assessed for potential impairment if events occur or circumstances change that indicate the fair value of the Company may be less than its carrying value. The Company has elected to test goodwill for impairment at the reporting-unit level.

No impairment charge was recognized during the years ended March 31, 2021 and 2020.

Note 2 - Significant Accounting Policies (Continued)

Intangible Assets

The acquired intangible assets consist of a trade name and are subject to amortization, stated at cost, and amortized using the straight-line method over the estimated useful lives of the assets.

Impairment or Disposal of Long-lived Assets

The Company reviews the recoverability of long-lived assets when events or changes in circumstances occur that indicate the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future pretax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations.

The Company concluded long-lived assets were not impaired as of March 31, 2021 and 2020.

Deferred Finance Charges

Deferred finance charges of approximately $80,000 and $53,000 represent legal and other financial costs associated with debt financing (see Note 6); are reported net of accumulated amortization of approximately $68,000 and $47,000 at March 31, 2021 and 2020, respectively; and are included in other assets on the accompanying consolidated balance sheet. Such charges are being amortized to interest expense on a straight-line basis over a 12-month period, which approximates the respective term of the debt agreement.

Deferred Rent

The Company has entered into operating lease agreements for its corporate office and warehouses, some of which contain provisions for future rent escalations. The Company records monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent, which is reflected as a separate line item in the accompanying consolidated balance sheet.

Income Taxes

The Company recognizes deferred tax liabilities and assets based on the differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. The Company establishes a valuation allowance for all deferred tax assets for which there is uncertainty regarding realization.

The Company follows accounting guidance for uncertainty in income taxes. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no additional amounts have been recognized as of March 31, 2021 and 2020. If incurred, interest and penalties associated with tax positions are recorded in the period assessed. No interest or penalties have been assessed for the years ended March 31, 2021 or 2020.

Revenue Recognition

As described below, the Company has one primary revenue stream. Effective April 1, 2019, the Company adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective approach. The ASU requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects be entitled to in exchange for those goods or services. Topic 606 requires disclosure of the opening balances of accounts receivable and any contract assets or liabilities for the earliest period presented. The balance of trade receivables at March 31, 2019 was $1,849,823.

Note 2 - Significant Accounting Policies (Continued)

The Company manufactures and distributes homogenous teas and supplements. Customers include retailers, distributors, and direct-to-consumer websites or retail stores. The goods are shipped upon receipt of a purchase order to customers primarily located in the United States and Canada.

The goods supplied are homogenous and have an alternative use in that they can be supplied to another customer, and, as a result, revenue is recognized at a point in time.

The Company typically satisfies its performance obligations as goods are shipped. Good are typically shipped "FOB Shipping," and, as such, ownership of goods and the associated risks transfer from the Company to the customer once the goods have shipped. In some cases, the customer will take delivery directly from the Company's inventory, at which point ownership and the associated risk pass to the customer.

Because contracts with customers usually contain only one performance obligation that is satisfied at a point in time, there are no satisfied performance obligations that would result in contract assets other than trade accounts receivable.

The transaction price of a contract is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer. Transaction prices do not include amounts collected on behalf of third parties.

To determine the transaction price of a contract, the Company considers its customary business practices and the terms of the contract. For the purpose of determining transaction prices, the Company assumes that the goods or services will be transferred to the customer as promised in accordance with existing contracts and that the contracts will not be canceled, renewed, or modified.

Most of the Company's contracts with customers have fixed transaction prices that are denominated in U.S. dollars and payable in cash. The Company offers various forms of promotions and discounts. The Company records an estimate of these chargebacks throughout the contract period as a reduction to revenue. Shipping and handling costs that occur after the customer obtains control of the goods are deemed to be fulfillment activities and are accounted for as fulfillment costs within cost of sales.

Payment for goods and services sold by OI USA is typically due within 30 days after an invoice is sent to the customer. Invoices for goods are typically sent to customers within three calendar days of delivery. The Company typically offers discounts if the customer pays some or all of an invoiced amount prior to the due date. Payments for goods sold by CLEAN are made primarily via credit cards.

Advertising Expense

Advertising expense is charged to income during the year in which it is incurred. Advertising expense for 2021 and 2020 was approximately $1,864,000 and $1,435,000, respectively.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncement

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Company's year ending March 31, 2023 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption. Upon adoption, the Company will recognize a lease liability and a corresponding right-of-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including July 19, 2021, which is the date the consolidated financial statements were available to be issued.

