

SAEAN R&D INC.

FINANCIAL STATEMENTS

For the years ended December 31, 2021 and 2020

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## **Report of Independent Registered Public Accounting Firm**

To the shareholders and the board of directors of SAEAN R&D INC.

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of SAEAN R&D INC. as of December 31, 2021 and 2020, the related statements of operations, stockholders' equity (deficit), and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

### **Substantial Doubt about the Company's Ability to Continue as a Going Concern**

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations and has a significant accumulated deficit. In addition, the Company continues to experience negative cash flows from operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/S/ BF Borgers CPA PC

**BF Borgers CPA PC (PCAOB ID 5041)**

We have served as the Company's auditor since 2022

Lakewood, CO

October 13, 2022

SAEAN R&D INC.  
BALANCE SHEETS  
December 31, 2021 and 2020  
(unaudited)

Assets	U.S. dollars (Note 3)	
	2021	2020
Current assets:		
Cash and cash equivalents	US\$ 50,311	US\$ 474
Other receivables	57,293	20,755
Advance payments	27,180	21,037
Prepaid expenses	730	1,322
Prepaid taxes	-	515
Total current assets	135,514	44,103
Financial instrument (Note 4)	58,772	-
Property and equipment, net (Note 5)	114,871	229,645
Industrial properties (Note 6)	1,502	3,729
Non-marketable equity investments (Note 7)	126,360	137,684
Equity method investment (Note 8)	28,906	39,210
Operating lease assets (Note 9)	42,996	140,099
Lease deposits (Note 9)	88,823	133,658
Deferred income taxes (Note 12)	2,601,742	2,484,649
Less valuation allowance	(2,601,742)	(2,484,649)
Total assets	US\$ 597,744	US\$ 728,128
Liabilities and Stockholders' Deficits		
Current liabilities:		
Accounts payable (Note 10)	US\$ 870,053	US\$ 1,370,941
Short-term operating leases liabilities (Note 9)	42,996	93,250
Short-term borrowings (Notes 10,11)	3,404,376	5,818,857
Due to parent company (Note 11)	2,659,131	-
Advance receipts from related parties (Note 11)	1,181,243	-
	8,157,799	7,283,048
Operating lease liabilities (Note 9)	-	46,849
Accrued severance benefits (Note 3)	262,303	307,244
Total liabilities	8,420,102	7,637,141
Commitments and contingencies (Note 3)		
Stockholders' deficits:		
Common stock, KRW 500 par value:		
Authorized, 100,000,000 shares Issued and outstanding, 6,000,000 shares	2,692,899	2,692,899
Additional paid-in capital	1,601,239	1,601,239
Accumulated deficits	(12,353,725)	(10,819,752)
Accumulated other comprehensive gain, net	237,229	(383,399)
Total stockholders' deficits	(7,822,358)	(6,909,013)
Total liabilities and stockholders' deficits	US\$ 597,744	US\$ 728,128

See Notes to Financial Statements

SAEAN R&D INC.  
STATEMENTS OF OPERATIONS  
For the years ended December 31, 2021 and 2020  
(unaudited)

