

# Drill Pipe International LLC

## Financial Statements

*For the Year Ending  
March 31, 2016 & 2015*

**Braj Aggarwal, CPA, P.C.**  
Certified Public Accountants

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# Drill Pipe International LLC

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**REPORT OF INDEPENDENT AUDITORS**

To the Board of Members  
Drill Pipe International, LLC  
Baytown, Texas

We have audited the financial statements of Drill Pipe International, LLC, a Minnesota Limited Liability Company (a single member LLC owned by Jindal Saw USA, LLC, a Taxes LLC) which comprise the balance sheets as of March 31, 2016 and 2015, and related statements of operations, changes in member's capital and cash flows for the years then ended and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of Drill Pipe International, LLC as of March 31, 2016 and 2015 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Braj Aggarwal, CPA, P.C.*

Hicksville, New York  
May 29, 2016

# Financial Statements

## Drill Pipe International, LLC

### Balance Sheet

As of March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 1,587,647	\$ 800,673
Accounts receivables:		
Trade receivables net of provision \$ 3,244,143	2,175,061	6,419,632
Inventories	18,702,298	21,294,978
Advances and deposits	35,724	-
Current deferred tax asset	1,309,502	-
<b>Total current assets</b>	<u>23,810,232</u>	<u>28,515,283</u>
<b>Property, Plant &amp; Equipments</b>		
Capital work in progress	783,615	-
<b>Total Assets</b>	<u>24,593,847</u>	<u>28,515,283</u>

See Notes to Financial Statements

## Drill Pipe International, LLC

Balance Sheet

As of March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Liabilities and Member's Equity</b>		
<b>Current Liabilities</b>		
Account payable - trade	\$ 1,824,228	\$ 17,332,167
Account payable - intercompany	15,643,795	-
Interest payable - intercompany	38,837	-
Provision for taxes	-	1,120,000
<b>Total Current Liabilities</b>	<u>17,506,860</u>	<u>18,452,167</u>
<b>Long-term debt, net of current portions :</b>	-	-
<b>Total long-term debt</b>	<u>-</u>	<u>-</u>
<b>Total Liabilities</b>	<u>17,506,860</u>	<u>18,452,167</u>
<b>Member's Equity</b>		
Shared capital	7,464,769	7,464,769
Retained earnings	(377,782)	2,598,347
<b>Total member's equity</b>	<u>7,086,987</u>	<u>10,063,116</u>
<b>Total Liabilities and Member's Equity</b>	<u>24,593,847</u>	<u>28,515,283</u>

See Notes to Financial Statements

**Drill Pipe International, LLC**  
Statement of Income  
for the year ended March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Net Sales</b>	\$ 5,855,593	\$ 24,317,906
Cost of Sales - Materials, Labor and Other Costs	5,794,132	20,096,319
<b>Gross Profit</b>	<u>61,461</u>	<u>4,221,587</u>
<b>Selling, General and Administrative Expenses</b>		
Selling, General and Administrative Expenses	3,794,819	502,973
<b>Total Selling, General and Administrative Expenses</b>	<u>3,794,819</u>	<u>502,973</u>
<b>Operating Income (Expenses):</b>	<u>(3,733,357)</u>	<u>3,718,614</u>
<b>Other Income (Expenses):</b>		
Other Income	-	-
Interest expense	552,274	267
<b>Total Other Income (Expenses), net</b>	<u>552,274</u>	<u>267</u>
<b>Income before income taxes</b>	<u>(4,285,631)</u>	<u>3,718,347</u>
<b>Income Taxes</b>		
Current income tax expense	-	1,120,000
Deferred tax expense/(benefit)	<u>(1,309,502)</u>	<u>-</u>
<b>Total Income Taxes</b>	<u>(1,309,502)</u>	<u>1,120,000</u>
<b>Net Income (loss)</b>	<u>(2,976,129)</u>	<u>2,598,347</u>

See Notes to Financial Statements

**Drill Pipe International, LLC**  
Statement of Changes of Member's Equity  
for the year ended March 31, 2016 and 2015

	<b>Member's Stated Capital Account</b>	<b>Additional Capital Contributed</b>	<b>Retained Earnings</b>	<b>Total Member's Equity</b>
Balance at May 31, 2014	\$ 7,464,769	\$ -	\$ -	\$ 7,464,769
Net income			2,598,347	2,598,347
Balance at March 31, 2015	7,464,769	-	2,598,347	10,063,116
Net income			(2,976,129)	(2,976,129)
<b>Balance at March 31, 2016</b>	<b>7,464,769</b>	<b>-</b>	<b>(377,782)</b>	<b>7,086,987</b>