Note 3 - Property and Equipment

Property and equipment are summarized as follows at March 31:

	2021	2020	Depreciable Life - Years
Equipment	$ 190,681	$ 286,056	2-10
Software	77,842	55,247	3-5
Display equipment	79,047	79,047	5
Furniture and fixtures	36,731	47,384	3-5
Leasehold improvements	3,500	58,626	5-20
Construction in progress	32,960	-	-
Total cost	420,761	526,360	
Accumulated depreciation	271,133	309,627	
Net property and equipment	$ 149,628	$ 216,733	

Depreciation expense for the years ended March 31, 2021 and 2020 was $55,677 and $69,244, respectively.

Note 4 - Acquired Intangible Assets and Goodwill

Intangible assets of the Company at March 31, 2021 and 2020 are summarized as follows:

	2021		2020	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets - Trade name	$ 1,730,000	$ (504,584)	$ 1,730,000	$ (331,584)

Amortization expense for intangible assets totaled approximately $173,000 for each of the years ended March 31, 2021 and 2020.

Note 4 - Acquired Intangible Assets and Goodwill (Continued)

Estimated amortization expense for the years ending March 31 is as follows:

Years Ending	Amount
2022	$ 173,000
2023	173,000
2024	173,000
2025	173,000
2026	173,000
Thereafter	360,000
Total	$ 1,225,000

The recorded amounts of goodwill at March 31, 2021 and 2020 are as follows:

	2021	2020
Goodwill	$ 3,256,800	$ 3,256,800
Accumulated amortization - Goodwill	(949,900)	(624,220)
Net carrying value	$ 2,306,900	$ 2,632,580

Goodwill amortization expense for each of the years ended March 31, 2021 and 2020 was $325,680. Annual expense of $325,680 is expected to be amortized through March 31, 2028, with the remaining $27,140 expected to be amortized in April 2028.

Note 5 - Accrued and Other Current Liabilities

The following is the detail of accrued liabilities at March 31:

	2021	2020
Customer incentives	$ 417,704	$ 297,136
Payroll and related	219,768	47,600
Other	155,224	294,584
Broker commission	130,397	68,843
Shipping	103,400	100,019
Professional fees	101,240	86,000
Total	$ 1,127,733	$ 894,182

Note 6 - Line of Credit

Under a line of credit agreement with a bank, the Company has available borrowings of approximately $3,000,000. Interest is payable quarterly at a rate of 2.00 percent above the base rate, as defined in the agreement (an effective rate of 3.00 percent at March 31, 2021). Advances are due on the earlier of demand and the last day of the interest period, as defined in the agreement. The line of credit is collateralized by the Company's inventory. The Parent provides a corporate guarantee of the line of credit. Under the agreement with the bank, the Company is subject to certain covenants. As of March 31, 2021 and 2020, there was $1,950,000 and $1,700,000, respectively, outstanding on the line of credit.

Note 7 - PPP Loans

During the year ended March 31, 2021, the Company received two Paycheck Protection Program (PPP) loans totaling $586,720. The loans were obtained under separate entities of the Company, including a $215,120 loan under CLEAN (CLEAN loan) and a $371,600 loan under OI USA (OI USA loan). The PPP loan program was created under the Coronavirus, Aid, Relief, and Economic Security (CARES) Act and is administered by the Small Business Administration (SBA). Under the terms of this program, the loan may be fully or partially forgiven if the loan proceeds are spent on qualifying expenses and staffing level and salary maintenance requirements are met.

Prior to March 31, 2021, the Company applied for and received notification of forgiveness of the CLEAN loan and the OI USA loan from the SBA. Loan forgiveness in the amount of $586,720 has been recorded as cancellation of debt income in nonoperating income (expense) on the accompanying consolidated statement of operations.

Note 8 - Related Party Transactions

The following is a description of transactions between the Company and related parties:

Notes Receivable

During April 2019, the Company entered into a promissory note with a related party, under which the Company is owed $54,000 together with interest. The related party represents the party with the noncontrolling interest equity stake in CLEAN. The promissory note matures at the earlier of April 2021 or upon any event of default, as defined in the promissory note agreement. Interest accrues at a rate of 2.85 percent per annum and is due at maturity. During April 2021, the Company received full payment of the balance of the note.

Notes Payable

During 2015, the Company entered into two notes payable (the "Original Notes") with OI (US) Holdings, an entity with indirect common control of the Parent. Under the terms of the Original Notes, OI (US) Holdings loaned the Company $3,700,000. The Original Notes were for five-year terms, maturing in March and June 2020. Prior to maturity during March 2020, a loan extension agreement was entered into, under which the Original Notes were combined into one note (the "New Note"), and the maturity date of the New Note was extended to March 2025. Interest accrues at 4 percent per annum and is payable on a quarterly basis during the term of the New Note until the final balloon payment at maturity. The balance outstanding on the New Note as of March 31, 2021 and 2020 was $1,700,000 and $1,950,000. Accrued interest on the New Note as of March 31, 2021 and 2020 was approximately $20,000, which is included in related party payable on the accompanying consolidated balance sheet.