	U.S. dollars (Note 3)	
	2021	2020
Revenue (Note 11)	US\$ 501,789	US\$ 485,598
Cost of Revenue	226,020	-
<b>Gross profit</b>	<b>275,769</b>	<b>485,598</b>
Selling, general and administrative expenses:		
Salaries and bonuses	786,587	1,251,705
Provision for accrued severance benefits	66,445	197,155
Welfare and training	71,134	102,414
Travel	15,294	32,569
Taxes and dues	28,260	55,973
Office lease and other rentals	-	-
Operating leases cost (Note 9)	122,454	167,649
Advertising	-	331
Entertainment	270	379
Commission Fees	341,583	213,431
Depreciation (Note 5)	66,427	81,556
Amortization	1,989	-
Supplies	2,839	5,499
Logistics	5,304	1,295
Outsourcing	-	92,369
Car maintenance	5,426	124
Other	24,027	101,713
	1,538,039	2,304,162
Research and development expenses (Note 3)	92,272	344,908
<b>Operating loss</b>	<b>(1,354,542)</b>	<b>(2,163,472)</b>
Other income (expense):		
Interest income	93	1,645
Interest expenses	(157,988)	(173,552)
Gain on disposal of property and equipment	4,734	-
Loss on disposal of property and equipment	(3,256)	13,069
Share of loss of an investee under the equity method of accounting (Note 8)	(6,555)	51,249
Foreign currency transaction loss, net	(1,384)	-
Other, net	(15,075)	(17,704)
<b>Loss before income taxes</b>	<b>(1,533,973)</b>	<b>(2,417,401)</b>
Provision for income taxes (Note 12)	-	-
<b>Net loss</b>	<b>US\$ (1,533,973)</b>	<b>US\$ (2,417,401)</b>
<b>Loss per share - basic and diluted (Note 13)</b>	<b>US\$ (0.26)</b>	<b>US\$ (0.40)</b>
<b>Weighted average number of shares - basic and diluted</b>	<b>6,000,000</b>	<b>6,000,000</b>

See Notes to Financial Statements

SAEAN R&D INC.  
STATEMENTS OF STOCKHOLDERS' DEFICITS  
For the years ended December 31, 2021 and 2020  
(unaudited)

U.S. dollars (Note 3)

	Number of shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (loss)	Total
<b>Balances, January 1, 2020</b>	<u>6,000,000</u>	<u>US\$ 2,692,899</u>	<u>US\$ 1,601,239</u>	<u>US\$ (8,402,351)</u>	<u>US\$ 77,937</u>	<u>US\$ (4,030,276)</u>
Comprehensive loss						
Net loss				(2,417,401)		(2,417,401)
Foreign currency translation					(461,336)	(461,336)
Total comprehensive loss						(2,878,737)
Issuance of common stock		-	-			-
<b>Balances, December 31, 2020</b>	<u>6,000,000</u>	<u>US\$ 2,692,899</u>	<u>US\$ 1,601,239</u>	<u>US\$ (10,819,752)</u>	<u>US\$ (383,399)</u>	<u>US\$ (6,909,013)</u>
Comprehensive loss						
Net loss				(1,533,973)		(1,533,973)
Foreign currency translation					620,628	620,628
Total comprehensive loss						(913,345)
Issuance of common stock		-	-			-
<b>Balances, December 31, 2021</b>	<u>6,000,000</u>	<u>US\$ 2,692,899</u>	<u>US\$ 1,601,239</u>	<u>US\$ (12,353,725)</u>	<u>US\$ 237,229</u>	<u>US\$ (7,822,358)</u>

See Notes to Financial Statements

SAEAN R&D INC.  
STATEMENTS OF CASH FLOWS  
For the years ended December 31, 2021 and 2020  
(unaudited)

	U.S. dollars (Note 3)	
	2021	2020
<b>Cash flows from operating activities:</b>		
Net loss	US\$ (1,533,973)	US\$ (2,417,402)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	66,427	81,556
Amortization	1,989	-
Share of loss of an investee under the equity method of accounting	6,555	51,249
Provision for accrued severance benefits	66,445	197,155
Payments of severance and retirements benefits	(86,822)	(77,673)
Gain on disposal of property and equipment	(4,734)	-
Loss on disposal of property and equipment	3,256	13,069
Changes in assets and liabilities:		
Other receivable	(39,618)	124,853
Prepaid expenses	500	2,157
Advance payments	(8,155)	(43)
Prepaid taxes	489	152
Accounts payable	(402,069)	897,515
Accrued expenses	(1)	(1)
Advances received from a related party	1,223,644	-
Withholdings	-	(74,969)
Net cash used in operating activities	(706,067)	(1,202,382)
<b>Cash flows from investing activities:</b>		
Increase in short-term time deposits	-	55,506
Increase in financial instruments	(60,881)	-
Increase in non-marketable equity investments	-	(126,944)
Acquisition of property and equipment	-	(2,771)
Proceeds from disposal of property and equipment	34,380	44,682
Decrease in lease deposits	34,952	4,237
Decrease in other noncurrent assets	106	5,600
Net cash provided by (used in) investing activities	8,557	(19,690)
<b>Cash flows from financing activities:</b>		
Increase in short-term borrowings	1,018,575	1,602,403
Decrease in short-term borrowings	(3,023,982)	(383,246)
Increase in due to parent company	2,754,583	-
Net cash provided by financing activities	749,176	1,219,157
<b>Net increase in cash and cash equivalents</b>	51,666	(2,915)
Effect of exchange rate changes on cash and cash equivalents	(1,829)	(26,986)
Cash and cash equivalents at beginning of year	474	30,375
<b>Cash and cash equivalents at end of year</b>	<u>US\$ 50,311</u>	<u>US\$ 474</u>
<b>Supplemental disclosures:</b>		
Income tax paid	US\$ -	US\$ -
Interest paid	US\$ 1,657	US\$ -

