UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

☒ Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended February 28, 2022

☐ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from __________ to __________

Commission file number: 001-38964

SCHMITT INDUSTRIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Oregon	**93-1151989**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)

2765 N.W. Nicolai Street
Portland, Oregon 97210
(Address of Principal Executive Offices) (Zip Code)

(503) 227-7908
(Registrant's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock - no par value	SMIT	NASDAQ Capital Market

Securities registered under Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of outstanding common stock outstanding as of March 31, 2022:

Common Stock, no par value – outstanding	3,822,683

SCHMITT INDUSTRIES, INC.

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PART I - FINANCIAL INFORMATION

Item 1: Financial Statements

SCHMITT INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	February 28, 2022	May 31, 2021
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,999,241	$ 4,032,690
Accounts receivable, net	936,809	1,154,645
Inventories, net	2,191,844	1,553,310
Prepaid expenses	30,867	198,345
Income taxes receivable	17,730	18,057
Total current assets	5,176,491	6,957,047
Leasehold assets	11,423,035	10,448,486
Property and equipment, net	2,248,500	2,824,017
Property and equipment held for sale, net	433,410	174,847
Leasehold, utilities and ERP deposits	829,001	431,808
Other assets		
Intangible assets, net	242,088	337,725
TOTAL ASSETS	$ 20,352,525	$ 21,173,930
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 555,974	$ 583,750
Accrued commissions	59,208	60,614
Accrued payroll liabilities	505,248	527,608
Accrued liabilities	329,492	465,146
Customer deposits and prepayments	112,791	93,364
Other accrued liabilities	424,799	694,590
Current portion of long-term lease liabilities	1,417,386	1,042,331
Current portion of long-term debt	472,431	541,691
Total current liabilities	3,877,329	4,009,094
Long-term debt, net current portion	1,527,569	3,253,389
Long-term leasehold liabilities, net current portion	10,833,399	10,141,864
Total liabilities	16,238,297	17,404,347
Stockholders' equity		
Common stock, no par value, 20,000,000 shares authorized, 4,236,821 and 3,818,770 shares issued and outstanding at February 28, 2022, respectively; and 4,204,553 and 3,786,502 shares issued and outstanding at May 31, 2021, respectively	12,318,375	12,223,359
Accumulated deficit	(8,204,147)	(8,453,776)
Total stockholders' equity	4,114,228	3,769,583
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 20,352,525	$ 21,173,930

See accompanying notes to condensed consolidated financial statements.

SCHMITT INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED FEBRUARY 28, 2022 AND FEBRUARY 28, 2021

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2022	2021	2022	2021
Net sales	$ 1,848,913	$ 1,668,444	$ 8,570,053	$ 5,205,641
Cost of revenue	912,076	837,254	3,618,925	2,804,694
Gross profit	936,837	831,190	4,951,128	2,400,947
Operating expenses				
Selling, general and administrative	3,312,388	3,313,918	11,604,964	8,492,150
Transaction costs	—	—	—	125,167
Research and development	10,771	21,732	25,616	57,062
Total operating expenses	3,323,159	3,335,650	11,630,580	8,674,379
Operating loss	(2,386,322)	(2,504,460)	(6,679,452)	(6,273,432)
Bargain purchase gain	—	(2,277)	—	1,187,235
Gain on sale of property and equipment	—	—	4,598,095	—
Forgiveness of PPP loan	1,471,292	—	2,059,826	—
Interest expense	(8,232)	(5,400)	(37,811)	(12,854)
Other income, net	38,286	90,703	323,589	58,777
Income (loss) before income taxes	(884,976)	(2,421,434)	264,247	(5,040,274)
Income tax provision (benefit)	8,268	(1,637)	14,618	(404,667)
Net income (loss)	$ (893,244)	$ (2,419,797)	$ 249,629	$ (4,635,607)
Net income (loss) per common share				
Basic	$ (0.24)	$ (0.64)	$ 0.07	$ (1.23)
Weighted-average number of common shares, basic	3,788,315	3,764,536	3,790,022	3,759,369
Diluted	$ (0.24)	$ (0.64)	$ 0.07	$ (1.23)
Weighted-average number of common shares, diluted	3,788,315	3,764,536	3,813,675	3,759,369

See accompanying notes to condensed consolidated financial statements.

SCHMITT INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
FOR THE NINE MONTHS ENDED FEBRUARY 28, 2022, AND FEBRUARY 28, 2021

	Nine Months Ended February 28, 2022	Nine Months Ended February 28, 2021
Cash flows relating to operating activities		
Net income (loss)	$ 249,629	$ (4,635,607)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Bargain purchase gain	—	(1,187,235)
Forgiveness of Paycheck Protection Program loan	(2,059,826)	—
Depreciation and amortization	401,448	307,732
Gain on sale of property and equipment	(4,598,095)	—
Stock-based compensation	95,016	163,493
Deferred income taxes	—	(406,304)
Non-cash lease costs	92,042	596,188
(Increase) decrease in:		
Accounts receivable, net	217,836	(381,945)
Inventories, net	(638,534)	(313,012)
Prepaid expenses	167,478	(39,253)
Deposits on capital improvements to factory	—	(417,794)
Rent, utility deposits and ERP deposits	(397,193)	(173,294)
Increase (decrease) in:		
Accounts payable	(27,776)	476,589
Accrued liabilities and customer deposits	(409,187)	352,537
Net cash used in operating activities	$ (6,907,162)	$ (5,657,905)
Cash flows relating to investing activities		
Acquisition of Ample Hills	$ —	$ (1,713,404)
Purchases of property and equipment	(188,687)	(510,321)
Proceeds from the sale of property and equipment	4,797,924	35,500
Net cash provided by (used in) investing activities	$ 4,609,237	$ (2,188,225)
Cash flows relating to financing activities		
Proceeds from Paycheck Protection Program, net of repayment	$ 264,476	$ 1,795,080
Payments on short-term borrowing	—	(48,625)
Repurchase of common stock	—	(300,492)
Net cash provided by financing activities	$ 264,476	$ 1,445,963
Decrease in cash and cash equivalents	(2,033,449)	(6,400,167)
Cash and cash equivalents, beginning of period	4,032,690	10,566,531
Cash and cash equivalents, end of period	$ 1,999,241	$ 4,166,364
Supplemental disclosure of cash flow information		
Cash paid for income taxes, net of refunds	$ 19,200	$ 80,600
Cash paid for interest	$ 63	$ 616

See accompanying notes to condensed consolidated financial statements.

SCHMITT INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)
FOR THE NINE MONTHS ENDED FEBRUARY 28, 2022 AND FEBRUARY 28, 2021

	Shares	Amount	Accumulated Deficit	Total
Balance, May 31, 2021	3,786,502	$ 12,223,359	$ (8,453,776)	$ 3,769,583
Shares issued to directors, officers and others upon vesting of RSUs	32,268	—	—	—
Stock-based compensation	—	95,016	—	95,016
Net income	—	—	249,629	249,629
Balance, February 28, 2022	3,818,770	$ 12,318,375	$ (8,204,147)	$ 4,114,228

	Shares	Amount	Accumulated Deficit	Total
Balance, May 31, 2020	3,784,554	$ 12,257,306	$ (364,104)	$ 11,893,202
Share repurchases	(72,101)	(234,517)		(234,517)
Shares issued to directors and officers upon vesting of RSUs	77,281	—	—	—
Stock-based compensation	—	163,493	—	163,493
Repurchase of restricted stock units	(14,400)	(65,975)	—	(65,975)
Net loss	—	—	(4,635,607)	(4,635,607)
Balance, February 28, 2021	3,775,334	$ 12,120,307	$ (4,999,711)	$ 7,120,596

See accompanying notes to condensed consolidated financial statements.

SCHMITT INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In the opinion of management of Schmitt Industries, Inc. (the "Company", "Schmitt", "we" or "our"), the accompanying unaudited interim condensed consolidated financial statements, (collectively hereinafter the “consolidated financial statements”), have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly its financial position as of February 28, 2022 and its results of operations and its cash flows for the periods presented. The consolidated balance sheet at May 31, 2021 has been derived from the Annual Report on Form 10-K for the fiscal year ended May 31, 2021. The accompanying unaudited consolidated financial statements and related notes should be read in conjunction with the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021. Operating results for the interim periods presented are not necessarily indicative of the results that may be experienced for the fiscal year ending May 31, 2022.

Significant Accounting Policies

The Company’s significant accounting policies are described in “Note 2: Summary of Significant Accounting Policies” of our most recent Form 10-K for the fiscal year ended May 31, 2021.

Principles of Consolidation

These consolidated financial statements include those of the Company and its wholly owned subsidiaries: Schmitt Measurement Systems, Inc. and Ample Hills Acquisition LLC. All significant intercompany accounts and transactions have been eliminated in the preparation of the consolidated financial statements.

Reclassifications

Certain amounts in the prior period consolidated statements of operations have been reclassified to conform to the presentation of the current period. These reclassifications had no effect on previously recorded net income (loss).

Use of Estimates

The preparation of the consolidated financial statements in conformity with Generally Accepted Accounting Principles in the U.S. (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

New Accounting Standards

The Company assesses the adoption impacts of recently issued accounting standards by the Financial Accounting Standards Board (“FASB”) on the Company's financial statements as well as material updates to previous assessments, if any, from the Company’s Annual Report on Form 10-K for the fiscal year ended May 31, 2021. There were no new material accounting standards issued in the nine months ended February 28, 2022 that impacted the Company.

Recently Adopted Accounting Standards

There were no new material accounting standards adopted in the nine months ended February 28, 2022.

Liquidity

Our primary source of liquidity is our cash flows from operating activities resulting from net income and management of working capital. As of February 28, 2022, our available funds consisted of $1,999,241 in cash and cash equivalents. Management is seeking to sell additional assets held for sale as noted below, which would be a source of liquidity, in addition to sources related to the forgiveness of the Paycheck Protection Program ("PPP") loans (see Note 13 – Long-Term Debt) and the commitment from Michael Zapata, our Chief Executive Officer ("CEO"), to provide additional capital if needed as noted below. We anticipate that the available funds and cash generated from operations and financing activities will be sufficient to meet cash and working capital requirements, including the anticipated level of capital expenditures to fund operations for at least one year after the date the consolidated financial statements are issued.

On August 7, 2021, the Company received The Commitment Letter to Schmitt Industries ("Commitment") from our CEO. The Commitment states that Sententia Capital Management LLC ("SCM") or its affiliated entities will provide additional capital as required to Schmitt up to $1,300,000 for the Company's operations as needed through February 28, 2023. The Company has not requested or used any of the funds available as of February 28, 2022.

On November 10, 2021, the Company closed on the sale of its building located at 2451 NW 28th Avenue, Portland, OR 97210 for $5,100,000 with net proceeds of $4,753,724. The Company recorded a gain on sale of property and equipment totaling $4,598,095 on its consolidated statement of operations. The property associated with the sale was previously classified as assets held for sale. See below for further details.

