

**REC AMERICAS LLC**

**Financial Statements**

**For the year ended 31st December, 2021**

## **REC AMERICAS LLC**

### **Balance Sheet** December 31, 2021

#### **ASSETS**

Current assets:	
Cash and cash equivalents	\$ 4,993,041
Accounts receivable, net	73,549,864
Inventory	2,946,335
Prepaid expenses	63,681
Inventory deposits	10,263,639
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Total current assets	91,816,560
Property and equipment, net	26,239
Other assets:	
Note receivable, affiliate	33,878,540
Other assets	554,800
Operating lease right-of-use asset, net	66,760
Deferred income taxes	1,077,000
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	\$ 127,419,899
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#### **LIABILITIES AND STOCKHOLDER'S EQUITY**

Current liabilities:	
Accounts payable	\$ 1,549,573
Accrued liabilities	4,994,229
Deferred revenue	921,122
Due to affiliates	19,486,219
Operating lease liability	36,425
Income tax payable	1,393,794
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Total current liabilities	28,381,362
Long-term liabilities:	
Operating lease liability	30,502
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Total liabilities	28,411,864
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Retained earnings	99,008,035
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	99,008,035
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	\$ 127,419,899
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The accompanying notes are an integral part of these financial statements

**REC AMERICAS LLC**  
**Statement of Operations and Retained Earnings**  
Year Ended December 31, 2021

Revenues, net	\$ 320,202,199
Cost of revenues	<u>211,827,772</u>
Gross profit	108,374,427
Operating expenses:	
Selling, general and administrative	<u>38,878,122</u>
Income from operations	<u>69,496,305</u>
Other income:	
Other income, net	76,793
Interest income	176,208
Gain on foreign exchange	9,413
	<u>262,414</u>
Income before provision for income taxes	69,758,719
Provision for incomes taxes	<u>18,080,992</u>
Net income	51,677,727
Retained earnings, beginning of year	<u>47,330,308</u>
Retained earnings, end of year	<u>\$ 99,008,035</u>

The accompanying notes are an integral part of these financial statements

**REC AMERICAS LLC**  
**Statement of Cash Flows**  
**Decrease in Cash and Cash Equivalents**  
Year Ended December 31, 2021

Cash flows from operating activities:	
Net income	\$ 51,677,727
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	14,311
Deferred income benefit	(563,000)
Allowance for doubtful accounts	(157,469)
Allowance for rebates and other allowances	1,459,613
Non-cash lease expense	(2,084)
Changes in operating assets and liabilities:	
Accounts receivable	(39,248,436)
Inventory	3,711,363
Prepaid expenses	(11,444)
Inventory deposits	(5,432,715)
Other assets	22,800
Accounts payable	325,411
Accrued liabilities	(1,606,015)
Deferred revenue	(645,847)
Due to affiliates	15,465,149
Income tax payable	(805,545)
Net cash provided by operating activities	<u>24,203,819</u>
Cash flows from investing activities:	
Advances on note receivable, affiliate	(37,878,540)
Repayments on note receivable, affiliate	4,000,000
Purchase of property and equipment	(24,720)
Net cash used by investing activities	<u>(33,903,260)</u>
Net decrease in cash and cash equivalents	(9,699,441)
Cash and cash equivalents, beginning of year	<u>14,692,482</u>
Cash and cash equivalents, end of year	<u>\$ 4,993,041</u>
<u>Supplemental disclosure of cash flow information</u>	
Cash paid during the year for:	
Interest	\$ -
Income taxes	\$ 19,449,537
<u>Supplemental disclosure of non-cash financing transactions</u>	
Assets acquired under operating lease	\$ 72,977

The accompanying notes are an integral part of these financial statements

**REC AMERICAS LLC**  
**Notes to Financial Statements**  
For the year ended December 31, 2021

**Note 1 - Organization and operations:**

REC Americas is a distributor of solar panels principally to companies in the United States. The Company has offices in Northern California.

**Note 2 - Summary of significant accounting policies:**

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“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 reported period. Actual results could differ from those estimates.

Concentrations - Financial instruments that potentially subject the Company to concentrations of credit risk are comprised principally of cash and cash equivalents and accounts receivables.

The Company has cash on deposit with a federally insured bank. At times, such deposit balances may be in excess of the maximum amount insured by the Federal Deposit Insurance Corporation. Additionally, the Company has money market fund investments with the same institution that are not federally insured. Management has not experienced any losses from these deposits or short-term investments.

For the year ended December 31, 2021, sales of solar panels to two customers comprised approximately 32% and 20% of revenues, respectively. At December 31, 2021, the same two customers made up approximately 34% and 44% of the accounts receivable, net. Management believes these balances to be fully collectible.