See Notes to Financial Statements

SAEAN R&D INC.  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2021 and 2020

1. Organization and description of business

SAEAN R&D INC. (formerly SAEAN INC) (the Company) was incorporated in December 1, 2013 under the laws of the Republic of Korea to engage in the design and development service of electric vehicles.

The Company's headquarter and R&D center is located in Hanam-si, Gyeonggi-do, Republic of Korea. The Company has adopted December 31 fiscal year end.

The Company's major shareholder is Saeon Group Inc., located in CA, United States of America, with 93.36% ownership as of December 31, 2021.

2. Going concern

The accompanying unaudited financial statements have been prepared using generally accepted accounting principles in the United States of America ("U.S. GAAP"), applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has not yet established an ongoing source of revenues sufficient to cover its operating costs and allow it to continue as a going concern. The Company has accumulated loss from inception (December 1, 2013) to December 31, 2021 of US\$ 12,353,725.

In order to continue as a going concern, the Company will need, among other things, additional capital resources. Management's plan is to obtain such resources for the Company by obtaining additional equity investment from parent company, Saeon Group Inc. In addition, the Company has entered into several development service agreements with related parties (See Note 11). The Company's management believes that this financial plan and ongoing service agreements will be sufficient to cover its refund of borrowings, investment for fixed assets and operating expenses in 2022.

These financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

3. Summary of significant accounting policies

Basis of financial statements – The Company follows accounting principles generally accepted in the United States of America in the preparation of its financial statements. The following summary of significant accounting policies of the Company is presented to assist in understanding the Company's financial statements. These accounting policies conform to the U.S. GAAP and have been consistently applied. The financial statements and notes are representations of the Company's management, who is responsible for their integrity and objectivity.

Foreign currency translation and transaction – The financial position and results of operations of the Company are measured using the Korean Won as the functional currency. Revenues and expenses have been translated into U.S. dollars (reporting currency) at average exchange rates prevailing during the period (KRW 1144.42 and 1180.05 to USD 1 in 2021 and 2020, respectively). Assets and liabilities have been translated at the rates of exchange on the balance sheet date (KRW 11185.5 and 1088.00 to USD 1 in 2021 and 2020, respectively). The resulting translation gain and loss adjustments are recorded directly as a separate component of stockholders' deficits.

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

SAEAN R&D INC.  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2021 and 2020

3. Summary of significant accounting policies (cont'd)

Use of estimates and assumptions – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of net sales and expenses during the reporting period. The accounting estimates and assumptions that require management's most significant judgments include the fair value of financial instruments, valuation allowance for deferred income taxes and useful lives for depreciation. Actual results may ultimately differ from estimates, although management does not believe such changes will materially affect the financial statements in any individual year.

Operation in foreign country – Substantially, all of the Company's operations are carried in the Republic of Korea. The Company's operations are subject to various political, economic, and other risks and uncertainties inherent in the country in which the Company operates. Among other risks, the Company's operations are subject to the risks of political conditions and governmental regulations.