Business Combinations

The Company accounts for business combinations in accordance with Accounting Standard Codification ("ASC") 805 - *Business Combinations*. ASC 805 requires, among other things, an assignment of the acquisition consideration transferred to the sellers for the tangible and intangible assets acquired and liabilities assumed, using the bottom up approach, to estimate their value at the acquisition date. Any excess of the fair value of the purchase consideration over these identified net assets is to be recorded as goodwill. Conversely, any excess of the fair value of the net assets acquired over the purchase consideration is recorded as a bargain purchase gain. See Note 2 – *Acquisition of Ample Hills*.

Assets Held for Sale

Assets held for sale are stated at the lower of cost less depreciation or expected net realizable value. Depreciation is computed using the straight-line method over estimated useful lives of 25 years for building improvements. Expenditures for maintenance and repairs are charged to expense as incurred and are recorded within selling, general and administrative expenses on the consolidated statement of operations.

The Company owned a two story 35,050 sq. foot building in an industrial zone that was listed for sale in December 2020. On November 10, 2021, the Company sold the building located at 2451 NW 28th Avenue, Portland, OR 97210 for $5,100,000 with net proceeds of $4,753,724. The Company recorded a gain on sale of property and equipment totaling $4,598,095 on its consolidated statement of operations. Assets held for sale as of May 31, 2021 are associated with this property, and therefore, not included in assets held for sale as of February 28, 2022. The Company previously leased this property to two lessees, as described further in Note 5 – *Leases*. As such, this lease has been terminated as of February 28, 2022.

The Company owns two industrial office buildings totaling 11,667 sq. feet located at 2765 NW Nicolai Street, Portland, OR 97210 that were listed for sale in November 2021. Assets held for sale as of February 28, 2022 are associated with these properties. The Company currently occupies part of this property and leases a portion to a third party, as described further in Note 5 – *Leases*. A potential sale transaction would be structured as a sale-leaseback, as the Company occupies approximately 75% of the buildings.

As of February 28, 2022 and May 31, 2021, assets held for sale consisted of the following:

	February 28, 2022	May 31, 2021
Land	$ 159,000	$ 140,000
Buildings and improvements	1,616,250	246,135
Total property and equipment held for sale	1,775,250	386,135
Less accumulated depreciation	(1,341,840)	(211,288)
Total property and equipment held for sale, net	$ 433,410	$ 174,847

Concentration of Credit Risk

Financial instruments that potentially expose the Company to concentration of credit risk are trade accounts receivable. Credit terms generally require an invoice to be paid within 30 to 60 days or include a discount of up to 1.5% if the invoice is paid within ten days, with the net amount payable in 30 days. Terms are set for each account depending on the customer's credit standing with the Company.

Financial Instruments

The carrying value of all other financial instruments potentially subject to valuation risk (principally consisting of cash and cash equivalents, accounts receivable, accounts payable, the current portion of the PPP loans, customer deposits and prepayments) approximates fair value because of their short-term maturities.

NOTE 2 - AMPLE HILLS BUSINESS ACQUISITION

On July 9, 2020, Ample Hills Acquisition LLC ("Buyer"), a New York limited liability company and wholly owned subsidiary of the Company, entered into an Asset Purchase Agreement (the "Agreement"), dated as of June 29, 2020, with Ample Hills Holdings, Inc., a Delaware corporation, Ample Hills Creamery, Inc., a New York corporation, and their subsidiaries (collectively, "Ample Hills"). The transactions contemplated by the Agreement (the "Transactions") closed on July 9, 2020, the day after a sale order approving the Transactions was entered by the Bankruptcy Court (defined below). The Ample Hills entities were debtors-in-possession under title 11 of the United States Code, 11 U.S.C. § 101 et seq. pursuant to voluntary petitions for relief filed under chapter 11 of the Bankruptcy Code on March 15, 2020 in the United States Bankruptcy Court for the Eastern District of New York (the "Bankruptcy Court"). The Transactions were conducted through a Bankruptcy Court-supervised process, subject to Bankruptcy Court-approved bidding procedures, approval of the Transactions by the Bankruptcy Court, and the satisfaction of certain closing conditions.

The Agreement assigned to Buyer, or one or more of its affiliates, the Acquired Assets (as defined in the Agreement) and Buyer, or one or more of its affiliates, assumed the Assumed Liabilities (as defined in the Agreement) for a purchase price of $1,000,000. The Asset Acquisition included the following assets, among other things, Ample Hills' equipment, inventory, and all intellectual property, including the names and marks of "AMPLE HILLS" and "AMPLE HILLS CREAMERY" and all derivatives thereof. Pursuant to the Agreement, Buyer also paid approximately $700,000 to certain landlords of Ample Hills in exchange for the right to assume leases with such landlords and $125,167 in transaction costs.

The Company's strategy includes utilizing its capital for value opportunities. Accordingly, the primary purpose of the Ample Hills acquisition was to capitalize on this strategy by purchasing a business with a good brand name, which in light of the purchase price paid in bankruptcy, could have a significant upside. The Transactions were funded by the Company with cash on hand and has been accounted for in accordance with ASC 805. Our estimates of fair value are based upon assumptions believed to be reasonable, yet are inherently uncertain and, as a result, may differ from actual performance. During the measurement period, not to exceed one year from the date of acquisition, the Company recorded adjustments to the estimated fair values of the assets acquired and liabilities assumed with a corresponding adjustment to goodwill or bargain purchase gain, as appropriate, in the period in which such revised estimates are identified. The purchase price allocation has been finalized as of May 31, 2021, within the measurement period, and no further adjustments will be made.

In accordance with ASC 805, the Company has recognized the assets and liabilities of Ample Hills at fair value with the excess of such values over the fair value of consideration transferred to the seller presented as a bargain purchase gain recognized on the accompanying consolidated statement of operations during the year ended May 31, 2021. The foregoing amounts reflect our current estimates of fair value as of the July 9, 2020 acquisition date.

The following table summarizes the Company's fair value of the assets acquired, and liabilities assumed, as of July 9, 2020, for the Company's acquisition of Ample Hills.

Purchase Price	
Cash paid to sellers	$ 1,000,000
Cash paid for cure costs	713,404
Total Purchase Price	$ 1,713,404
Purchase Price Allocation	
Assets Acquired	
Right-of-use operating lease assets	10,645,098
Website	25,545
Tradename and trademarks	903,422
Proprietary recipes	146,739
Security deposits	225,180
Machinery and equipment	564,553
Leasehold improvements	815,798
Inventory	632,100
Total assets acquired	$13,958,335
Liabilities Assumed	
Right-of-use operating lease liabilities	10,645,098
Deferred tax liability	405,688
Customer deposits	20,204
Gift card liabilities	35,133
Total liabilities assumed	$11,106,123
Net assets acquired	2,852,212
Gain on bargain purchase	$ 1,138,808

As a result of additional information obtained during the measurement period about the facts and circumstances that existed as of the acquisition date, the Company recorded measurement period adjustments which resulted in a reduction in the bargain purchase gain, which reduced it to $1,138,808. The adjustments related to additional cure payments made during the prior year, the discovery of obsolete inventory, and the reduction of the deferred tax liability. The bargain purchase gain amount represents the excess of the estimated fair value of the net assets and intangibles, described above, acquired over the estimated fair value of the consideration transferred to the sellers and their landlords. In accordance with ASC 805, the Company estimated the fair value of the net assets acquired as of the acquisition date.

Ample Hills was a privately held company that was acquired out of bankruptcy. Management has performed a thorough evaluation of the pre-bankruptcy books and found the records to not be auditable. Therefore, management engaged a third- party consultant to assist in evaluating alternative means by which to provide historic financial data in future periods.

For further information see Note 11 – *Segment Information* for further details regarding the operating results of the Ice Cream Segment, and Note 12 – *Intangible Assets, net* for further details regarding the intangible assets acquired in connection with the Transactions.

NOTE 3 - STOCK OPTIONS AND STOCK-BASED COMPENSATION

Stock-based compensation includes expense charges for all stock-based awards to employees and directors granted under the Company's stock option plan. Stock-based compensation recognized during the period is based on the portion of the grant date fair value of the stock-based award that will vest during the period, adjusted for forfeitures as they occur. Compensation cost for all stock-based awards is recognized using the straight-line method.

Stock Options

As of February 28, 2022, the Company had outstanding stock options to purchase 22,500 shares of common stock all of which are vested and exercisable with a weighted-average exercise price of $1.70. As all stock options outstanding as of February 28, 2022 were fully vested, the Company recorded no additional stock-based compensation expense related to stock options during the quarter ending February 28, 2022.

Outstanding Options			Exercisable Options	
Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (years)	Number of Shares	Weighted-Average Exercise Price
22,500	$ 1.70	5.1	22,500	$ 1.70

No stock options were granted, exercised, canceled or expired under the Company's stock-based compensation plans during the nine months ended February 28, 2022.

Restricted Stock Units

Service-based and market-based restricted stock units ("RSUs") are granted to key employees, members of the Company's Board of Directors and others. Service-based RSUs generally fully vest on the first anniversary date of the award. Market-based RSUs are contingent on continued service and vest based on the 15-day average closing price of the Company's common stock equal or exceeding certain targets established by the Compensation Committee of the Board of Directors. No market-based RSUs were granted in the nine months ended February 28, 2022.

During the nine months ended February 28, 2022, 12,332 service-based RSUs were granted.

RSU activity under the Company's stock-based compensation plans during the nine months ended February 28, 2022 is summarized as follows:

	Number of Units	Weighted-Average Price at Grant Date	Aggregate Intrinsic Value
Non-vested RSUs - May 31, 2021	34,237	$ 4.71	$ 161,400
RSUs granted	12,332	$ 4.41	54,358
RSUs forfeited	(2,058)	$ 4.86	(10,000)
RSUs vested	(28,376)	$ 4.26	(120,913)
Non-vested RSUs – February 28, 2022	16,135	$ 5.26	$ 84,845

During the three and nine months ended February 28, 2022, total restricted stock-compensation expense recognized was $25,647 and $95,016, respectively, and has been recorded as selling, general and administrative expense in the consolidated statements of operations. Remaining stock-compensation expense to be recognized in future periods for non-vested RSUs with a time-vesting condition is $30,424.

NOTE 4 – WEIGHTED-AVERAGE SHARES AND RECONCILIATION

Basic net (loss) income per share is computed using the weighted-average number of shares of common stock outstanding. Diluted net (loss) income per share is computed using the weighted-average number of shares of common stock outstanding, adjusted for dilutive incremental shares attributed to outstanding options to purchase common stock and RSUs vested but not issued. Common stock equivalents for stock options are computed using the treasury stock method. In periods in which a net loss is incurred, no common stock equivalents are included since they are antidilutive and as such all stock options outstanding are excluded from the computation of diluted net loss in those periods.

For the three and nine months ended February 28, 2022, potentially dilutive securities consisted of options to purchase 22,500 shares of common stock at $1.70 per share. Of these potentially dilutive securities, all of the shares of common stock underlying the options are excluded from the computation of diluted earnings per share for the three months ended February 28, 2022 and February 28, 2021, and for the nine months ended February 28, 2021, because the Company incurred a net loss during those periods. In periods when a net loss is incurred, no common stock equivalents are included in the calculation of diluted net income or loss for the Company since they are antidilutive. The Company recorded a net profit for the nine months ended February 28, 2022, and as such, all stock options outstanding are included in the computation of diluted net income for that period.

