

Jotul North America, Inc.

Financial Report

December 31, 2017

M^cLeod | Ascanio

Certified Public Accountants

Scott A. M^cLeod
Managing Principal

James Ascanio
Managing Principal

Sally Swanson
Principal

Matthew R. Barbour
Principal

Independent Auditors' Report

To the Board of Directors
Jotul North America, Inc.

We have audited the accompanying financial statements of Jotul North America, Inc. which comprise the balance sheet as of December 31, 2017 and the related statements of income and retained earnings and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the financial position of Jotul North America, Inc. as of December 31, 2017 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.



Portland, Maine
February 15, 2019

JOTUL NORTH AMERICA, INC.
BALANCE SHEET
as of December 31, 2017

ASSETS

Current assets:

Cash and equivalents	\$ 158,921
Trade receivable - net of allowance for doubtful accounts of \$42,000	2,534,484
Inventories	3,461,929
Other current assets	286,835
Advances to affiliate	1,619,561
Total current assets	<u>8,061,730</u>

Plant and equipment	9,367,275
Less: accumulated depreciation	<u>7,387,668</u>
	<u>1,979,607</u>

Other assets, net	<u>1,231</u>
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TOTAL ASSETS	<u><u>\$ 10,042,568</u></u>
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LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Bank overdraft	\$ 1,311,573
Accounts payable	2,358,010
Income taxes payable	28,184
Accrued payroll and taxes	363,442
Accrued expenses	623,851
Total current liabilities	<u>4,685,060</u>

Deferred income taxes	<u>148,181</u>
Total liabilities	<u>4,833,241</u>

Stockholders' equity:

Common stock, \$1 par value, 1,000 shares authorized, 1,000 shares issued and outstanding	1,000
Paid-in capital	1,287,000
Retained earnings	3,921,327
Total stockholders' equity	<u>5,209,327</u>

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 10,042,568</u></u>
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The accompanying notes are an integral
part of the financial statements.

JOTUL NORTH AMERICA, INC.
STATEMENT OF INCOME AND RETAINED EARNINGS
for the year ended December 31, 2017

Net revenue	\$ 23,058,055
Cost of revenue	<u>13,416,177</u>
Gross profit	9,641,878
Operating costs:	
Distribution costs	964,559
Sales commissions	896,663
Manufacturing overhead	1,528,235
Purchasing and logistics	545,732
Warranty claims	135,761
Selling, marketing and shipping	1,370,056
General and administrative expenses	1,609,197
Research and development	528,027
Bad debt expense	8,000
Depreciation and amortization expense	<u>618,259</u>
Total operating costs	<u>8,204,489</u>
Income from operations	1,437,389
Other income (expense):	
Gain on sale of fixed assets	17,500
Other nonoperating income/(expenses)	(849)
Interest expense	<u>(126,007)</u>
Total other income (expenses)	<u>(109,356)</u>
Income before income taxes	1,328,033
Provision for income taxes	<u>389,142</u>
Net income	<u>938,891</u>
Retained earnings, beginning of year	<u>2,982,436</u>
Retained earnings, end of year	<u><u>\$ 3,921,327</u></u>

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

JOTUL NORTH AMERICA
STATEMENT OF CASH FLOWS
for the year ended December 31, 2017

Cash flows from operating activities:	
Net income	\$ 938,891
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	617,987
Gain on sale of fixed assets	(17,500)
Deferred income taxes	(34,292)
Changes in current assets and liabilities:	
Accounts receivable	(232,731)
Inventories	1,200,236
Other current assets	(57,140)
Accounts payable and accrued expenses	687,144
Income taxes payable	(116,744)
Net cash provided by operating activities	<u>2,985,851</u>
Cash flows from investing activities:	
Proceeds from sale of fixed assets	17,500
Purchase of fixed assets	(440,350)
Net cash used by investing activities	<u>(422,850)</u>
Cash flows from financing activities:	
Net repayments on short-term borrowings	(1,228,758)
Net advance from bank overdraft	291,620
Net advances to affiliate	(1,619,561)
Net cash provided (used) by financing activities	<u>(2,556,699)</u>
Net increase (decrease) in cash and cash equivalents	6,302
Cash and equivalents, beginning of year	<u>152,619</u>
Cash and equivalents, end of year	<u>\$ 158,921</u>
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest	\$ 126,007
Income taxes	\$ 505,886

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of business

Jotul, North America (the "Company"), a wholly owned subsidiary of Jotul AS, manufactures gas and wood stoves which are sold to both dealers and distributors throughout the United States and Canada.

Basis of presentation

The financial statements have been prepared in accordance with accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets generally accepted accounting principles in the United States of America ("GAAP") to ensure financial condition, results of operations, and cash flows are consistently reported. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification ("FASB ASC").

Use of estimates

The preparation of the financial statements in conformity with GAAP 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 financial statements and the reported amounts of revenues and expenses during the period. Actual amounts could differ from those estimates. Estimates impacting the financial statements include the allowance for doubtful accounts, warranty reserve, and allowance for obsolete inventory, and customer incentives (co-op advertising and burn credits to dealers).