Revenue recognition – In accordance with ASC 606, Revenue from Contracts with Customers, revenue is measured based on consideration specified in a contract with a customer, adjusted for any variable consideration (i.e. price concession) and estimated at contract inception.

The estimated amount of variable consideration that will be received by the Company is based on historical experience and trends, management's understanding of the status of negotiations with customers and anticipated future pricing strategies.

The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or a service to a customer. For the majority of the Company's R&D service contracts, revenue is recognized over time when the Company provides services to satisfy the Company's performance obligation and contractually billable.

Advertising costs – Advertising costs are expensed as incurred.

Research and development – Research and development are expensed as incurred. Research and development expenses consist primarily of salaries and related personnel costs, materials and subcontract fees.

Income taxes – The Company operates in the taxing jurisdictions of Korea, and its income tax is administered in accordance with tax laws of Korea.

Current tax liabilities and assets are recognized for the estimated taxes payable or refundable on the tax returns for the current year. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in our financial statements or tax filings. The resulting deferred tax assets or liabilities are adjusted to reflect changes in tax laws as they occur. A valuation allowance is provided when it is more likely than not that a deferred tax asset will not be realized.

Management makes judgments as to the interpretation of the tax laws that might be challenged upon an audit and cause changes to previous estimates of tax liability. In management's opinion, adequate provisions for income taxes have been made for all years. If actual taxable income by tax jurisdiction varies from estimates, additional allowances or reversals of reserves may be necessary.

The Company did not take any uncertain tax positions and had no adjustments to unrecognized income tax liabilities or benefits pursuant to the provisions of ASC Topic 740 for the years ended December 31, 2021 and 2020.



SAEAN R&D INC.  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2021 and 2020

3. Summary of significant accounting policies (cont'd)

Cash and cash equivalents – Cash includes currency, checks issued by others, other currency equivalents, current deposits and passbook deposits held by financial institutions. For financial statement purposes, all highly liquid debt instruments with insignificant interest rate risk and maturity of three months or less when purchased are considered to be cash equivalent. Cash equivalents consist primarily of cash deposits that are available for withdrawal without restriction.

Receivables – Accounts receivable are presented at face value less allowance for doubtful accounts. The allowance for doubtful accounts is the Company's best estimate of probable credit losses in the existing accounts receivable. The Company determines the allowance based on Company's historical experience and review of specifically identified accounts and aging data. The Company reviews its allowance for doubtful accounts periodically. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

The Company expects to fully collect accounts receivable and no allowance for doubtful accounts were recorded as of December 31, 2021 and 2020.

Inventories – Inventories are stated at the lower of cost or market. Costs are determined on the moving average method.

Property and equipment – Property and equipment are stated at historical cost. Maintenance and repairs are expensed in the year in which they are incurred. Expenditures that enhance the value or extend the life of assets are capitalized as additions to property and equipment.

Depreciation has been provided using the straight-line method over the following estimated useful lives:

	<u>years</u>
Property and equipment used for manufacturing purposes	5
Property and equipment used for administrative purposes	5

Industrial Properties

Industrial properties with finite lives are amortized on a straight-line basis over their useful lives, starting from their commercial usages.

Equity method investment – Investment accounted for under the equity method, means that a proportional share of the equity method investment's net income increases the investment, and a proportional share of losses and payment of dividends decreases it. In the statement of operations, the proportional share of the net income (loss) is reported as share of income (loss) of an investee under the equity method of accounting.

Impairment of long-lived assets – The Company continually monitors events and changes in circumstances that could indicate carrying amounts of long-lived assets may not be recoverable. When such events or changes in circumstances are present, the Company assesses the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the future cash flows is less than the carrying amount of those assets, the Company recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell.

For 2018, the Company did not record any material impairment charges on its long-lives assets except for the impairment loss on industrial properties as discussed in Note 6.