During December 2017, the Company entered into a loan agreement with the Parent, which was subsequently amended in March 2020 to provide borrowings of $2,750,000. Interest will accrue on the outstanding balance at 5.51 percent and is payable on a half-yearly basis within 10 days of June 30 and December 31. As of March 31, 2021 and 2020, $0 and $750,000, respectively, was outstanding. Accrued interest on the outstanding balances under the loan agreement as of March 31, 2021 and 2020 was approximately $0 and $10,000, respectively, which is included in related party payable on the accompanying consolidated balance sheet. The loan matured during December 2020. The entire outstanding balance was paid in full during the year ended March 31, 2021. No future borrowings are available.

Total related party interest expense was approximately $110,000 and $120,000 for the years ended March 31, 2021 and 2020, respectively.

Note 8 - Related Party Transactions (Continued)

Maturities of the above notes are as follows:

Year Ending March 31	Amount
2025	$ 1,700,000

Purchases

During the years ended March 31, 2021 and 2020, OI USA purchased approximately $8,162,881 and $4,173,745, respectively, of inventory from the Parent. During the years ended March 31, 2021 and 2020, CLEAN purchased approximately $133,802 and $305,141, respectively, of inventory from the Parent. The Company has a payable to the Parent of $2,766,460 and $2,009,413 as of March 31, 2021 and 2020, respectively. These amounts, plus accrued interest as of March 31, 2021 and 2020 of $19,472 and $29,946, respectively, are reflected as a related party payable on the accompanying consolidated balance sheet.

Royalties

For the year ended March 31, 2021, CLEAN recorded royalty income of $26,787 in accordance with a royalty agreement entered into by the Parent and CLEAN during January 2020. Under the royalty agreement, CLEAN shall provide certain support services to the Parent, and the Parent shall pay CLEAN royalties based on a percentage of net sales of product in India, as further defined in the royalty agreement. During the year ended March 31, 2021, the Parent paid CLEAN $22,606 in royalties under the royalty agreement. This resulted in a net overpayment of $1,176 at March 31, 2021, which is included in related party receivables on the accompanying consolidated balance sheet.

During January 2020, CLEAN entered into an advisory agreement with a related party under which CLEAN pays a percentage of the royalties collected from the Parent under the royalty agreement described above. For the year ended March 31, 2021, CLEAN recorded royalty expense of $5,357 in accordance with this advisory agreement. During the year ended March 31, 2021, CLEAN paid the related party $4,521 in royalties under the advisory agreement. This resulted in a remaining related party payable of $836 at March 31, 2021, which is included in related party payables on the accompanying consolidated balance sheet.

Other

For the years ended March 31, 2021 and 2020, the Parent agreed to reimburse the Company for charges incurred by the Company on behalf of the Parent in the amount of approximately $430,000 and $370,000, respectively. As of March 31, 2021 and 2020, $222,835 and $370,386, respectively, had not been paid and is reflected as a related party receivable on the accompanying consolidated balance sheet.

Note 9 - Income Taxes

Effective June 2013, Organic India USA, LLC made an election to be treated as a C corporation for income tax purposes. CLEAN is a C corporation for income tax purposes and files a separate income tax return. OI USA and CLEAN recognize deferred tax liabilities and assets based on the differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. The Company establishes a valuation allowance for all deferred tax assets for which there is uncertainty regarding realization.

OI USA did not provide a current or deferred federal or state income tax provision or benefit for 2021 or 2020 because it has experienced recurring taxable losses. OI USA has provided a full valuation allowance on the net deferred tax asset of approximately $1,000,000 at March 31, 2021 and 2020, primarily consisting of the net operating loss carryforwards, because of the uncertainty regarding their realizability.

Note 9 - Income Taxes (Continued)

As of March 31, 2021 and 2020, OI USA had net operating loss carryforwards of approximately $4,000,000. Utilization of the net operating losses, which expire at various times starting in 2033, may be subject to certain limitations under Section 382 of the Internal Revenue Code of 1986, as amended, and other limitations under state and foreign tax laws. The cumulative net operating losses of approximately $1,700,000 generated during the years ended March 31, 2020 and 2019 are not subject to expiration.

Upon the acquisition of CLEAN, the Company recognized a deferred tax liability of approximately $450,000 for the identifiable intangible assets of approximately $1,730,000 that will be amortized for financial reporting purposes but will not be deductible for income taxes on the CLEAN tax returns.