Basic weighted-average shares for the three and nine months ended February 28, 2022 and February 28, 2021 were as follows:

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2022	2021	2022	2021
Weighted-average shares (basic)	3,788,315	3,764,536	3,790,022	3,759,369
Effect of dilutive stock options	—	—	23,653	—
Weighted-average shares (diluted)	3,788,315	3,764,536	3,813,675	3,759,369

NOTE 5 – LEASES

Leases – as a Lessor

On November 22, 2019, the Company entered into a triple-net lease agreement with Tosei America, Inc. ("Tosei"), whereby Tosei leased the Company's building located at 2451 NW 28th Avenue, Portland, OR 97210 for a base monthly fee of $23,282 for a term of 120 months. This lease arrangement has been accounted for pursuant to Accounting Standards Update ("ASU") No. 2016-02, "Leases (Topic 842) ("ASU Topic 842")". The Company presents property revenues as other income. As previously noted, the Company sold this property on November 10, 2021. As such, this lease has been terminated as of February 28, 2022.

On October 1, 2020, the Company entered into a lease agreement ("Humboldt Lease") whereby Humboldt Street Collective, LLC ("Humboldt") will lease the Company's building located at 2765 NW Nicolai Street, Portland, OR 97210 for a monthly fee of $3,185 for a term of 62 months. This lease arrangement been accounted for pursuant to Topic 842. The Company presents property revenues as other income. Minimum future lease payments receivable are as follows:

Years Ending May 31,		
2022	$	9,841
2023		40,151
2024		41,356
2025		42,597
2026		14,338
Total undiscounted cash flow	$	148,283

On December 1, 2020, the Company entered into the Second Humboldt Lease, whereby Humboldt leased a portion of the Company's building located at 2451 NW 28th Avenue, Portland, OR 97210 for a monthly fee of $4,596 for a term of 59 months. As noted above, the Company sold this property on November 10, 2021. As such, this lease has been terminated as of February 28, 2022.

Leases – as a Lessee

In connection with the acquisition of Ample Hills, the Company assumed multiple real estate leases for retail store locations as well as a manufacturing facility, all of which are classified as operating leases. On November 12, 2021, the Company signed an additional retail lease agreement in conjunction with its new retail store located in New York. The store is scheduled to open during the summer of 2022. Payments on this lease will commence on April 22, 2022.

To determine whether a contract is or contains a lease, the Company determines at contract inception whether it contains the right to control the use of an identified asset for a period of time in exchange for consideration to the counterparty in the transaction. If the Company determines that the contract provides the right to obtain substantially all of the economic benefit from the use of the leased asset, as well as the right for the Company to direct the asset's use, the Company recognizes a right-of-use asset and liability upon contract inception. The initial carrying value of the operating lease liability is determined by calculating the present value of future lease payments under the contract. The Company considers the future lease payments under the original terms of the contract, and also includes explicitly enumerated renewal periods where management is reasonably certain that such renewal options will be exercised.

The Company's operating leases contain varying terms and expire at various dates through 2032. For the three months ended February 28, 2022 and February 28, 2021, lease expenses under fixed term leases amounted to $478,890 and $400,609, respectively. For the nine months ended February 28, 2022 and February 28, 2021, lease expenses under fixed term leases amounted to $1,347,522 and $1,099,993, respectively.

Certain of the Company's operating leases contain variable lease payments related to certain performance targets by the Company at the underlying store locations. These variable lease costs are recognized as incurred in accordance with ASC 842 - *Leases*.

The Company's future minimum lease payments required under operating leases that have commenced as of February 28, 2022 were as follows:

Years Ending May 31,		
2022	$	446,148
2023		1,886,203
2024		1,793,510
2025		1,748,643
2026		1,529,082
Thereafter		7,221,582
Total lease payments		14,625,168
Less: imputed interest		(2,374,383)
Present value of lease payments		12,250,785
less: current lease obligations		(1,417,386)
Long-term lease obligations	$	10,833,399

In order to calculate the operating lease asset and liability for a lease, ASC 842 - *Leases* requires that a lessee apply a discount rate equal to the rate implicit in a lease whenever such a rate is readily determinable. The Company's lease agreements do not provide a readily determinable implicit rate, nor is this rate available from our leasing counterparties. Consequently, the Company estimates an incremental borrowing rate to determine the present value of the lease payments. This incremental borrowing rate represents the Company's estimate of an interest rate that the Company would be able to obtain from a lender to borrow, on a collateralized basis, over a similar term to obtain an asset of similar value.

The Company's weighted-average remaining lease term and discount rates under operating leases that have commenced as of February 28, 2022 were as follows:

	as of February 28, 2022
Weighted-average remaining lease term (years)	8.94
Weighted-average discount rate	3.87%

NOTE 6 – PROPERTY AND EQUIPMENT, NET

The Company's property and equipment, net consisted of the following:

	February 28, 2022	May 31, 2021
Land	$ —	$ 159,000
Buildings and improvements	1,442,667	2,989,140
Furniture, fixtures and equipment	1,871,580	1,788,784
Total property and equipment	3,314,247	4,936,924
Less: accumulated depreciation	(1,065,747)	(2,112,907)
Total property and equipment, net	$ 2,248,500	$ 2,824,017

Depreciation expense for the three months ended February 28, 2022 and 2021 was $74,972 and $93,068, respectively. Depreciation expense for the nine months ended February 28, 2022 and 2021 was $305,811 and $217,834, respectively.

NOTE 7 - CUSTOMER CONCENTRATION

The Company had one customer who accounted for 18% of net revenues for the three months ended February 28, 2022. The Company had one customer who accounted for 11% of net revenues for the nine months ended February 28, 2022. The Company had two customers who exceeded 10% of net revenues for the three months ended February 28, 2021, accounting for 21% and 11%, respectively. The Company had one customer who accounted for 18% of net revenues for the nine months ended February 28, 2021.

The Company had two customers who accounted for 23% and 12%, respectively, of accounts receivable, net as of February 28, 2022, and one customer who accounted for 21%, of accounts receivable, net as of February 28, 2021.

NOTE 8 – ACCOUNTS RECEIVABLE, NET

The Company's accounts receivable, net consisted of the following:

	February 28, 2022	May 31, 2021
Accounts receivable	$ 1,034,729	$ 1,252,968
Less: allowance for doubtful accounts	(97,920)	(98,323))
Accounts receivable, net	$ 936,809	$ 1,154,645

NOTE 9 – INVENTORIES, NET

The Company's inventories, net consisted of the following:

	February 28, 2022	May 31, 2021
Raw materials	$ 1,217,338	$ 901,464
Work-in-process	45,561	35,160
Finished goods	1,029,724	731,826
Total inventories	2,292,623	1,668,450
Less: inventory reserves	(100,779)	(115,140)
Inventories, net	$ 2,191,844	$ 1,553,310

NOTE 10 - INCOME TAXES

The Company accounts for income taxes using the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management continues to review the level of the valuation allowance on a quarterly basis. There can be no assurance that the Company's future operations will produce sufficient earnings to allow for the deferred tax asset to be fully utilized. The Company currently maintains a full valuation allowance against net deferred tax assets.

Each year the Company files income tax returns in the various national, state and local income taxing jurisdictions in which it operates. These tax returns are subject to examination and possible challenge by the taxing authorities. Positions challenged by the taxing authorities may be settled or appealed by the Company. As a result, there is an uncertainty in income taxes recognized in the Company's consolidated financial statements in accordance with ASC Topic 740. The Company applies this guidance by defining criteria that an individual income tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements and provides guidance on measurement, de-recognition, classification, accounting for interest and penalties, accounting in interim periods, disclosure, and transition.

As of February 28, 2022 and of May 31, 2021, the Company had no other long-term liabilities related to income tax contingencies. Interest and penalties associated with uncertain tax positions are recognized as components of the "Provision for income taxes." The Company had no liability for payment of interest and penalties as of February 28, 2022 and May 31, 2021.

Several tax years are subject to examination by major tax jurisdictions. In the United States, federal tax years ended May 31, 2018 and after are subject to examination.

Effective Tax Rate

The effective tax rate was 0.9% and 5.5%, respectively, for the three and nine months ended February 28, 2022. The effective tax rate was (0.1%) and (8.0%), respectively, for the three and nine months ended February 28, 2021. The effective tax rate on consolidated net income (loss) for the three months ended February 28, 2022 and February 28, 2021 differs from the federal statutory tax rate primarily due to changes in the deferred tax asset valuation allowance. For the three months ended February 28, 2022, the tax benefit recorded related to the bargain purchase gain and changes in the deferred tax asset valuation allowance.

NOTE 11 - SEGMENT INFORMATION

As described in Note 2 - *Ample Hills Business Acquisition*, the Company closed on the acquisition of Ample Hills on July 9, 2020. As a result of the acquisition of Ample Hills, the Company now has two reportable business segments: the Ice Cream Segment and the Measurement Segment. The Ice Cream Segment encompasses the activities of Ample Hills and focuses on the wholesale and retail sales of the Company’s ice cream products from 12 separate retail locations in New York, New Jersey and California. The Measurement Segment focuses on laser-based test and measurement systems and ultrasonic products. All of the Company’s operations are conducted within North America.

The foregoing information presents the balances and activities of the Measurement Segment for the three and nine months ended February 28, 2022 and February 28, 2021. For the Ice Cream Segment, the balances and activities for the three and nine months ended February 28, 2022 are included, however, due to the acquisition occurring on July 9, 2020, only a portion of balances and activities are presented for the three and nine months ended February 28, 2021.

The following table present the activity for the three months ended February 28, 2022 and 2021:

	Three Months Ended February 28,			
	2022		2021	
	Ice Cream	Measurement	Ice Cream	Measurement
Revenue, net	$ 972,920	$ 875,993	$ 621,730	$ 1,046,714
Gross margin	$ 389,710	$ 547,127	$ 263,355	$ 567,834
Gross margin %	40.1%	62.5%	42.4%	54.2%
Operating loss	$ (1,837,593)	$ (548,729)	$ (2,200,003)	$ (304,458)
Depreciation expense	$ 70,761	$ 4,211	$ 82,480	$ 10,588
Amortization expense	$ 5,734	$ 26,145	$ 6,017	$ 21,562
Capital expenditures	$ 10,200	$ —	$ 249,012	$ 2,938

The following table present the activity for the nine months ended February 28, 2022 and 2021:

	Nine Months Ended February 28,			
	2022		2021	
	Ice Cream	Measurement	Ice Cream	Measurement
Revenue, net	$ 5,908,291	$ 2,661,762	$ 2,282,139	$ 2,923,502
Gross margin	$ 3,527,555	$ 1,423,573	$ 944,493	$ 1,456,454
Gross margin %	59.7%	53.5%	41.4%	49.8%
Operating loss	$ (4,975,684)	$ (1,703,768)	$ (4,901,933)	$ (1,371,500)
Depreciation expense	$ 285,400	$ 20,411	$ 176,966	$ 40,868
Amortization expense	$ 17,200	$ 78,437	$ 16,045	$ 73,853
Capital expenditures	$ 188,687	$ —	$ 481,063	$ 29,258

Segment Assets

	February 28, 2022	May 31,2021
Segment assets to total assets		
Ice Cream Segment	$ 7,911,579	$ 10,713,832
Measurement Segment	2,521,490	2,565,701
Corporate assets	9,919,456	7,894,397
Total assets	$ 20,352,525	$ 21,173,930

NOTE 12 - INTANGIBLE ASSETS

Indefinite-Lived Intangible Assets

In connection with the acquisition of Ample Hills on July 9, 2020, the Company acquired tradenames and trademarks related to the Ample Hills business. The Company estimated the fair value of these assets utilizing the relief-from-royalty method. These assets were determined to be indefinite-lived and are not amortized, but instead are reviewed for impairment at least annually or whenever events or changes in circumstances indicate that such carrying values may not be recoverable as required by ASC 350, *Intangibles — Goodwill and Other*. The Company first performs a qualitative analysis to determine if it is "more likely than not" that an impairment event has occurred. If it is deemed to be more likely than not, then the Company will perform a qualitative analysis to estimate the fair value of the assets based on their discounted future cash flows. Should the carrying value of such assets exceed this fair value estimate, then an impairment charge for the difference will be recognized in earnings. The Company's annual qualitative impairment analysis indicated that it was more likely than not that the indefinite-lived assets were impaired and, accordingly, a quantitative analysis was performed.