The Company purchases solar panel products from its overseas affiliates (Note 4).

## **REC AMERICAS LLC**

### **Notes to Financial Statements**

For the year ended December 31, 2021

#### **Note 2 - Summary of significant accounting policies (continued):**

Cash and cash equivalents - For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents include investments in money market funds and short-term securities purchased with a maturity of generally three months or less, and are carried at cost which approximates market value. Cash equivalents consisting of a money market sweep account was approximately \$4,655,000 at December 31, 2021.

Accounts receivable, net - The Company extends credit to its customers in the normal course of business. The Company does not require cash collateral or other security to support customer receivables. The Company performs on-going credit evaluations of its customers' financial condition as well as an analysis of the aging of receivables to estimate allowances for potential credit losses. Losses are written off against the allowance when determined to be uncollectible. Payment terms are typically 30 or 60 days depending on the customer. As of December 31, 2021, the allowance for doubtful accounts included in accounts receivable on the financial statements was approximately \$117,000. The accounts receivable, net balance is approximately \$73,550,000 and \$35,604,000 at December 31, 2021 and 2020, respectively.

Provisions are made at the time of sale for estimated rebates and discount allowances. Management analyzes historical sales, current economic trends, changes in customer demand, and sell-through of products when evaluating the adequacy of the rebate and other allowances. Significant management judgments and estimates must be made in connection with establishing the rebate and other allowances in any accounting period. As of December 31, 2021, the reserves for rebates amounted to approximately \$2,382,000 in addition to the allowance for doubtful accounts.

Inventory - Inventory is stated at the lower of weighted average cost or net realizable value. Inventory consists of solar panels that are sold as finished goods. The Company performs an on-going review of the salability of the aged inventory items to estimate potential lower of cost or net realizable value issues.

Inventory deposits - The Company periodically makes inventory deposits with their Affiliate's financing vendor in the normal course of business. The inventory is delivered to the Company within one year from the deposit date and therefore, inventory deposits are classified as current assets on the accompanying balance sheet.

Property and equipment, net - Property and equipment are stated at cost and are depreciated using the straight-line method over the assets' estimated useful lives ranging from 3 to 7 years. Expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts, and any gain or loss on the disposition is reflected in the accompanying statement of operations and retained earnings.

## **REC AMERICAS LLC**

### **Notes to Financial Statements**

For the year ended December 31, 2021

#### **Note 2 - Summary of significant accounting policies (continued):**

Impairment of long-term assets - The Company reviews long-lived assets for impairment when circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparison of the carrying amount to the future net cash flows which the assets are expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the projected discounted future net cash flows arising from the asset. There were no impairment losses recognized in 2021.

Revenue recognition - The Company accounts for revenue recognition in accordance with Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The standard's core principle requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services.

The Company’s customers are primarily other distributors and some installers. Customer purchase orders represent a separate contract and performance obligation as the customer can benefit from each order separately. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods. Revenue is recognized as performance obligations are fulfilled at a point in time when delivered, and control passes to customers, as the delivery of the obligations are integral to the customer receiving benefit. To indicate the transfer of control, the Company must have a present right to payment, legal title must have passed to the customer, the customer must have the significant risks and rewards of ownership, and where acceptance is not a formality, the customer must have accepted the product. Other considerations regarding revenue recognition include:

Warranties - As the Company is a distributor of manufactured goods, any warranties associated with the goods being exchanged are passed through to the customer from the manufacturer rather than through the Company.

Returns - The Company will allow returns of defective product to be exchanged with the manufacturer however the predictability of the return is hard to estimate and historically returns are not material. As such the Company does not estimate a returns allowance.

Bill and hold arrangements - The Company’s customers will from time-to-time request the Company to bill them for the goods before they ship if the customer does not have the capacity to hold the goods at such time when the goods are ready for transfer. The Company has determined control passes to customers once the goods are physically ready to be transferred and have been separately identified within the warehouse as customer property.

**REC AMERICAS LLC**  
**Notes to Financial Statements**  
For the year ended December 31, 2021

**Note 2 - Summary of significant accounting policies (continued):**

Revenue recognition (continued) -

Drop shipments - The Company acts as a principal in drop shipment arrangements with customers as the Company has determined to have control of the goods before they are transferred to their customer due to 1) the Company being primarily responsible for fulfilling the promise to provide the specific goods, 2) the Company having inventory risk before and after the customer order is placed, and 3) the Company having latitude in establishing the price of the goods with customers.