Cash and equivalents

The Company considers highly liquid investments purchased with an original maturity of three months or less to be cash and equivalents.

Concentration of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk are cash, trade accounts receivable, and amounts due from related parties. U.S. cash balances are maintained at financial institutions that are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. At times balances may exceed federally insured limits, however, the Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Inventory

Inventory is valued at the lower of cost or net realizable value with costs determined as follows:

- (a) Raw materials on the first-in, first-out basis.
- (b) Work-in-progress and finished goods primarily on the specific identification basis for materials and labor with a factory overhead rate applied based on raw material and labor costs.

Inventories are shown net of reserves for potential excess or obsolete inventory. The reserve is established based on review of slow-moving inventory items considering historical sales and expectations of whether the inventory can be sold.

Jotul North America, Inc.
Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Plant and equipment

Plant and equipment is recorded at cost. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Leasehold improvements	10 years
Machinery and equipment	4-10 years
Office furniture, equipment	3-10 years
Vehicles	5 years

Depreciation and amortization expense were \$618,259 for the year ended December 31, 2017.

Maintenance and repairs are expensed as incurred; renewals and betterments are capitalized. Upon retirement or sale, the cost of the assets and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the results of operations.

Impairment of long-lived assets

The Company reviews plant and equipment for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Impairment losses are recorded on long-lived assets used in operations when indicators of those assets are less than the assets' carrying amounts. The impairment loss is measured by comparing the fair market value of the asset to its carrying amount. The Company did not identify any impairment indicators of its long-lived assets for the year ended December 31, 2017.

Revenue recognition and accounts receivable

Revenue is recognized when the following basic revenue recognition criteria have been met: persuasive evidence of an arrangement exists, title has transferred, the price to the buyer is fixed or determinable and collectability is reasonably assured. Determination of the fixed or determinable price and collectability are based on management's judgments regarding the fixed nature of the price to the buyer charged for products delivered and collectability of the sales price. Amounts received from customers prior to recognition of revenue are recorded as customer deposits.

Trade accounts receivable is recorded at the amount the Company expects to collect on balances outstanding at year end. Management closely monitors outstanding balances and reserves against any doubtful accounts. Trade receivables over 90 days old were \$2,000 in 2017.

Shipping and handling costs

Freight billed to customers is considered sales revenue and the related freight costs as a cost of sales.

Advertising and marketing

Advertising and marketing costs other than product literature are expensed as incurred and totaled \$310,287 for the year. Product literature is expensed as it is consumed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Product warranty

The Company provides warranties on certain products which range from one to five years. The estimated cost of product warranties at year end is included in accrued expenses on the balance sheet and are determined based on historical information and analysis by the Company at the time the related product revenue is recognized. Actual and estimated warranty differences are recorded by the Company in the period determined. Warranty costs are included in operating expenses.

Income taxes

Provisions for Federal, state and non-US income taxes are calculated on reported income before income taxes based on current tax law, and also include, in the current period, the cumulative effect of any change in tax rates from those used previously in determining deferred tax assets and liabilities. The Company provides for income taxes in accordance with related guidance, which is to recognize tax assets and liabilities for the cumulative effect of all temporary differences between financial statement carrying amounts and the tax bases of assets and liabilities. Valuation allowances are established, by jurisdiction, when necessary to reduce deferred tax assets to the amount management determines is likely to be realized in future periods.

The Company recognizes the tax benefit of tax positions taken in its tax returns to the extent that the benefit will more likely than not be realized. The determination as to whether the tax benefit will more likely than not be realized is based upon the technical merits of the tax position as well as consideration of the available facts and circumstances. As of December 31, 2017, management evaluated the Company's tax positions and concluded the Company did not have any material uncertain tax positions. With few exceptions, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for the years before 2014. The Company recognizes interest and penalties related to uncertain tax positions, if any, as a component of the provision for income taxes in the statement of income. For the year ended December 31, 2017, there were no such interest and penalties incurred.

New tax legislation

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act tax reform legislation. This legislation makes significant changes in U.S. tax law including a reduction in the corporate tax rates, changes to net operating loss carryforwards and carrybacks, and a repeal of the corporate alternative minimum tax. The legislation did reduce the U.S. corporate tax rate from the current rate of 35% to 21%. As a result of the enacted law, the Company was required to revalue deferred tax assets and liability at the rate in effect during their scheduled reversal. This revaluation resulted in a benefit of \$42,489 to income tax expense and a corresponding reduction in the deferred tax liability.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Adoption of recent accounting pronouncements

During July 2015, the FASB issued ASU 2015-11, *Inventory (FASB ASC 330): Simplifying the Measurement of Inventory* ("ASU 2015-11"). The amendments in the ASU require entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at lower of cost or net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. This ASU will be effective for the Company for fiscal years beginning after December 15, 2016. The Company early adopted ASU 2015-11 during the year ended December 31, 2015.

Accounting pronouncements not yet adopted

In February 2016, the FASB issued ASU 2016-02 *Leases (FASB ASC 842)* ("ASU 2016-02"). The guidance in ASU 2016-02 supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The new standard is effective for fiscal years beginning after December 15, 2019 including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into, after the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company has not yet selected a transition method and is currently evaluating the impact of the adoption of this standard on its financial statements.