During the fourth quarter of the fiscal year ended May 31, 2021, the Company made an evaluation based on factors such as changes in the Ice Cream Segment's growth rate and recent trends in the Ice Cream Segment's forecasted financial information and concluded that a triggering event for an interim impairment analysis had occurred. As part of qualitative assessment, it was determined that the carrying value of the Ample Hills tradenames exceeded the estimated fair value. The tradename was valued using the relief-from-royalty method – a variation of the income approach – which was used for the initial valuation of the tradename in connection with the Company's acquisition of Ample Hills. Due to a reduction in estimated total enterprise value as a result of the change in financial projections, there is no incremental fair value to allocate to the tradenames. Therefore, during the fiscal year ended May 31, 2021, the Company recognized an impairment loss in the amount of $903,422, which equals the total carrying value of the tradenames as of the testing date.

Finite-lived Intangible Assets

Amortizable intangible assets include purchased technology and patents for the Company's Measurement Segment and proprietary recipes and the Company's website for its Ice Cream Segment. These assets are amortized over their estimated useful lives ranging from three to fifteen years. In total, the weighted-average remaining amortization period of the Company's intangible assets was 4.71 years as of February 28, 2022.

As of February 28, 2022 and May 31, 2021, for the Measurement Segment, the gross carrying value of amortizable intangible assets was $1,663,538, and accumulated amortization was $1,554,372 and $1,475,935, respectively, which includes fully amortized assets. Amortization expense for the Measurement Segment for the three months ended February 28, 2022 and February 28, 2021 was $26,145 and $21,562, respectively. Amortization expense for the Measurement Segment for the nine months ended February 28, 2022 and February 28, 2021 was $78,437 and $73,853, respectively. The weighted-average remaining amortization period for Measurement Segment intangible assets was 1.0 year as of February 28, 2022.

As of February 28, 2022 and May 31, 2021, for the Ice Cream Segment, the gross carrying value of amortizable intangible assets was $172,184, and accumulated amortization was $39,262 and $22,062, respectively. Amortization expense for the Ice Cream Segment for the three and nine months ended February 28, 2022 was $5,734 and $17,200, respectively. The weighted-average remaining amortization period for Ice Cream Segment intangible assets was 7.76 years as of February 28, 2022.

The following tables present the major components of finite-intangible assets which are subject to amortization as of February 28, 2022 and May 31, 2021:

As of February 28, 2022	**Useful Life (Years)**	**Gross Carrying Value**	**Accumulated Amortization**	**Net Carrying Value**
Finite-lived intangible assets subject to amortization:				
Measurement Segment				
Patented technology	15	$ 1,663,538	$ (1,554,372)	$ 109,166
Measurement Segment finite-lived assets		1,663,538	(1,554,372)	109,166
Ice Cream Segment				
Proprietary recipes	10	146,739	(24,900)	121,839
Company website	3	25,445	(14,362)	11,083
Ice Cream Segment finite-lived intangible assets		172,184	(39,262)	132,922
Total finite-lived intangible assets		$ 1,835,722	$ (1,593,634)	$ 242,088

As of May 31, 2021	Useful Life (Years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Finite-lived intangible assets subject to amortization:				
Measurement Segment				
Patented technology	15	$ 1,663,538	$ (1,475,935)	$ 187,603
Measurement Segment finite-lived assets		1,663,538	(1,475,935)	187,603
Ice Cream Segment				
Proprietary recipes	10	146,739	(13,934)	132,805
Company website	3	25,445	(8,128)	17,317
Ice Cream Segment finite-lived intangible assets		172,184	(22,062)	150,122
Total finite-lived intangible assets		$ 1,835,722	$ (1,497,997)	$ 337,725

Estimated amortization expense remaining for each of the following years is as follows:

Year Ending May 31,	
2022	$ 36,462
2023	101,370
2024	15,313
2025	14,621
2026	14,621
Thereafter	59,701
Total expected amortization expense	$ 242,088

Finite-lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. Recoverability is determined by comparing the forecasted future net undiscounted cash flows from the operations to which the assets relate, based on management's best estimates using the appropriate assumptions and projections at the time, to the carrying amount of the assets. If the carrying value is determined to be in excess of such undiscounted cash flows, the asset is considered impaired and a loss is recognized equal to the amount by which the carrying amount exceeds the estimated fair value of the assets, which is determined by discounting future projected cash flows.

NOTE 13 – LONG-TERM DEBT

Paycheck Protection Program Loan

On March 21, 2020, the Coronavirus Aid Relief and Economic Security Ace (“CARES ACT”) was enacted. The CARES ACT established the PPP, which funds eligible businesses through federally guaranteed loans. Under the PPP, companies are eligible for forgiveness of principal and accrued interest if the proceeds are used for eligible costs, which include, but are not limited to, payroll, benefits, mortgage, lease and utility expenses.

The Company received three PPP loans during the fiscal year ended May 31, 2021, two of which were forgiven during the nine months ended February 28,2022. The remaining PPP loan is as follows:

	Loan Amount	Issuance Date	Maturity Period	Interest Rate
Second Draw PPP Loan (Ample Hills)	2,000,000	April 6, 2021	5 years	1.0%
Total PPP Loan Balance	$ 2,000,000			

The first two loans (both of which were forgiven during the nine months ended February 28, 2022 and therefore excluded from the table) were granted on July 30, 2020 (collectively the “First Draw PPP Loans”) under two notes payable. Both notes were issued July 30, 2020 and funds were disbursed on August 3, 2020. The third loan was granted and issued on April 6, 2021 (the “Second Draw PPP Loan”) to Ample Hills under a note payable which matures five years from the date of issuance and bears interest annually of 1.0%. Interest is accrued monthly, commencing on the date of issuance. Principal and interest is paid monthly through the maturity date, commencing on April 6, 2021 for the Second Draw PPP Loan, unless forgiven as described below. The note may be prepaid at any time prior to maturity with no prepayment penalties. As noted above, Loan proceeds may be used only for eligible expense. Ample Hills has used and intends to use the remaining funds for eligible purposes, including the re-hiring of its workforce. Ample Hills is currently seeking forgiveness of the balance of the Second Draw PPP Loan.

Forgiveness of the Second Draw PPP Loan is available for principal that is used for the limited purposes that qualify for forgiveness under the requirements of the Small Business Administration (“SBA”), in addition to accrued interest. To obtain forgiveness, the Company must request it, provide documentation in accordance with SBA requirements and certify that the amounts requested to be forgiven qualify under those requirements. There is no guarantee that the remaining Second Draw Loan will be forgiven by the SBA and therefore, the Company has recorded a $2,000,000 loan payable on the consolidated balance sheet as of the end of February 28, 2022. Of this amount, $472,431 has been recorded as a current liability to reflect the amount due within the twelve months through February 28, 2023.

On August 2, 2021, the Company requested forgiveness of the First Draw PPP Loan and provided documentation in accordance with SBA requirements and certified the amounts requested to be forgiven qualified under the requirements. On August 28, 2021, the Company received correspondence from Bank of America, which included a Notice of Paycheck Protection Program Forgiveness Payment from SBA for a portion of the First Draw PPP Loan in the amount of $588,534. The Company must retain all records for the PPP loan for six years from the date the loan is forgiven. Additionally, subsequent to receiving the First Draw PPP Loan in fiscal 2021, the Company repaid $264,476. During the nine months ended February 28, 2022, Bank of America returned this payment to the Company as a result of a portion of the First Draw PPP loan being forgiven.

On December 15, 2021 and December 22, 2021, respectively, for the remaining portion of the First Draw PPP Loan and the Second Draw PPP Loan, the Company provided documentation in accordance with SBA requirements and certified the amounts requested to be forgiven qualified under the requirements. During the three months ended February 28, 2022, the Company received notification that the remaining First Draw PPP Loan had been forgiven by the SBA and subsequently recognized a $1,471,022 gain on the forgiveness of this loan.

As of February 28, 2022 and May 31, 2021, the Company has the following current and long-term liabilities recorded for the PPP loans:

	February 28, 2022	May 31, 2021
Current portion	$ 472,431	$ 541,691
Long-term portion	1,527,569	3,253,389
Total PPP loan balance	$ 2,000,000	$ 3,795,080

NOTE 14 – COMMITMENTS AND CONTINGENCIES

In a transaction related to the acquisition of Schmitt Measurement Systems, Inc., formerly TMA Technologies, Inc. ("TMA"), the Company established a royalty pool and vested in each shareholder and debt holder of the acquired company an interest in the royalty pool equal to the amount invested or loaned including interest payable through March 1995. The royalty pool is funded at 5% of net revenues (defined as gross sales less returns, allowances and sales commissions) of the Company's surface measurement products and future derivative products developed by Schmitt Industries, Inc., which utilize these technologies. As part of the royalty pool agreement, each former shareholder and debt holder released TMA from any claims with regards to the acquisition except their rights to future royalties. Royalty expense for the nine months ended February 28, 2022 and February 28, 2021 amounted to $19,429 and $18,992, respectively.

During the Company’s fiscal year ended May 31, 2020 (“Fiscal 2020”), the Company determined that it was more likely than not that the Company had a pre-existing tax liability related to prior periods. The Company has analyzed the liability and estimated it to be $265,349 and accordingly, the Company recognized estimated liability in operating expenses in Fiscal 2020 and recorded an accrual for the liability. Management has evaluated the exposure related to this matter and believes that the remaining liability is its best estimate as of February 28, 2022.

NOTE 15 - SUBSEQUENT EVENTS

On March 4, 2022, March 15, 2022, and April 13, 2022, the Company signed three new retail lease agreements in conjunction with its plans to expand its Ample Hills store footprint.