SAEAN R&D INC.  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2021 and 2020

3. Summary of significant accounting policies (cont'd)

Intangible assets other than goodwill – The Company follows guidelines of FASB Accounting Standards Codification (“ASC”) Topic 350 “Intangibles – Goodwill and Other” with regards to accounting and reporting of intangible assets other than goodwill. Intangible assets with finite lives are amortized over their estimated useful life. The Company monitors conditions related to these assets to determine whether events and circumstances warrant a revision to the remaining amortization period. Intangible assets that have indefinite lives are not amortized. The Company tests its intangible assets for potential impairment whenever management concludes events or changes in circumstances indicate that the carrying amount may not be recoverable. The original estimate of an asset’s useful life and the impact of an event or circumstance on either an asset’s useful life or carrying value involve significant judgment.

Accrued severance benefits – Employees with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment with the Company based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees were to terminate their employment as of the balance sheet date.

Leases – Lease assets and liabilities are recognized at the present value of the future lease payments at the lease commencement date. The interest rate used to determine the present value of the future lease payments is our incremental borrowing rate, because the interest implicit in leases is not readily determinable. The incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located. The lease terms include periods under options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Operating lease assets and liabilities are included on the balance sheet. Operating lease expense (excluding variable lease costs) is recognized on a straight-line basis over the lease term.

Commitment and contingent liabilities – The Company records liabilities for claims, lawsuits and proceedings when they are probable and it is possible to reasonably estimate the cost of such liabilities. Legal costs expected to be in connection with a loss contingency are expensed as such costs are incurred.

As of December 31, 2021 and 2020, no claims, lawsuits and proceedings are pending or threatened against the Company.

Fair value measurements – Fair value measurements are determined under a three-level hierarchy for fair value measurements that prioritizes the inputs to valuation techniques used to measure fair value, distinguishing between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (“observable inputs”) and the reporting entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (“unobservable inputs”).

Fair value is the price that would be received to sell an asset or would be paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. In determining fair value, the Company primarily uses prices and other relevant information generated by market transactions involving identical or comparable assets (“market approach”). The Company also considers the impact of a decrease in volume and level of activity for an asset or liability when compared with normal activity to identify transactions that are not orderly.

The highest priority is given to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Securities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

SAEAN R&D INC.  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2021 and 2020

3. Summary of significant accounting policies (cont'd)

The three hierarchy levels are defined as follows:

Level 1 – Quoted prices in active markets that is unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly;

Level 3 – No pricing observability as of the reported date for assets and liabilities. Prices or valuations that are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgement or estimation.

Credit risk adjustments are applied to reflect the Company's own credit risk when valuing all liabilities measured at fair value. The methodology is consistent with that applied in developing counterparty credit risk adjustments, but incorporates the Company's own credit risk as observed in the credit default swap market.

Assets and liabilities measured at fair value on a recurring basis – Financial instruments consist primarily of cash and cash equivalents, short-term financial assets, advance payments, accounts receivable, advance payments, accounts payable, and loan from related party. The carrying value of such financial instruments approximate their respective estimated fair value because of the short-term maturity and approximate market interest rate of these instruments. The estimated fair value is not necessarily indicative of the amounts the Company would realize in a current market exchange or from future earnings or cash flows.

Assets and liabilities measured at fair value on a non-recurring basis - In addition to assets and liabilities that are measured at fair value on a recurring basis, the Company also has assets and liabilities in its balance sheet that are measured at fair value on a non-recurring basis include long-lived assets, including equity method investments, typically as it relates to impairment.

The Company has determined that the fair value measurements included in each of these assets and liabilities rely primarily on Company-specific inputs and the Company's assumptions about the use the assets and settlements of liabilities, as observable inputs are not available. The Company has determined that each of these fair value measurements reside within Level 3 of the fair value hierarchy. To determine the fair value of long-lived assets, the Company utilizes the projected cash flows expected to be generated by the long-lived assets, then discounts the future cash flows over the expected life of the long-lived assets.

Related parties – The Company follows ASC Topic 850 "Related Party Disclosures" for the identification of related parties and disclosure of related party transactions.