The Company offers various sales incentive programs to its customers in the normal course of business. These incentives typically include arrangements such as rebates and discounts. These arrangements represent forms of variable consideration, and an estimate of rebates and discounts are reflected as reductions in net revenues in the Company's statement of operations and retained earnings. These estimates are based on historical experience and other known factors or as the most likely amount in a range of possible outcomes. Variable consideration is assessed on a contract-level approach in estimating the extent to which the components of variable consideration are constrained.

To promote solar panel products, the Company offers rebates as a sales incentive to some of their customers for the customer's sales to end users and a rebate rate agreed upon in a separate agreement between the Company and their customer. The Company records the estimated rebates as reductions to revenue in the accompanying statement of operations and retained earnings at the time the related customer sales were made. Accrued estimated rebates was approximately \$2,382,000 at December 31, 2021 and was included in accounts receivable.

All of the Company's contracts have an expected term of less than one year therefore the Company utilizes the practical expedient approach under Topic 606 and does not disclose the value of unsatisfied performance obligations.

Deferred revenue (contract liability) - The Company requires deposits for certain customer orders. Deposits are recognized as revenue when all of the revenue recognition criteria have been met. The Company anticipates that customer deposits will be recognized within the succeeding 12 month-period.

Advertising - Advertising costs are expensed as incurred and are included in selling, general and administrative on the accompanying statement of operations and retained earnings. Advertising costs for 2021 were not material.

Shipping and handling expenses - Amounts related to shipping and handling are paid by the Company and are absorbed by the Company as cost of revenues.

**REC AMERICAS LLC**  
**Notes to Financial Statements**  
For the year ended December 31, 2021

**Note 2 - Summary of significant accounting policies (continued):**

Sales tax - The Company records the amounts collected for sales taxes as a current liability and relieves such liability upon remittance to the taxing authority without impacting sales or expenses.

Leases - Effective January 1, 2020, the Company adopted ASU 2016-02, *Leases*, and subsequent amendments (“Accounting Standards Codification 842”). The Company determines an arrangement is a lease and its classification at lease inception. Operating and financing lease liabilities are recognized at the commencement date of the lease based on the present value of the lease payments over the lease term. The Company uses the risk-free rate at inception when the implicit lease is not readily determinable. Right-of-use (“ROU”) assets are measured at lease inception based on the initial measurement of the lease liability. The Company does not recognize ROU assets or lease liabilities with a term of 12 months or less. Lease terms do not include options to extend or terminate the lease unless it is reasonably certain that the option will be exercised. Generally, lease expense for lease payments is recognized on a straight-line basis over the lease term.

Income taxes - The Company accounts for income taxes using the liability method. Deferred income taxes are determined based on the difference between the financial statement and tax bases of assets and liabilities using currently enacted tax rates and laws. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that some or all of a deferred tax asset may not be realized. Income tax benefit (provision) is comprised of the taxes receivable (payable) for the year and the net change in deferred tax assets and liabilities during the year.

The Company evaluates its tax positions for any potential uncertain tax positions. If applicable, the Company accrues for those positions identified which are not deemed more likely than not to be sustained if challenged and recognizes interest and penalties on any unrecognized tax benefits as a component of the provision for (benefit from) income taxes.

REC Americas is not subject to federal income taxes as it is a Limited Liability Company (“LLC”). As such, this entity pays no federal income taxes. It does pay a minimum tax to the State of California and may be subject to an additional fee based on annual gross revenues. Fees paid to the state are included in selling, general and administrative expenses in the accompanying statement of operations and retained earnings, and the minimum tax is included in the provision for (benefit from) income taxes. The members of the LLC are individually taxed on their proportionate share of the respective taxable income.

Subsequent events - The Company has evaluated subsequent events through the date that the financial statements were available to be issued which is the date of the independent auditors' report.

**REC AMERICAS LLC**  
**Notes to Financial Statements**

For the year ended December 31, 2021

**Note 3 - Balance sheet components:**

Property and equipment, net consist of the following at December 31, 2021:

Office furniture and equipment	\$	22,577
Computer equipment		<u>71,742</u>
Total		94,319
Accumulated depreciation		<u>(68,080)</u>
	\$	<u><u>26,239</u></u>

For the year ended December 31, 2021, depreciation expense related to property and equipment was approximately \$14,000.