On April 13, 2022, the Company formalized drawdown terms on its existing $1,300,000 Commitment Letter with its CEO, which states that SCM or its affiliates will provide the Company with additional capital of up to $1,300,000 for the Company’s operations, as needed, through February 28, 2023. Drawdown terms include: 1.0% origination fee, 18-month term after drawdown, 8.0% payment-in-kind interest rate.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report filed with the SEC on Form 10-Q (the "Report"), including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Item 2, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 regarding future events and the future results of Schmitt Industries, Inc. and its consolidated subsidiaries that are based on management's current expectations, estimates, projections and assumptions about the Company's business. Words such as "expects," "anticipates," "intends," "plans," "believes," "sees," "estimates" and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements due to numerous factors, including, but not limited to, those discussed in the risk factors disclosed in our Annual Report on Form 10-K for the year ended May 31, 2021, as well as in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Report as well as those discussed from time to time in the Company's other Securities and Exchange Commission filings and reports. In addition, such statements could be affected by general industry and market conditions.

Such forward-looking statements speak only as of the date of this Report or, in the case of any document incorporated by reference, the date of that document, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Report. If we update or correct one or more forward-looking statements, investors and others should not conclude that we will make additional updates or corrections with respect to other forward-looking statements.

RESULTS OF OPERATIONS

Schmitt Industries, Inc. (the "Company", "Schmitt", "we" or "our") operates a diversified business. The Company reports in two business segments, the Ice Cream Segment and the Measurement Segment.

- Ice Cream Segment. Through our wholly owned subsidiary, Ample Hills Acquisition, LLC, the Ice Cream Segment manufactures, wholesales, and retails ice cream and related products through a network of 11 individual retail locations located in New York, New Jersey and California.

- Measurement Segment. Through its wholly owned subsidiary Schmitt Measurement Systems, Inc., the Measurement Segment manufactures and sells products in two core product lines, Acuity® and Xact®.

  - Acuity® sells products, solutions and services that includes laser and white light sensor distance, measurement and dimensional sizing products.

  - Xact® product line includes ultrasonic-based remote tank monitoring products and related Monitoring revenues for markets in the Internet of Things ("IoT") environment. The Xact products measure the fill levels of tanks holding propane, diesel and other tank-based liquids and the related monitoring services, which includes transmission of fill data from the tanks via satellite to a secure website for display.

The accompanying unaudited financial information should be read in conjunction with our Annual Report on Form 10-K filed on August 31, 2021.

Highlights of the Three Months Ended February 28, 2022 and February 28, 2021

	Three Months Ended February 28,				YoY Change	
	2022	%	2021	%	$	%
Ice Cream Segment revenues	$ 972,920	52.6%	$ 621,730	37.3%	$ 351,190	56.5%
Measurement Segment revenues	875,993	47.4%	1,046,714	62.7%	(170,721)	(16.3%)
Total revenue, net	1,848,913	100.0%	1,668,444	100.0%	180,469	10.8%
Cost of sales	912,076	49.3%	837,254	50.2%	74,822	8.9%
Gross profit	936,837	50.7%	831,190	49.8%	105,647	12.7%
Selling, general and administrative	3,312,388	179.2%	3,313,918	198.6%	(1,530)	(0.0%)
Research & development	10,771	0.6%	21,732	1.3%	(10,961)	(50.4%)
Total operating expenses	3,323,159	179.7%	3,335,650	199.9%	(12,491)	(0.4%)
Operating loss	(2,386,322)	(129.1%)	(2,504,460)	(150.1%)	118,138	(4.7%)
Bargain purchase gain	—	0.0%	(2,277)	(0.1%)	2,277	100.0%
Forgiveness of PPP loans	1,471,292	79.6%	—	—	1,471,292	100.0%
Interest expense	(8,232)	(0.4%)	(5,400)	(0.3%)	(2,832)	52.4%
Other (expense) income, net	38,286	2.1%	90,703	5.4%	(52,417)	(57.8%)
Income (loss) before income taxes	(884,976)	(47.9%)	(2,421,434)	(145.1%)	1,536,458	(63.5%)
Income tax provision (benefit)	8,268	0.4%	(1,637)	(0.1%)	9,905	(605.1%)
Net income (loss)	$ (893,244)	(48.3%)	$ (2,419,797)	(145.0%)	$ 1,526,553	(63.1%)

Highlights of the Nine Months Ended February 28, 2022 and February 28, 2021

	Nine Months Ended February 28,				YoY Change	
	2022	%	2021	%	$	%
Ice Cream Segment revenues	$ 5,908,291	68.9%	$ 2,282,139	43.8%	$ 3,626,152	158.9%
Measurement Segment revenues	2,661,762	31.1%	2,923,502	56.2%	(261,740)	(9.0%)
Total revenue, net	8,570,053	100.0%	5,205,641	100.0%	3,364,412	64.6%
Cost of sales	3,618,925	42.2%	2,804,694	53.9%	814,231	29.0%
Gross profit	4,951,128	57.8%	2,400,947	46.1%	2,550,181	106.2%
Selling, general and administrative	11,604,964	135.4%	8,492,150	163.1%	3,112,814	36.7%
Transaction costs	—	0.0%	125,167	2.4%	(125,167)	(100.0%)
Research & development	25,616	0.3%	57,062	1.1%	(31,446)	(55.1%)
Total operating expenses	11,630,580	135.7%	8,674,379	166.6%	2,956,201	34.1%
Operating loss	(6,679,452)	(77.9%)	(6,273,432)	(120.5%)	(406,020)	(6.5%)
Gain on sale of property and equipment	4,598,095	53.7%	—	0.0%	4,598,095	100.0%
Bargain purchase gain	—	0.0%	1,187,235	22.8%	(1,187,235)	(100.0%)
Forgiveness of PPP loan	2,059,826	24.0%	—	0.0%	2,059,826	100.0%
Interest expense	(37,811)	(0.4%)	(12,854)	(0.2%)	(24,957)	194.2%
Other income, net	323,589	3.8%	58,777	1.1%	264,812	(450.5%)
Income (loss) before income taxes	264,247	3.1%	(5,040,274)	(96.8%)	5,304,521	105.2%
Income tax provision (benefit)	14,618	0.2%	(404,667)	(7.8%)	419,285	(103.6%)
Net income (loss)	$ 249,629	2.9%	$ (4,635,607)	(89.0%)	$ 4,885,236	105.4%

- Consolidated revenues increased $180,469, or 10.8% to $1,848,913 for the three months ended February 28, 2022, as compared to $1,668,444 for the three months ended February 28, 2021. Consolidated revenues increased $3,364,412, or 64.6%, to $8,570,053 for the nine months ended February 28, 2022, as compared to $5,205,641 for the nine months ended February 28, 2021. The increase was driven by the Ice Cream Segment, which generated revenues of $972,920 and $5,908,291 for the three and nine months ended February 28, 2022, respectively, accounting for 52.6% and 68.9% of total revenue for the three and nine month periods.

- Gross margin increased to 50.7% for the three months ended February 28, 2022, as compared to the three months ended February 28, 2021, of 49.8%. Gross margin increased to 57.8%, for the nine months ended February 28, 2022, as compared to the nine months ended February 28, 2021, of 46.1%. The Company's gross margin was driven by improved performance in the Ice Cream Segment due to higher factory utilization and production efficiencies, as well as a product mix shift in Measurement Segment.

- Operating expenses decreased by $12,491, or 0.4%, to $3,323,159 for the three months ended February 28, 2022, as compared to $3,335,650 for the three months ended February 28, 2021. Operating expenses increased $2,956,201, or 34.1%, to $11,630,580 for the nine months ended February 28, 2022, as compared to $8,674,379 for the nine months ended February 28, 2021. The increase was primarily due to the inclusion of the Ample Hills business, acquired in July 2020.

- Net loss was ($893,244), or ($0.24) per fully diluted share, for the three months ended February 28, 2022, as compared to net loss of ($2,419,797), or ($0.64) per fully diluted share, for the three months ended February 28, 2021. Net income was $249,629, or $0.07 per fully diluted share, for the nine months ended February 28, 2022, as compared to net loss of ($4,635,607), or ($1.23) per fully diluted share, for the nine months ended February 28, 2021.

- Capital expenditures for the nine months ended February 28, 2022, were $188,687 as compared to $510,321 during the nine months ended February 28, 2021. The Company's capital expenditures are primarily related to its Ample Hills retail expansion efforts, as well as expenditures on equipment upgrades at the Company's Red Hook factory in Brooklyn, New York.

Critical Accounting Policies

The Company's critical accounting policies are disclosed in its Annual Report on Form 10-K for the year ended May 31, 2021 filed on August 31, 2021 with the Securities and Exchange Committee ("SEC"). There have been no changes subsequent to May 31, 2021.

Discussion of Operating Results

The Company has previously reported segment information between their two identified reportable segments: the Balancer Segment and the Measurement Segment. As described in the Company's Annual Report on Form 10-K for the year ended May 31, 2021, the Company sold the Dynamic Balance Systems ("SBS") business line on November 22, 2019. This entity composed substantially all of the business activities of the Company's legacy Balancer Segment. Subsequent to this sale, Management determined that the Company had a single reportable segment, until the acquisition of Ample Hills closed during the first quarter of fiscal 2021 ended August 31, 2020. Subsequent to the acquisition of Ample Hills, the Company has two identifiable reportable segments: the Measurement Segment and the Ice Cream Segment. The foregoing information presents the balances and activities of the Measurement Segment and the Ice Cream Segment as of and for the three and nine months ended February 28, 2022.

Consolidated Revenue- Consolidated revenues increased $180,469, or 10.8%, to $1,848,913 for the three months ended February 28, 2022, as compared to $1,668,444 for the three months ended February 28, 2021. Consolidated revenues increased $3,364,412, or 64.6%, to $8,570,053 for the nine months ended February 28, 2022, as compared to $5,205,641 for the nine months ended February 28, 2021. The increase was driven by the Ice Cream Segment, which generated revenues of $972,920 and $5,908,291 for the three and nine months ended February 28, 2022, respectively, accounting for 52.6% and 68.9% of total revenue for the three and nine month periods.

Ice Cream Segment - The Ice Cream Segment encompasses the operations of Ample Hills Acquisition, LLC and focuses on the retail and wholesale sales of ice cream and related products through a network of 11 individual retail locations located in New York, New Jersey and California.

Ice Cream Segment revenue increased $351,190, or 56.5%, to $972,920 for the three months ended February 28, 2022, as compared to $621,730, for the three months ended February 28, 2021. Ice Cream Segment revenue increased $3,626,152, or 158.9%, to $5,908,291 for the nine months ended February 28, 2022, as compared to $2,282,139 for the nine months ended February 28, 2021. The increase was primarily due to the inclusion of Ice Cream Segment revenue for the entire nine months ended February 28, 2022, versus partial inclusion for the nine months ended February 28, 2021, as the acquisition occurred on July 9, 2020. In addition, the Company opened an additional retail location on May 28, 2021.

Measurement Segment - The Measurement Segment includes two main product lines: the Acuity product line, which includes laser-based distance measurement and dimensional sizing laser sensors; and the Xact product line, which includes ultrasonic-based remote tank monitoring products and related monitoring revenues for markets in the IoT environment. Substantially all activity of our Measurement Segment is conducted in North America.