See Notes to Financial Statements

**Drill Pipe International, LLC**  
Statement of Cash Flows  
For the year ended March 31, 2016 and 2015

	<b>2016</b>	<b>2015</b>
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ (2,976,129)	\$ 2,598,347
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred tax expense/(benefit)	(1,309,502)	-
Changes in operating assets and liabilities:		
(Increase)/decrease trade receivables	4,244,571	(6,419,632)
(Increase)/decrease inventories	2,592,680	(21,294,978)
(Increase)/decrease Advances and deposits	(35,724)	-
Increase/(decrease) account payable - trade	(15,507,939)	17,332,167
Increase/(decrease) account payable - inter company	15,643,794	-
Increase/(decrease) interest payable- inter company	38,837	-
Increase/(Decrease) provision for taxes	(1,120,000)	1,120,000
<b>Net cash provided (used) by operating activities</b>	<b>1,570,589</b>	<b>(6,664,096)</b>
<b>Cash Flows from Investing Activities:</b>	<b>-</b>	<b>-</b>
Capital work in progress	(783,615)	-
<b>Net cash used in investing activities:</b>	<b>(783,615)</b>	<b>-</b>
<b>Cash Flows from Financing Activities:</b>		
Additional equity	-	7,464,769
<b>Net cash used in financing activities:</b>	<b>-</b>	<b>7,464,769</b>
Net Increase/(decrease) in cash and cash equivalents	786,974	800,673
Cash and cash equivalents at the beginning of year	800,673	-
<b>Cash and cash equivalents at the end of year</b>	<b>1,587,647</b>	<b>800,673</b>
<b>Supplemental Cash Flow Information</b>		
Federal income taxes paid	-	1,120,000
Interest paid	552,274	267

See Notes to Financial Statements

**DRILL PIPE INTERNATIONAL, LLC**  
**NOTES TO FINANCIAL STATEMENTS**

**Year ended March 31, 2016**

**1 – Nature of Business**

Drill Pipe International, LLC (the "Company") is a single member LLC (a Minnesota limited liability company), and wholly owned subsidiary of Jindal Saw USA, LLC (a Texas limited liability Company). The Company manufactures down hole tools for the water well, construction, mining, environmental, gas, oil and utility construction industries, to customers located throughout the world.

The Company made a net loss of \$ (2,976,129) during the year ended March 31, 2016, and on that date, had a net worth of \$ 7,086,987.

**2 - Summary of Significant Accounting Policies**

The financial statements of the Company have been prepared in accordance with the Generally Accepted Accounting Principles (GAAP) used in the United States of America. The following notes describe the significant accounting policies.

**Use of Estimates**

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the value of mineral reserves. Actual results could differ from those estimates.

Revenues and expenses are incurred during the reported period. Significant estimates include estimated future life in determining current depreciation rates under the depreciation method, estimated amounts for uncollectible accounts receivables and the estimated present value of the Company's note payable to seller. Actual results could differ from those estimates.

**Revenue Recognition**

Revenue is recognized generally when the drill pipe has been sold to customer. The revenue is recognized when the following has been satisfied:

1. The Company has transferred to the buyer the significant risks and rewards of ownership of the goods
2. The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
3. the amount of revenue can be measured reliably;

**DRILL PIPE INTERNATIONAL, LLC**

**NOTES TO FIANANCIALS STATEMENTS**

**Year ended March 31, 2016**

**2 – Summary of Significant Accounting Policies (Continued)**

4. it is probable that the economic benefits associated with the transaction will flow to the Company and the amount is collectibles; and
5. The costs incurred, or to be incurred in respect of the transaction, can be measured reliably.

**Cash and Cash Equivalents**

Cash equivalents include time deposits, certificates of deposits, sweep account and all highly-liquid debt instruments with original maturities of three months or less.