Stock-based compensation – The Company accounts for stock awards issued to non-employees in accordance with *ASC 505-50, Equity-Based Payments to Non-Employees*.

The measurement date is the earlier of (1) the date at which a commitment for performance by the counterparty to earn the equity instruments is reached, or (2) the date at which the counterparty's performance is complete. Stock awards granted to non-employees are valued at their respective measurement dates based on the trading price of the Company's common stock and recognized as expense during the period in which services are provided. As of December 31, 2021, no stock awards were granted by the Company.

SAEAN R&D INC.  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2021 and 2020

3. Summary of significant accounting policies (cont'd)

Per share amounts – Earnings (loss) per share are computed in accordance with *ASC 260, Earnings per Share*. Basic earnings (loss) per share is computed by dividing net income (loss), after deducting preferred stock dividends accumulated during the period, by the weighted-average number of shares of common stock outstanding during each period. Diluted earnings per share is computed by dividing net income by the weighted-average number of shares of common stock, common stock equivalents and other potentially dilutive securities, if any, outstanding during the period.

Subsequent events – The Company follows the guidance in ASC Topic 855 “Subsequent Events” for the disclosure of subsequent events. The Company evaluated subsequent events through the date when the financial statements were available to be issued.

Recently adopted accounting pronouncements – In December 2019, the FASB issued ASU 2019-12, *Income taxes (Topic 740), Simplifying the Accounting for income taxes*, which simplifies the accounting for income taxes. ASU 2019-12 is effective for public business entities for annual periods beginning after December 15, 2020, and early adoption is permitted. The amendments related to change in ownership of foreign equity method investments or foreign subsidiaries should be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The Company adopted ASU 2019-12 as of January 1, 2021, and the adoption did not have a material impact on the Company’s financial statements.

In August 2020, the FASB issued ASU No. 2020-13, “*Fair Value Measurement (Topic 820), - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*,” which makes a number of changes meant to add, modify or remove certain disclosure requirements associated with the movement amongst or hierarchy associated with Level 1, Level 2 and Level 3 fair value measurements. This guidance is effective for fiscal years, beginning after December 15, 2020. Early adoption is permitted upon issuance of the update. The Company adopted ASU 2019-12 as of January 1, 2021, and the adoption did not have a material impact on the Company’s financial statements.

Recently issued accounting pronouncements not yet adopted – Any accounting standards that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the financial statements upon adoption. The Company does not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to its financial condition, results of operations, cash flows or disclosures.

4. Restricted deposit

Financial instrument of US\$ 58,772 as of December 31, 2021 was a saving account, which was provided as collateral for the short-term loan from an insurance company (see Note 10)

5. Property and equipment

The Company’s property and equipment consists of the following as of December 31, 2021 and December 31, 2020:

	2021	2020
Machinery	US\$ 63,022	US\$ 68,670
Vehicles	26,277	73,884
Furniture and tools	232,996	291,887
	322,295	434,441
Accumulated depreciation	(207,424)	(204,796)
Net property and equipment	US\$ 114,871	US\$ 229,645

Depreciation expenses for the years ended December 31, 2021 and 2020, respectively, were US\$ 66,427 and US\$ 81,556.

SAEAN R&D INC.  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2021 and 2020

6. Industrial properties

The Company's industrial properties consist of the following as of December 31, 2021 and December 31, 2020:

	2021	2020
Patents	US\$ 3,108	US\$ 3,387
Design rights	314	342
	3,422	3,729
Amortization	1,920	-
Net	US\$ 1,502	US\$ 3,729

Direct costs incurred in obtaining patents and design rights are capitalized. These patents and rights are subject to amortization as their lives.

7. Non-marketable equity investments

The Company had an investment to SaeaNNewteck Co., Ltd., sub-contractor supplier, amounting to US\$ 126,360 with 11% ownership ratio as of December 31, 2021. The investment was valued at cost minus as of December 31, 2021 and 2020 as its fair value is not readily determinable.