Measurement Segment revenue decreased $170,721 or 16.3%, to $875,993 for the three months ended February 28, 2022, as compared to $1,046,714 for the three months ended February 28, 2021. Measurement Segment revenue decreased $261,741, or 9.0%, to $2,661,762 for the nine months ended February 28, 2022, as compared to $2,923,502 for the nine months ended February 28, 2021. For the three months ended February 28, 2022, the decrease is driven by a decrease in Acuity revenue of $106,420 and decreases in Xact product revenue and Xact monitoring revenue of $29,720 and $33,976, respectively. For the nine months ended February 28, 2022, the decrease is primarily driven by a decrease in Xact product revenue and Xact monitoring revenue of $127,156 and $50,349, respectively, as well as a decrease in Acuity revenue of $97,435.

Revenue by product line for the Measurement Segment for the three months ended February 28, 2022 and February 28, 2021, respectively, were as follows:

	Three Months Ended February 28,		YoY Change	
	2022	2021	$	%
Acuity revenue	$ 373,193	$ 479,613	$ (106,420)	(22.2%)
Xact - product revenue	108,810	138,530	(29,720)	(21.5%)
Xact - monitoring revenue	394,595	428,571	(33,976)	(7.9%)
Other	(605)	—	(605)	—
Total Measurement Segment revenue	$ 875,993	$ 1,046,714	$ (170,721)	(16.3%)

Revenue by product line for the Measurement Segment for the nine months ended February 28, 2022 and February 28, 2021, respectively, were as follows:

	Nine Months Ended February 28,		YoY Change	
	2022	2021	$	%
Acuity revenue	$ 1,085,851	$ 1,183,286	$ (97,435)	(8.2%)
Xact - product revenue	318,778	445,934	(127,156)	(28.5%)
Xact - monitoring revenue	1,186,793	1,237,142	(50,349)	(4.1%)
Other	70,340	57,140	13,200	23.1%
Total Measurement Segment revenue	$ 2,661,762	$ 2,923,502	$ (261,740)	(9.0%)

Gross Margin – Ice Cream Segment gross margin for the three months ended February 28, 2022 decreased to 40.1%, as compared to 42.4% for the three months ended February 28, 2021. Ice Cream Segment gross margin for the nine months ended February 28, 2022 increased to 59.7%, as compared to 41.4% for the nine months ended February 28, 2021. The Ice Cream Segment's performance was driven by improved factory utilization and yield.

Measurement Segment gross margin for the three months ended February 28, 2022 increased to 62.5%, as compared to 54.2% for the three months ended February 28, 2021. Measurement Segment gross margin for the nine months ended February 28, 2022 increased to 53.5% as compared to 49.8% for the nine months ended February 28, 2021. Measurement Segment's improved margin was driven by a higher percentage of Xact Monitoring revenue.

Operating Expenses – Ice Cream Segment operating expenses decreased $236,056 or 9.6%, to $2,227,303 for the three months ended February 28, 2022, as compared to $2,463,359 for the three months ended February 28, 2021. Ice Cream Segment operating expenses increased $2,656,813 or 45.4%, to $8,503,239 for the nine months ended February 28, 2022, as compared to $5,846,426 for the nine months ended February 28, 2021. The increase was primarily due to the inclusion of the Ample Hills business, acquired in July 2020.

Measurement Segment operating expenses increased $223,564, or 25.6%, to $1,095,856 for the three months ended February 28, 2022, as compared to $872,292 for the three months ended February 28, 2021. Measurement Segment operating expenses increased $299,387, or 10.6%, to $3,127,341 for the nine months ended February 28, 2022, as compared to $2,827,953 for the nine months ended February 28, 2021. The operating expense increase was driven by higher corporate administrative costs supporting the Measurement businesses, as well as higher professional fees.

Gain on Sale of Property and Equipment – During the nine months ended February 28, 2022, the Company recorded a gain on the sale of property and equipment totaling $4,598,095. The gain is primarily the result of the sale of a two story 35,050 sq. foot building located at 2451 NW 28th Avenue, Portland, OR. On November 10, 2021, the Company closed on the sale of this building for $5,100,000 gross proceeds.

Bargain Purchase Gain - In connection with the acquisition of Ample Hills on July 9, 2020, the Company recognized an initial bargain purchase gain of $1,271,615 that was recorded as a component of other income on the consolidated statement of operations. The bargain purchase gain amount represents the excess of the estimated fair value of net assets acquired over the estimated fair value of the consideration transferred to the sellers and their landlords. In accordance with ASC 805 - *Business Combinations* ("ASC 805"), we have estimated the fair value of the net assets acquired as of the acquisition date. As a result of additional information obtained during the measurement period about the facts and circumstances that existed as of the acquisition date, the Company recorded measurement period adjustments of $132,807 during the year ended May 31, 2021, which decreased the total bargain purchase gain recognized to $1,138,808. The adjustments were primarily related to additional cure payments subsequent to the acquisition which related to circumstances that existed prior to the acquisition date, and the identification of acquired inventory deemed obsolete as of the acquisition date. See Note 2 – *Ample Hills Business Acquisition* for further discussion. The purchase price allocation has been finalized as of May 31, 2021, within the measurement period, and no further adjustments will be made.

Interest Expense – Interest expense was $8,232 for the three months ended February 28, 2022, as compared to $5,400 for the three months ended February 28, 2021. Interest expense was $37,811 for the nine months ended February 28, 2022, as compared to $12,854 for the nine months ended February 28, 2021.

Other Income, Net - Other income, net, primarily consists of rental income, interest income and other income. Other income, net was $38,286 for the three months ended February 28, 2022, as compared to other income of $90,703 for the three months ended February 28, 2021. Other income, net, was $323,590 for the nine months ended February 28, 2022, as compared to $58,777 for the nine months ended February 28, 2021.

Income Taxes - The effective tax rate was 0.9% and 5.5%, respectively, for the three and nine months ended February 28, 2022. The effective tax rate was (0.1%) and (8.0%), respectively, for the three and nine months ended February 28, 2021. The effective tax rate on consolidated net loss for the three months ended February 28, 2022 and February 28, 2021 differs from the federal statutory tax rate primarily due to changes in the deferred tax asset valuation allowance. For the three months ended February 28, 2021, the tax benefit recorded related to the bargain purchase gain and changes in the deferred tax asset valuation allowance.

Net Income (Loss) - Net loss was ($893,244), or ($0.24), per fully diluted share, for the three months ended February 28, 2022, as compared to net loss of (2,419,797), or ($0.64), per fully diluted share, for the three months ended February 28, 2021. Net income was $249,629, or $0.07, per fully diluted share, for the nine months ended February 28, 2022, as compared to net loss of ($4,635,607), or ($1.23), per fully diluted share, for the nine months ended February 28, 2021.

COVID-19 Update

As of February 28, 2022, all of the Company's manufacturing facilities and retail shops were operational. Throughout the COVID-19 pandemic, the Company has been adhering to mandates and other guidance from local governments and health authorities, including the World Health Organization and the Centers for Disease Control and Prevention. The Company has taken extraordinary measures and invested significantly in practices to protect employees and reduce the risk of spreading the virus, while continuing to operate where permitted and to the extent possible. These actions include additional cleaning of our facilities, staggering crews, incorporating visual cues to reinforce social distancing, providing face coverings and gloves, as well as implementing daily health validation at our manufacturing and office facilities. We expect to continue to incur costs to maintain these precautionary measures for the foreseeable future. The health and safety of our employees and our communities is our highest priority.

LIQUIDITY AND CAPITAL RESOURCES

The Company's net working capital decreased $1,648,791 to $1,299,162 as of February 28, 2022, as compared to $2,947,953 as of May 31, 2021.

Net cash used in operating activities was $6,907,162 during the nine months ended February 28, 2022, as compared to net cash used in operating activities of $5,657,905 during the nine months ended February 28, 2021. The net cash used in operating activities was primarily driven by a gain on disposal of property and equipment of $4,598,095 and forgiveness of part of the First Draw PPP Loan received through the Paycheck Protection Program ("PPP") totaling $2,059,826. These uses of cash were offset by net income of $249,629, depreciation and amortization of $401,448, non-cash lease costs of $92,042, stock-based compensation of $95,016, an increase in inventories of $638,534, an increase in rent, utility deposits and ERP deposits of $397,193, a decrease in accounts receivable, net of $217,836, a decrease in accrued liabilities and customer deposits of $409,187, a decrease in accounts payable of $27,776, and a decrease in prepaid expenses of $167,478.

Net cash provided by investing activities was $4,609,237 for the nine months ended February 28, 2022, as compared to net cash used in investing activities of $2,188,225 for the nine months ended February 28, 2021. The net cash provided by investing activities for the nine months ended February 28, 2022 is driven by proceeds from the sale of property and equipment of $4,797,924, offset partially by purchases of property and equipment of $188,687. The net cash used in investing activities for the nine months ended February 28, 2021 was primarily the result of the acquisition of Ample Hills and associated cure costs totaling $1,713,404 and purchases of property and equipment totaling $510,321, partially offset by proceeds from the sale of property and equipment of $35,500.

Net cash provided by financing activities was $264,476 during the nine months ended February 28, 2022, as compared to net cash provided by financing activities of $1,445,963 for the nine months ended February 28, 2021. The net cash provided by financing activities for the nine months ended February 28, 2022 was due to the forgiveness of part of the First Draw PPP Loan received through the PPP, which resulted in a repayment to the Company of $264,476 for a loan payment previously made by the Company on this loan. The net cash provided by financing activities for the nine months ended February 28, 2021 was primarily the result of proceeds received by the Company for the First Draw PPP Loan totaling $2,059,556, offset by a repayment of the PPP loan totaling $264,476, the repurchases of common stock totaling $300,492 and payments on short-term borrowing of $48,625.

Management is seeking to sell the assets held for sale, which would be a source of liquidity for the Company, though there can be no assurance as to whether the Company will consummate a sale or as to the proceeds the Company would receive in any such sale.

We believe that our existing cash and cash equivalents combined with the cash we anticipate generating from operating and financing activities will be sufficient to meet our cash requirements for the foreseeable future. We do not have any significant commitments nor are we aware of any significant events or conditions that are likely to have a material impact on our liquidity or capital resources. The Company may seek to generate additional cash, whether the remaining PPP loan is forgiven or otherwise. Such efforts could include the sale of previously disclosed real estate efforts or additional financing. Any subsequent equity financing sought may have dilutive effects on our current shareholders. The Company has no agreements or understandings with respect to the foregoing.

On August 7, 2021, the Company received The Commitment Letter to Schmitt Industries ("Commitment") from Michael Zapata, our Chief Executive Officer ("CEO"). The Commitment states that Sententia Capital Management LLC ("SCM") or its affiliated entities will provide additional capital as required to Schmitt up to $1,300,000 for the Company's operations as needed through February 28, 2023. The Company has not requested or used any of the $1,300,000 as of February 28, 2022.

On August 2, 2021, the Company requested forgiveness of the First Draw PPP Loan and provided documentation in accordance with SBA requirements and certified the amounts requested to be forgiven qualified under the requirements. On August 28, 2021, the Company received correspondence from Bank of America, which included a Notice of Paycheck Protection Program Forgiveness Payment from SBA for a portion of the First Draw PPP Loan in the amount of $588,534. In February 2022, the Company received notification that the remaining First Draw PPP Loan had been forgiven by the SBA in the amount of $1,471,022. The Company must retain all records for the PPP loan for six years from the date the loan is forgiven. Additionally, subsequent to receiving the First Draw PPP Loan in fiscal 2021, the Company repaid $264,476. During the nine months ended February 28, 2022, Bank of America returned this payment to the Company as a result of a portion of the First Draw PPP loan being forgiven.