Accrued liabilities consist of the following at December 31, 2021:

Tariffs	\$	3,713,062
Legal expenses		261,354
Payroll and payroll related		549,406
Sales tax payable		119,407
Accrued other		<u>351,000</u>
	\$	<u><u>4,994,229</u></u>

**Note 4 - Transactions with affiliates:**

Transactions with the Parent and overseas affiliates under common control, other than those disclosed elsewhere in these financial statements, are as follows:

Inventory purchases - REC Americas purchases principally all solar panel products from its Affiliates. While such purchases are made pursuant to purchase orders without guaranteed supply arrangements, the Company does not expect any shortages resulting from these supply and manufacturing relationships which would have a material effect on the future operating results. Purchases from Affiliates in 2021 were approximately \$39,502,000.

Royalty expense - The Company pays royalties on sales up to 3.5% of solar panel product sales, as defined in the agreement, to its affiliates. For the year ended December 31, 2021, the amount of royalty expense to its affiliates was approximately \$15,732,000.

**REC AMERICAS LLC**  
**Notes to Financial Statements**  
For the year ended December 31, 2021

**Note 4 - Transactions with affiliates (continued):**

Management fees - The Company pays management fees, as defined in the agreements, to its affiliates. For the year ended December 31, 2021, the amount of management fees to its affiliates were approximately \$13,314,000.

Note receivable, affiliate - During 2021, REC Americas entered into a loan facility agreement with Solar Holdings AS which allows advances up to \$50,000,000. The agreement expires December 31, 2024. Interest accrues at a LIBOR plus 1.20% commencing January 1, 2022. Principal and accrued interest can be partially paid any time during the term or in full at maturity. The outstanding balance of the note receivable, affiliate at December 31, 2021 was approximately \$33,879,000.

Due to affiliates - Due to Affiliates at December 31, 2021 consist of the following:

REC Solar Pte Ltd	\$	14,977,007
Rec Solar Holdings AS		4,197,000
REC Solar EMEA GmbH		<u>312,212</u>
	\$	<u><u>19,486,219</u></u>

**Note 5 - Income taxes:**

The provision for income taxes consists of the following:

Federal:		
Current	\$	14,306,064
Deferred		<u>(559,000)</u>
		<u>13,747,064</u>
State:		
Current		4,337,928
Deferred		<u>(4,000)</u>
		<u>4,333,928</u>
	\$	<u><u>18,080,992</u></u>

**REC AMERICAS LLC**  
**Notes to Financial Statements**  
For the year ended December 31, 2021

**Note 5 - Income taxes (continued):**

Significant components of net deferred tax assets at December 31, 2021 consist approximately of the following:

Depreciation	\$	(6,000)
Accrued expenses and reserves		<u>1,083,000</u>
	\$	<u><u>1,077,000</u></u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

A reconciliation between the expected income tax expense at the federal statutory tax rate and the reported income tax expense is approximately as follows:

Expected income tax benefit provision	\$	11,482,000
State income taxes, net of federal benefit		2,675,000
Permanent and other		<u>3,924,000</u>
	\$	<u><u>18,081,000</u></u>

The Company did not have unrecognized tax positions as of December 31, 2021. The Company did not recognize any expense for interest and penalties related to uncertain tax positions during 2021 and 2020. The Company files U.S. federal and various state tax returns. The Company is generally no longer subject to tax examinations for years prior to 2018 for federal purposes and prior to 2017 for state purposes.

**REC AMERICAS LLC**  
**Notes to Financial Statements**

For the year ended December 31, 2021

**Note 6 - Leases:**

The Company leases office facilities under operating leases agreements, expiring at various times through January 2024, which require total monthly payments of approximately \$29,700 and stipulates scheduled rent increases over the lives of the leases resulting in uneven cash flows. Total lease expense during the year ended December 31, 2021 was approximately \$82,000.

Other information about these operating leases is as follows:

Weighted average remaining lease term (years)	1.80
Weighted average discount rate	3.51%

The following is a maturity analysis of the annual undiscounted cash flows of the operating lease liability as of December 31, 2021:

Year Ended December 31,	Amount
2022	\$ 38,232
2023	29,010
2024	2,142
Total lease payments	69,384
Less: Imputed interest	(2,457)
Present value of operating lease liability	66,927
Less: Current portion	(36,425)
Operating lease liability, long-term	\$ 30,502

**Note 7 - Employee benefit plans:**

REC Americas has a 401(k) Profit Sharing Plan (the "401(k) Plan") in which employees who have met certain service and eligibility requirements may participate. Each eligible employee may elect to contribute to the 401(k) Plan, and the Company may make discretionary contributions. REC Americas made discretionary contributions during 2021 of approximately \$186,000.

**Note 8 - Contingencies:**

Litigation - From time to time, the Company is involved in various claims arising in the ordinary course of business. In the opinion of management, after reviewing such matters with legal counsel, any liability arising from such claims is not expected to have a material adverse effect on the Company's financial position and results from operations.