8. Equity method investment

On November 6, 2018, JY Lee, Kurihara Satoshi and the Company completed the formation of their joint venture, SaeaN Japan Corporation ("SJC"), located in Tokyo, Japan, which is engaged in manufacturing and sale of electric vehicles. The Company made cash contribution of 19,352,000 Yen under the joint venture agreement dated on October 4, 2018, resulting in ownership of 50%, 31% and 20% by JY Lee, Kurihara Satoshi and the Company, respectively. The Company has accounted for its investment in SJC under the equity method. The change in carrying amount of the equity method investment for the year ended December 31, 2021 is as follows:

	Percentage ownership	Carrying amount on December 31, 2020	Share of losses	Foreign Currency translation	Carrying amount on December 31, 2021
SJC	20%	\$ 39,210	\$ (6,555)	\$ (3,749)	\$ 28,906

SAEAN R&D INC.  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2021 and 2020

9. Leases

The Company has entered into operating lease agreements primarily for offices, employee accommodation and automobiles with lease periods expiring between 2021 and 2022. We determine if an arrangement is a lease at inception. The current portion of operating lease liabilities is included in short-term operating liabilities and the long-term portion is included in operating lease liabilities. Operating lease assets and liabilities are recognized at the present value of the future lease payments at the lease commencement date. The interest rate used to determine the present value of the future lease payments is our incremental borrowing rate, because the interest rate implicit in most of our leases is not readily determinable. Our incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located.

Operating lease assets also include any prepaid lease payments and lease incentives. Our lease terms include periods under options to extend or terminate the lease when it is reasonably certain that we will exercise that option. We generally use the base, non-cancelable, lease term when determining the lease assets and liabilities. Operating lease expense is recognized on a straight-line basis over the lease term. Our lease agreements generally contain lease and non-lease components. Non-lease components primarily include payments for maintenance and utilities. We combine fixed payments for non-lease components with our lease payments and account for them together as a single lease component which increases the amount of our lease assets and liabilities. Payments under our lease arrangements are primarily fixed, however, certain lease agreements contain variable payments, which are expensed as incurred and not included in the operating lease assets and liabilities. These amounts include payments for maintenance and utilities.

Components of operating lease expense were as follows (unaudited):

	2021	2020
Operating lease cost	US\$ 92,451	US\$ 127,256
Variable lease cost	30,003	40,392
Total operating lease cost	<u>US\$ 122,454</u>	<u>US\$ 167,649</u>

Supplemental cash flow information related to operating leases was as follows:

	2021	2020
Cash payments for operating leases	US\$ 122,454	US\$ 167,649
New operating lease assets obtained in exchange for operating lease liabilities		126,439

As of December 31, 2021, our operating leases had a weighted average remaining lease term of 1.14 years and a weighted average discount rate of 3.58%. Future lease payments under operating leases as of December 31, 2021 were as follows:

	Operating leases
2022	US\$ 43,616
Total future lease payments	43,646
Less imputed interest	650
Total lease liability balance	<u>US\$ 42,996</u>

SAEAN R&D INC.  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2021 and 2020

10. Short-term borrowings

As of December 31, 2021 and 2020, the Company had borrowed US\$ 2,479,966 and US\$ 4,080,882 at an interest rate per annum of 4.6% from Top Class Investment (“TCI”) under the financing arrangements with credit limit of 5 billion Korean won (approximately US\$ 4,322,268). The accrued interest expenses of the borrowings from TCI as of December 31, 2021 and 2020, respectively, amounted to US\$ 475,768 and US\$ 353,966, which was accounted for as accounts payable.

As of December 31, the Company had borrowed US\$ 84,353 from an insurance company.

In addition, as of December 31, 2021 and 2020, the Company had temporally borrowed US\$ 840,057 and US\$ 1,737,975, respectively, from the Company’s representative director, JY LEE at zero interest rate.

11. Related party transactions

As of December 31, 2021 and 2020, the Company had short-term borrowings of US\$ 840,057 and US\$ 1,737,975, respectively, from the Company’s representative director as described in Note 10.