Going Concern

In connection with preparing the consolidated financial statements for the three and nine months ended February 28, 2022, management evaluated whether there were conditions and events, considered in the aggregate, that raised substantial doubt about the Company's ability to continue as a going concern within one year from the date the financial statements are issued. In making this assessment we performed a comprehensive analysis of our current circumstances including our financial position and cash usage forecasts. The analysis used to determine the Company's ability as a going concern does not include cash sources outside the Company's direct control that management expects to be available within the next 12 months. The Company has incurred significant losses and has not demonstrated sufficient revenues to achieve profitable operations on a consolidated basis. In addition, the Company will continue to generate losses from operations for at least one year and will require additional financing until the operations achieve profitability. These factors could create substantial doubt as to the Company's ability to continue as a going concern for at least one year after the date our unaudited condensed consolidated financial statements are issued. However, management expects that our existing cash and cash equivalents, planned sale of real estate assets, our access to the Sententia Capital Management Commitment Letter, and any potential additional equity financing, will be sufficient to fund our anticipated level of operations through at least April 2023 and alleviates substantial doubt about the Company's ability to continue as a going concern.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes from the information previously reported under Item 7A of our Annual Report on Form 10-K for the year ended May 31, 2021.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives, and management necessarily is required to use its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

An evaluation was carried out under the supervision and with the participation of the Company's management, including the CEO and Chief Financial Officer ("CFO"), of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report as defined in Exchange Act Rule 13a-15(e) and Rule 15d-15(e). Based on that evaluation, the CEO and CFO have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were not effective in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

As previously disclosed in Item 9A of our Annual Report on Form 10-K for the year ended May 31, 2021, management had concluded that there was a material weakness in internal control over financial reporting due to deficiencies in the design and operation of internal controls over segregation of duties; and ineffective management review over accounting reconciliations for stock-based compensation, accounts receivable, accounts payable, inventory, accrued liabilities, sales taxes, expense classification, depreciation of property and equipment, net and earnings per share. We are in the process of remediating the material weakness as of the end of the period covered by this Quarterly Report on Form 10-Q.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements would not be prevented or detected on a timely basis. As a result of the material weakness, our CEO and CFO have concluded that, as of February 28, 2022, the end of the period covered by this report, our disclosure controls and procedures were not effective at a reasonable assurance level.

Remediation of Material Weaknesses

Management developed a remediation plan in response to the material weakness identified. Management has leveraged additional accounting resources, both internal and external, to strengthen the financial close and reporting process so as to more effectively detect such misstatements in a more timely fashion. Additional accounting resources include the Company's announcement of the appointment of Philip Bosco as CFO on November 6, 2020, effective December 1, 2020. In addition, a consulting firm has been engaged to assist with the development and implementation of our internal controls remediation plan.

The remediation plan includes both management's assessment and recommendations from independent accounting advisors used in the review process. This remediation plan is intended to address the identified material weakness and enhance our overall control environment.

This quarterly report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to SEC rules adopted in conformity with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Notwithstanding the identified material weaknesses, management believes that the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q present fairly, in all material respects, our financial position, results of operations, and cash flows as of and for the periods presented in accordance with U.S. GAAP.

Changes in Internal Control Over Financial Reporting

In the fiscal year ending May 31, 2021, the Company acquired the Ample Hills business. As of February 28, 2022, management has expanded the head count in the accounting and finance department and is in the process of integrating this new business line into the Company's overall internal control environment. Further, management has performed a thorough review of processes and procedures to ensure appropriate segregation of duties are in place to improve the internal control environment. Management anticipates completing these integration efforts by the end of the fiscal year ending May 31, 2022.

During the fiscal year ended May 31, 2021, the Company identified an error in its recording of market-based stock compensation, and recorded an adjustment to the consolidated balance sheet as of May 31, 2021, the consolidated statement of operations and the consolidated statement of changes in stockholders equity for the periods then ended.

Other than the above referenced matter, including those described in the *Remediation of Material Weakness* section above, there has been no change in the Company's internal control over financial reporting that occurred during the Company's quarter ended February 28, 2022 that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes from the risk factors set forth in Part I, Item 1A, “Risk Factors” of the year ended May 31, 2021 except as set forth below. The risk factors set forth below supplement, and should be read together with the risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended May 31, 2021, and the disclosure relating to material weaknesses due to deficiencies in the design of internal controls under Item 4 Controls and Procedures of this Form 10-Q for the three and nine months ended February 28, 2022.

General economic conditions and uncertainties may adversely affect the Company's business, operating results and financial condition.

The Company's operations and performance depend significantly on worldwide economic conditions, particularly in the industrial and manufacturing sectors, and their impact on levels of capital spending. Economic factors that could adversely influence demand for the Company's products include uncertainty about global economic conditions leading to reduced levels of investment, reduction in demand for our customers' products, customers' and suppliers' access to credit and the stability of the global financial system, the overall health of our markets, unemployment and other macroeconomic factors generally affecting commercial and industrial spending behavior.

Past distress in the global financial markets and global economy resulted in reduced liquidity and a tightening of credit markets. If these conditions were to reoccur, the Company could experience several potential adverse effects, including the inability of customers to obtain credit to finance purchases of the Company's products, the insolvency of customers resulting in reduced revenues and bad debts, and the insolvency of key suppliers resulting in product development and production delays.

Further, the current Russia-Ukraine conflict has created extreme volatility in the global financial markets and is expected to have further global economic consequences, including disruptions of the global supply chain and energy markets. Any such volatility and disruptions may have adverse consequences on us or the third parties on whom we rely. If the equity and credit markets deteriorate, including as a result of political unrest or war, it may make any necessary debt or equity financing more difficult to obtain in a timely manner or on favorable terms, more costly or more dilutive. Our business, financial condition and results of operations may be materially and adversely affected by any negative impact on the global economy and capital markets resulting from the conflict in Ukraine or any other geopolitical tensions.

Our profitability is vulnerable to inflation and cost increases.

Current and future increases in costs such as the cost of raw materials, components, merchandise, shipping rates, freight costs, fuel costs and store occupancy costs may reduce our profitability. These cost increases may be the result of inflationary pressures that could further reduce our sales or profitability. Increases in other operating costs, including changes in energy prices, wage rates and lease and utility costs, may increase our cost of goods sold or operating expenses. Competitive pressures in our industry may have the effect of inhibiting our ability to reflect these increased costs in the prices of our products and therefore reduce our profitability.

Item 5. Other Information

On March 4, 2022, March 15, 2022, and April 13, 2022, the Company signed three new retail lease agreements in conjunction with its plans to expand its Ample Hills store footprint.

On April 13, 2022, the Company formalized drawdown terms on its existing $1,300,000 Commitment Letter with its CEO, which states that SCM or its affiliates will provide the Company with additional capital of up to $1,300,000 for the Company's operations, as needed, through February 28, 2023. Drawdown terms include: 1.0% origination fee, 18-month term after drawdown, 8.0% payment-in-kind interest rate.

Item 6. Exhibits

Exhibit	Description
10.1	Secured Grid Promissory Note, dated April 13, 2022, in favor of Sententia Capital Management LLC.
31.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SCHMITT INDUSTRIES, INC.
(Registrant)

Date: April 14, 2022

/s/ Philip Bosco
Philip Bosco, Chief Financial Officer

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR APPLICABLE STATE SECURITIES LAWS. IT MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS OR EVIDENCE REASONABLY SATISFACTORY TO THE BORROWER THAT SUCH REGISTRATION IS NOT REQUIRED.

SECURED GRID PROMISSORY NOTE

$1,300,0000

April 13, 2022
New York, New York

FOR VALUE RECEIVED, the undersigned, Schmitt Industries, Inc., a corporation formed under the laws of the State of Oregon ("**Borrower**"), having an address at 2765 N.W. Nicolai Street, Portland, Oregon 97210 (the "**Property**"), promises to pay to the order of Sententia Capital Management LLC, a limited liability company formed under the laws of the State of New York ("**Lender**"), having an address at [], or its affiliated entities, at Lender's address specified above or at such other place as may be designated in writing by the holder of this Note, on the date that is eighteen (18) months from the date of the first loan pursuant to this Note (as the same may be extended as provided in this Note, the "**Maturity Date**"), the lesser of: (a) the principal sum of One Million Three Hundred Thousand Dollars ($1,300,000) or (b) the aggregate unpaid principal sum of all loans made by Lender in its sole discretion to Borrower under this Promissory Note (this "**Note**") from time to time, together with all interest accrued thereon in accordance with the terms of this Note.

1. Interest.

(a) Interest shall be payable on the unpaid principal amount of this Note from time to time outstanding at the rate of eight percent (8%) per annum (the "**Basic Rate**"). Interest shall be computed on the basis of a 360 day year for actual days elapsed and shall be paid (a) quarterly on the last day of each calendar quarter (such date a "**Quarterly Payment Date**"), commencing on June 30, 2022, (b) at maturity of this Note (whether on the Maturity Date or by acceleration or otherwise) and (c) upon the making of any prepayment, as hereinafter provided.

(b) On each Quarterly Payment Date occurring during the term of this Note, Borrower may, at its option, elect that a portion of the interest due and payable on such date be capitalized and added to the principal balance of this Note (such capitalized interest, the "**PIK Interest**"). The amount of PIK Interest added to principal on each Quarterly Payment Date during the term of the Note shall bear interest from and after such date at the Basic Rate applicable to the principal of this Note. All amounts of accrued PIK Interest as of each Quarterly Payment Date during the term of the Note shall no longer be deemed to be accrued and unpaid interest on the outstanding principal balance of this Note, but shall be considered principal until paid. Unless prohibited under applicable law, any accrued interest which is not paid on the date on which it is due and payable shall bear interest at the same rate at which interest is then accruing on the principal amount of this Note until such time as payment therefor is actually delivered to the Lender. Any accrued interest which for any reason has not been paid shall be payable in full on the date on which the final principal payment on this Note is due.

(c) In addition, Borrower shall pay interest on any amount of principal not paid when due from the date on which payment was due to the date of payment, on demand, at a rate equal to five percent (5%) per annum above the Basic Rate.

2. Payments.

(a) All payments, including insufficient payments, shall be credited, regardless of their designation by Borrower, first to outstanding late charges, then to interest and the remainder, if any, to principal. In no event shall the amount of interest payable under this Note exceed the maximum rate permitted by law and, notwithstanding any other provision of this Note, any interest payment that would, for any reason, be deemed unlawful shall be applied to the payment of principal. If any payment of principal or interest becomes due on a day other than a Business Day, such payment shall be made not later than the next succeeding Business Day, and such extension shall be included in computing interest in connection with such payment. All payments by Borrower or any endorser of this Note on account of principal, interest or fees hereunder shall be made in lawful money of the United States of America, in immediately available funds. For purposes of this Note, the term "**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are permitted or required to be open for the conduct of commercial banking business in New York, New York.