During August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (FASB ASC 230): Classification of Certain Cash Receipts and cash Payments* ("ASU 2016-15"). ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 will be effective for the Company on January 1, 2019. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2016-15 on its statement of cash flows.

2. TRADE RECEIVABLE:

Approximately 17.9% of accounts receivable at December 31, 2017 were from the Company's four largest distributors. These customers have individual receivable balances between 8.3% and 0.9% of accounts receivable at December 31, 2017. Sales to these four customers represent 24.8% of total sales.

3. INVENTORIES:

Inventories December 31, 2017 consisted of the following:

Raw material	\$ 2,276,315
Work in process	22,158
Finished goods	1,262,463
Valuation allowance	(99,007)
	<u>\$ 3,461,929</u>

Jotul North America, Inc.
Notes to the Financial Statements

4. PLANT AND EQUIPMENT:

Property and equipment as of December 31, 2017 consisted of the following:

Leasehold improvements	\$	689,785
Machinery and equipment		6,667,190
Office furniture and equipment		1,376,183
Vehicles		434,941
Construction in progress		199,176
	\$	<u>9,367,275</u>

5. RELATED PARTY:

- The Company is wholly owned by Jotul, AS, a Norwegian company that manufactures, distributes and sells wood-burning stoves, wood-burning fireplaces, gas-burning stoves, gas-burning fireplaces and auxiliary equipment.

Jotul AS (the Group) has six other subsidiaries as follows:

Jotul France SASU	Jotul Hispania
Jotul UK Ltd	Jotul Polska
Scan AS	Jotul Italian S.R.L.

The following transactions occurred between the Company and other affiliated companies:

Purchases from:

Jotul AS for cast iron and other materials	\$	4,282,675
Scan AS for Stoves and parts		-
Jotul AS for interest		55,469
	\$	<u>4,338,144</u>

Sales to:

Jotul France SASU	155,479
Jotul UK Ltd.	302,291
	<u>\$ 457,770</u>

Amounts due from affiliates are included in trade receivables as follows:

Jotul France SASU	\$	20
Jotul UK Ltd.		222,663
Jotul AS		74,706
	\$	<u>297,389</u>

The trade payables include \$1,109,096 at December 31, 2017 from Jotul AS.

The Company also receives cash flow funding from its parent and affiliates in the form of a cash overdraft arrangement and a line of credit. As described in Note 6.

6. CASH OVERDRAFT AND BORROWINGS:

The Company participates in a loan agreement with the parent, Jotul AS, and its bank (Nordea) which among other things includes a multi-currency bank overdraft facility for the entire Group. The subsidiaries are included in the cash pool system and every company has a bank overdraft tied to its account. Jotul AS manages the system and distributes the overdraft facility to the individual companies as required. Every subsidiary has a loan or deposit relationship with Jotul AS and not with external financial institutions. The Company and the other subsidiaries have a joint responsibility to Nordea for the obligations of Jotul AS. The outstanding balance was \$1,311,573 at December 31, 2017.

The Company through joint financing with its parent has a \$1,500,000 line of credit for advances, and letter of credits through this loan agreement at interest rate of Libor rate plus 1.8%. At December 31, 2017 the Company had advanced its parent \$1,619,561, at the same interest rates.

7. COMMITMENTS AND CONTINGENCIES:

The Company leases its offices and manufacturing facility in Gorham under an operating lease through October 2024. As of January 2017, minimum payments under this lease are \$367,238 a year with a 1.75% inflator. Rent expense was \$367,238 in 2017.

Future minimum lease payments under the non-cancelable operating lease are as follows:

2018	\$ 373,665
2019	380,204
2020	386,858
2021	393,628
2022	400,516
Thereafter	752,069
	<u>\$ 2,686,940</u>

8. RETIREMENT PLAN:

The Company has a defined contribution pension plan (401(k)) that covers qualified employees at least eighteen years of age who have completed three months of service. Participants are fully vested immediately.

Pension expense was \$161,321 in 2017.

9. INCOME TAX EXPENSE:

Deferred Taxes result principally from temporary differences in the amounts recorded for depreciation, allowance for doubtful accounts, inventory reserves and accrued expenses for financial statement and tax reporting purposes. The components of deferred taxes at December 31, 2017 are as follows:

Deferred tax liability from temporary differences	\$ 338,414
Deferred tax asset from temporary differences	<u>190,233</u>
Net deferred tax liability	<u>\$ 148,181</u>

Jotul North America, Inc.
Notes to the Financial Statements

9. INCOME TAX EXPENSE (continued):

The actual tax provision is different than what may be anticipated principally because of the effects of lower tax brackets. The components of income tax expense are as follows:

Current	\$ 423,434
Deferred	(34,292)
	<u>\$ 389,142</u>

10. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through February 15, 2019, the date which the financial statements were available to be listed.

In 2018 the Company purchased \$784,000 of manufacturing equipment and two forklifts for \$86,000 through capital leases. The leases are due between April 2023 and July 2025.