As of December 31, 2021, the Company had due to parent company amounting to US\$ 2,659,131 as provided for financial support.

In 2021 and 2020, the Company had entered into several contracts with related parties as follows:

On June 21, 2019, The Company entered into the intellectual property sales and purchase agreement with SAEAN INC., a Nevada corporation (“Saeon Nevada”). Under the agreement, the Company sells intellectual property holdings, research and development and other tangible and intangible rights which exist during the contract period of twelve months from July 1, 2019 to June 1, 2020 to Saeon Nevada for US\$ 3,600,000, payable in monthly payments of US\$ 310,000 for the contract period. However, the payments have been behind schedule, resulting remaining balance of the payments amounted to US\$ 1,579,900 as of December 31, 2021. The Company accounted for the billed and received payments of US\$ 320,100 and 500,000 in 2021 and 2020, respectively, as revenue. Saeon Nevada’s major shareholder is JY LEE, the Company’s representative director.

On November 7, 2021, The Company entered into the service purchase agreement with Saeon Group Inc., the Company’s parent company, under which the Company provide development service of full electric 2-seat convertible sport car with original exterior and interior design, for US\$ 4,700,00. As of December 31, 2021, the Company had advance receipts from Saeon Group Inc. of US\$ 1,000,000.

On January 1, 2021, The Company entered into the basic agreement on KUT electrification, with Nippon TD Corporation, SJC, under which the Company provides development service of powertrain of tunnel construction vehicle (KUT 300) to electrification, for JPY 40,000,000. The Company accounted for the payments of US\$ 180,986 as revenue in 2021 and accounted for the payments of 95,017 as advance receipts as of December 31, 2021.

On December 1, 2021, The Company entered into the project R&D service agreement, with Saeon Corp., a Canada company fully owned by JY LEE, the Company’s representative director, under which the Company provides the initial development stage service of Canada national car styling and engineering, for US\$ 100,000. As of December 31, 2021, the Company had advance receipts from Saeon Corp. of US\$ 100,000.

SAEAN R&D INC.  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2021 and 2020

12. Income taxes

Due to the tax losses, the Company did not provide for income taxes in 2021 and 2020

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant changes in cumulative temporary differences and deferred tax assets As of December 31, 2021 and December 31, 2020 were as follows:

	2021	2020
Temporary differences:		
Accrued severance benefits	US\$ 262,303	US\$ 307,244
Depreciation	(5,761)	(6,277)
Research & development	2,910,511	3,178,750
Patent	1,920	-
Equity method investment	144,320	150,358
Advance receipts	1,181,243	-
Tax loss carryforwards	7,331,563	7,663,782
Total	11,826,099	11,293,857
Effective income tax rate	22%	22%
Deferred income tax assets	2,601,742	2,484,649
Valuation allowance	(2,601,742)	(2,484,649)
Net deferred tax assets	US\$ -	US\$ -

Valuation allowance have been established which fully offset the related deferred assets.

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. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the years in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax assets, the projected future taxable income and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable income over the years in which the deferred tax assets are deductible, management believes that it is more likely than not that the deferred tax assets pertaining to the net operating loss carry forwards will not be realized.

13. Per share amounts

Net income (loss) per common share is computed pursuant to ASC Topic 260 "Earnings Per Share." Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock and potentially outstanding shares of common stock during the period to reflect the potential dilution that could occur from common shares issuable through stock options and warrants.

There were no potentially outstanding dilutive common shares in 2021 and 2020.

The weighted-average numbers of common shares outstanding in 2021 and 2020, are as follows:

	2021	2020
Weighted average number of common shares outstanding during the period	6,000,000	6,000,000



SAEAN R&D INC.  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2021 and 2020

14. Concentration of risk

Financial instruments that subject the Company to credit risk consist primarily of cash and accounts receivable. Management does not believe the Company is exposed to any significant concentration risk on their cash balances and accounts receivable.