(b) If prior to the Maturity Date the Borrower: (i) raises at least $2,500,000 in a subsequent financing, whether through equity or indebtedness, or (ii) sells the stock of SMS or the assets of Acuity or Xact lines of business of the Borrower, then the Borrower shall immediately pay to the Lender the lesser of: (a) the principal sum of One Million Three Hundred Thousand Dollars ($1,300,000) or (b) the aggregate unpaid principal sum of all loans made by Lender in its sole discretion to Borrower under this Note from time to time, together with all interest accrued thereon in accordance with the terms of this Note.

3. Prepayment. At its option, Borrower may prepay the principal amount of this Note, in whole or in part, at any time without penalty or premium provided that on the date of prepayment Borrower also pays all interest then accrued and unpaid on the principal amount of this Note.

4. Requests for Loans. Borrower may request that Lender extend a loan under this Note by giving written notice to Lender of such request specifying the amount and timing of the requested borrowing. Each notice of borrowing hereunder shall be delivered by email or facsimile transmission as provided in the Notices section of this Note and shall be irrevocable and binding on Borrower.

5. Use of Grid. Lender is hereby authorized by Borrower to enter and record on the Schedule attached hereto up to five loans in an amount not less than Two Hundred Fifty Thousand Dollars ($250,000) per loan and the date of each loan made under this Note and each payment of principal thereon without any further authorization on the part of Borrower or any endorser or guarantor of this Note. The entry of a loan advance or principal payment on said Schedule shall be prima facie and presumptive evidence of the amount and date thereof. Lender shall be entitled (but not required) to deliver a copy of the Schedule to Borrower after making any entry thereon and Borrower hereby waives any defect in or objection to any Schedule a copy of which has been delivered to it by Lender unless written notice of such defect or objection is given to Lender within fifteen (15) Business Days after such copy of the Schedule is delivered to Borrower. Notwithstanding the foregoing, Lender's failure to make an entry in the Schedule or to deliver a copy of the Schedule to Borrower shall not limit or otherwise affect the obligations of Borrower or any endorser or guarantor of this Note.

6. No Obligation to Extend Loans. Notwithstanding any term in this Note to the contrary, Lender shall have no obligation to extend loans to Borrower under this Note and the enumeration in this Note of specific obligations of Borrower to Lender and/or conditions to the availability of funds under this Note shall not be construed to qualify, define, or otherwise limit Lender's right, power, or ability, at any time, under applicable law, to decline to extend loans to Borrower under this Note. Borrower agrees that its breach of or default under any of such obligations or conditions is not the only basis upon which Lender may decline to extend loans under this Note and that Lender may decline to extend loans for any reason or no reason in its sole and absolute discretion.

7. Ranking and Security.

(a) Ranking. All indebtedness under this Note shall rank senior in right of payment to any existing or future secured or unsecured debt of any of the Borrower or its subsidiaries, including, without limitation, all existing promissory notes issued by the Borrower or any of its subsidiaries, and any other debt that, by its terms, is expressly made subordinate to the Note.

(b) Security. To secure payment and performance of all obligations under this Note, Borrower hereby grants to Lender the right to obtain a continuing security interest in, a lien upon, and a right of set off against, and hereby assigns to Lender as security, all of Borrower's right, title and interest in and to the Property, and including any products, proceeds (including insurance proceeds) or income derived therefrom, whether by disposition or otherwise (together with all other collateral security for the obligations hereunder at any time granted to or held or acquired by Lender, collectively, the "**Collateral**") upon the request of Lender. For so long as this Note is outstanding, Borrower shall not, and shall not permit any of its subsidiaries, to, create, incur, assume or suffer to exist any security interest, mortgage, pledge, lien, hypothec, charge or other encumbrance of any nature whatsoever on the Collateral, or file or permit the filing of, or permit to remain in effect, any financing statement or other similar notice of any security interest or lien with respect to any such assets or properties.

8. Representations, Warranties and Covenants. Borrower represents and warrants to and agrees with Lender that:

(a) Borrower is a corporation duly formed, validly existing, and in good standing under the laws of the State of Oregon, has the corporate power and authority to own its assets and to transact the business in which it is now engaged or proposes to be engaged, and is duly qualified as a foreign corporation and is in good standing under the laws of each other jurisdiction in which such qualification is required.

(b) Borrower has full power and authority to execute and deliver this Note and to incur the obligations provided for herein, all of which have been duly authorized by all proper and necessary corporate action. No consent or approval of the stockholders of Borrower or of any governmental or administrative authority, instrumentality, or agency is required as a condition to the validity of this Note.

(c) This Note is legal and valid and contains the binding obligations of Borrower enforceable against Borrower in accordance with its terms.

(d) No information, exhibit, or report heretofore or hereafter furnished by Borrower to Lender in connection with this Note contains or will contain any material misstatement of fact or omits or will omit to state a material fact or any fact necessary to make the statements contained therein not materially misleading.

(e) Borrower is not in default in any material respect in the performance, observance or fulfillment of any of the obligations, covenants, or conditions contained in any agreement or instrument material to its business to which it is a party or by which it is bound.

(f) There is no pending or threatened action or proceeding against or affecting Borrower before any court, governmental agency, or arbitrator which may, in any one case or in the aggregate, materially and adversely affect the financial condition, operations, property, or business of Borrower or the ability of Borrower to perform its obligations under this Note.

9. Affirmative Covenants. So long as this Note remains unpaid, Borrower shall: (a) preserve and maintain its existence and good standing in Oregon, and qualify and remain qualified, as a foreign corporation in each jurisdiction in which such qualification is required; and (b) comply in all material respects with all applicable laws, rules, regulations, and orders, such compliance to include, without limitation, paying before the same become delinquent all taxes, assessments, and governmental charges imposed upon Borrower or its property.

10. Events of Default. If any of the following events shall occur and be continuing (each of the following an "**Event of Default**"):

(a) Borrower shall fail to make any payment of principal or interest on this Note, or any fee provided for herein, when due;

(b) Borrower shall default in the performance or observance of any covenant or agreement contained herein;

(c) any representation or warranty made by or on behalf of Borrower in this Note or in any other certificate, agreement, instrument, or statement delivered to Lender by or on behalf of Borrower shall at any time prove to have been incorrect when made in any material respect;

(d) Borrower or any of Borrower's officers, employees, or assets shall be indicted for, or become a defendant in any criminal proceeding relating to, racketeering activity or any other offense a potential penalty for which is forfeiture of all or any part of Borrower's assets to any federal or state government or agency or any instrumentality thereof;

(e) any judgment against Borrower or any attachment, levy or execution against any of its properties for any amount shall remain unpaid, or shall not be released, discharged, dismissed, stayed or fully bonded for a period of thirty (30) days or more after its entry, issue or levy, as the case may be;

(f) Borrower shall make an assignment for the benefit of creditors, or a trustee, receiver or liquidator shall be appointed for Borrower or for any of its property; or

(g) proceedings shall be commenced by Borrower under any bankruptcy, reorganization, arrangement of debt, insolvency, readjustment of debt, receivership, liquidation or dissolution law or statute, or any such proceedings shall be commenced without the consent of Borrower and such proceedings shall continue undischarged for a period of thirty (30) days,

then, and in any such event, Lender may declare the entire unpaid principal amount of this Note and all interest and fees accrued and unpaid hereon to be immediately due and payable, whereupon the same shall become and be forthwith due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived by Borrower.

11. Origination Fee. Borrower shall pay to the Lender on or before the Maturity Date a loan origination fee (the "**Origination Fee**") in the amount of Thirteen Thousand Dollars ($13,000), which fee has been fully earned and is non-refundable.

12. Miscellaneous.

(a) Governing Law. This Note shall be shall be governed by, and construed in accordance with, the laws of the State of New York, without regard to its rules on conflicts of laws.

(b) Notices, Etc. All notices and other communications provided for under this Note shall be in writing and, except as otherwise provided in this Note, shall be effective and deemed given (i) when personally delivered, (ii) two (2) Business Days after delivery to a reputable international overnight courier service or (iii) upon transmission by email or facsimile (provided a copy of such communication is also sent simultaneously by a method referred to in clause (i) or (ii) hereof), in each case to the party to which it is directed at the address for such party indicated in the first paragraph of this Note or at such other address as shall be designated by such party in a written notice to the other party given in compliance with the terms of this paragraph.

(c) No Waiver by Lender. No failure or delay on the part of Lender in exercising any right, power, or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, power, or remedy preclude any other or further exercise thereof or the exercise of any other right, power, or remedy hereunder. The rights and remedies provided herein are cumulative, and are not exclusive of any other rights, powers, privileges, or remedies, now or hereafter existing, at law or in equity or otherwise.

(d) Waivers by Borrower. Borrower hereby waives presentment and demand for payment, notice of dishonor, protest and notice of protest and non-payment and all other notices of any kind other than notices expressly provided for in this Note.

(e) Costs and Expenses. Borrower shall reimburse Lender for all costs and expenses incurred by Lender and shall pay the reasonable fees and disbursements of counsel to Lender in connection with enforcement of Lender's rights hereunder. Borrower shall also pay any and all taxes (other than taxes on or measured by net income of the holder of this Note) incurred or payable in connection with the execution and delivery of this Note.

(f) Amendments. No amendment, modification, or waiver of any provision of this Note nor consent to any departure by Borrower therefrom shall be effective unless the same shall be in writing and signed by Borrower and Lender and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

(g) Successors and Assigns. This Note shall be binding upon Borrower and its successors and assigns and the terms hereof shall inure to the benefit of Lender and its successors and assigns, including subsequent holders hereof. Borrower shall not assign any of its obligations under this Note without the prior written consent of Lender.

(h) Severability. The provisions of this Note are severable, and if any provision shall be held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall not in any manner affect such provision in any other jurisdiction or any other provision of this Note in any jurisdiction.

(i) Entire Agreement. This Note sets forth the entire agreement of Borrower and Lender with respect to this Note and may be modified only by a written instrument executed by Borrower and Lender.

(j) Headings. The headings herein are for convenience only and shall not limit or define the meaning of the provisions of this Note.

[Signature appears on following page.]

IN WITNESS WHEREOF, Borrower has executed and delivered this Grid Promissory Note effective as of the date first above stated.

SCHMITT INDUSTRIES, INC.

By: /s/ Philip Bosco
Philip Bosco
Chief Financial Officer and Treasurer
April 13, 2022

SCHEDULE TO NOTE

Borrower: SCHMITT INDUSTRIES, INC. Date of Note: _______________, 2022

DATE OF ADVANCE OR PAYMENT	AMOUNT OF ADVANCE	AMOUNT OF PRINCIPAL REPAID	UNPAID PRINCIPAL BALANCE OF NOTE	NAME OF PERSON MAKING NOTATION

EXHIBIT 31.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael R. Zapata, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Schmitt Industries, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 14, 2022

/s/ Michael R. Zapata
Michael R. Zapata, Chairman and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Philip Bosco, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Schmitt Industries, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 14, 2022

/s/ Philip Bosco
Philip Bosco, Chief Financial Officer and Treasurer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Schmitt Industries, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended February 28, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Michael R. Zapata and Philip Bosco, President and Chief Executive Officer and Chief Financial Officer and Treasurer, respectively, of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael R. Zapata
Michael R. Zapata
Chairman and Chief Executive Officer
April 14, 2022

/s/ Philip Bosco
Philip Bosco
Chief Financial Officer and Treasurer
April 14, 2022