The reasons for the difference between income taxes at the statutory rate and those on the accompanying consolidated financial statements are attributable primarily to the OI USA valuation allowance and the CLEAN goodwill, which, in accordance with generally accepted accounting principles, had no related deferred taxes recorded upon acquisition.

Note 10 - Operating Leases

The Company leases facilities and equipment under noncancelable operating leases. The leases require the Company to pay taxes, insurance, utilities, and maintenance costs. Total rent expense under these leases was approximately $380,000 and $550,000 for the years ended March 31, 2021 and 2020, respectively.

Future minimum annual commitments under these operating leases are approximately as follows:

Years Ending March 31	Amount
2022	$ 171,000
2023	72,000
Total	$ 243,000

Note 11 - Commitments

During November 2016, the Company entered into a merchandise license agreement with a third-party publisher of health and wellness lifestyle magazines, books, and digital properties, including *Prevention* magazine and its related digital properties (the "Magazine"). Under the license agreement, the third party licensed to the Company the rights to use the trademark "Prevention" to manufacture, advertise, distribute, and sell Prevention-branded tea in a certain territory. The license included royalties that were the greater of the guaranteed minimum payment amount of $50,000 or the third party's share of revenue, as defined in the license agreement. During the year ended March 31, 2020, the agreement was terminated. As of March 31, 2021 and 2020, there was $0 and $94,542, respectively, accrued for amounts due under the license agreement. During the year ended March 31, 2021, a settlement payment of $50,000 was made in connection with the termination of the agreement.

During the year ended March 31, 2019, the Company entered into independent contractor agreements with sales representatives to sell the Company's products in certain territories. The agreements continue indefinitely until canceled by either party, and commissions are paid to the sales representatives at a rate of 5.00 percent of sales. Amounts associated with these agreements were *de minimis* for the years ended March 31, 2021 and 2020.

Note 12 - Litigation

In the normal course of business, the Company is party to litigation from time to time. The Company maintains insurance to cover certain actions and believes that resolution of such litigation will not have a material adverse effect on the Company.

Note 13 - Member's Equity

There are 30,129 and 23,802 common shares authorized for issuance as of March 31, 2021 and 2020, respectively. There are 23,802 common shares issued and outstanding as of March 31, 2021 and 2020. These amounts are exclusive of the shares described below.

Equity Bonus Plan

During 2020, the Company adopted the Organic India USA, LLC 2020 Employee Equity Bonus Plan (the "Plan"). The Plan permits the granting of awards to employees of the Company designated by the board of directors who are either in a management position or higher or who have been employed by the Company for at least 12 consecutive months. As defined in the Plan document, an award shall mean the granting of shares, or nonvoting units of the Company, as further defined in the Company's operating agreement. The shares shall generally vest in five tranches every 18 months, commencing on the vesting commencement date, subject to the fulfillment of certain applicable performance milestone requirements, as further set forth in the award agreements and plan document.

There are 6,327 shares available for issuance under the Plan. During November 2020, 5,197 shares were granted to employees of the Company, for which the fair value was estimated to be approximately $820,000. The Company assessed all of the performance milestones as being probable and, therefore, will recognize this amount over the requisite service period. During the year ended March 31, 2021, the Company recognized award-based compensation expense related to awards granted under the Plan of approximately $200,000.

In conjunction with the award agreements, the Company entered into loan agreements with the employees under which the Company has provided notes in order for the employees to purchase the shares granted under the award agreements. The notes have no recourse beyond the underlying shares. The notes bear annual interest at the minimum applicable federal rate (1.62 percent as of March 31, 2021). Principal and interest are due on the date in which the last tranche of the award becomes vested, as defined in the separate award agreements. As the notes were received by the Company as consideration for the issuance of shares, the note amounts have been recorded as an offsetting reduction of equity.

With the notes having no recourse beyond the underlying shares, the agreement is treated as a stock option, and the Company uses a Black-Scholes formula to estimate the calculated value of its award-based payments. The volatility assumption used in the Black-Scholes formula is based on the volatility of comparable publicly traded companies. The risk-free rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

The weighted-average assumptions used in the Black-Scholes model for award grants are noted in the following table:

Average expected life	7.5 years
Approximate risk-free rate	0.61 %
Estimated fair value of total awards granted	$820,000
Volatility	60.00 %

Note 14 - Employee Benefit Plan

The Company sponsors a 401(k) profit-sharing plan available to defined eligible employees. Eligible participants are allowed to make contributions up to statutory limits. The Company will make matching contributions equal to the participant's contribution up to 5 percent of the participant's compensation. Such amounts vest immediately. The Company made matching contributions of $52,854 and $48,550 for the years ended March 31, 2021 and 2020, respectively.