**Allowance for Doubtful Accounts**

Bad debts are provided by using the allowance method based upon historical experience and management's evaluation of outstanding accounts receivable at the balance sheet date for receivables that may not be fully collectible. Management's evaluation also includes potential non-payment due to product claims by customers. Management believes that out of the total accounts receivables of \$ 5,419,204 as on 03.31.2016 few of the debtors with the balance of \$ 3,244,143 will not pay the balance as due, for which the management has decided to create provision for the amount of \$ 3,244,143 and for rest receivables management consider them as fully good and collectibles and no allowance for doubtful accounts was needed to be provided for them as of March 31, 2016.

**Inventories**

Inventories consist of raw materials, consumables; small tools used in the operations and are valued at the lower of cost or market using the first in first out cost method. Costs consist of price paid for the inventory plus costs incurred in bringing the products to present locations.

As at March 31, 2016, inventories consisted of the followings

<b>Description</b>	<b>2016</b>	<b>2015</b>
Raw material	10,602,113	9,070,889
Stores and spares	477,670	31,332
Finished goods	7,879,558	8,556,103
Work in progress	-	1,865,342
Material in transit	-	1,771,311
<b>Total</b>	<b>18,959,341</b>	<b>21,294,977</b>

**DRILL PIPE INTERNATIONAL, LLC**  
**NOTES TO FIANANCIALS STATEMENTS**  
**Year ended March 31, 2016**

**2 – Summary of Significant Accounting Policies (Continued)**

**Property, Plant and Equipment**

The company does not own any fixed assets, however it uses fixed asset of Jindal Saw USA, LLC in order to manufacture drill pipes.

**Federal Income Taxes**

For federal income tax purposes, the Company is a disregarded entity and files its return as a member of the consolidated return of Jindal Saw USA, LLC. For financial statement purposes, the taxes that would be attributable to Drill Pipe International, LLC are shown. A balance sheet approach is used to determine deferred taxes whereby deferred income taxes are provided at the balance sheet date, based upon enacted tax laws, for all differences between the tax bases of assets and liabilities and their respective carrying amounts for financial statement purposes. The Company computes current and deferred federal income tax expense as if it were a separate taxable corporation, utilizing the full benefit of the federal graduated rate structure.

**Fair Value**

Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) 825, Financial Instruments, requires the disclosure of the fair value of financial instruments, as defined. Substantially all of the Company’s financial assets and liabilities are either valued at market or estimated fair value, or because of their short-term nature, approximate fair value. None of the company’s assets or liabilities are subject to leveling under fair value hierarchy as required by ASC 820 Fair Value Measurements.

**Advertising Costs**

Advertising costs are expensed when incurred.

**Concentration of Credit Risk**

Financial instruments which potentially subject the Company to a concentration of credit risk consist principally of cash and accounts receivable. The Company maintains cash

**DRILL PIPE INTERNATIONAL, LLC**  
**NOTES TO FIANANCIALS STATEMENTS**

**Year ended March 31, 2016**

**2 – Summary of Significant Accounting Policies (Continued)**

balances at financial institutions which may at times be in excess of federally insured levels. The Company has not incurred losses related to these balances to date.

Other than related party revenue, the Company has three customers which represent 11.06%, 9.61%, and 13.28% of the Company's total revenue. As of March 31, 2015 these three customers had balances representing 10.52%, 7.42% and 6.40% of the outstanding trade receivables.

**3 – Debts:**

Company does not have any short term or long term debt as of March 31, 2016

**4 – Intercompany, Related Party and Affiliates Disclosure Information (payables)**

Intercompany balances relate to loan and other transactions between the Company and its parent Company, Jindal Saw USA, LLC and its ultimate parent company, Jindal Saw Limited. The Company purchases its raw material Ready to Well ("RTW") pipes Jindal Saw India and tool joint raw material from Jindal Saw USA, LLC

The following details intercompany transactions during the year ended March 31:

Intercompany transactions with Jindal Saw USA, LLC

Purchases of RTW pipes from Jindal Saw Ltd.	\$ 972,605
Purchases of tool joint from Jindal Saw USA, LLC	665,726
Job work processing charges from Jindal Saw USA, LLC	304,950
Labor, utilities and other reimbursements	3,421,727

Intercompany Payables

Accounts Payable

Jindal Saw Limited, India	\$ 973,745
Net Payable Jindal Saw USA, LLC	6,064,168

**DRILL PIPE INTERNATIONAL, LLC**  
**NOTES TO FIANANCIALS STATEMENTS**

**Year ended March 31, 2016**

**5- Other allocation Expenses**

The expenses charged in the Drill Pipe International, LLC as allocation expense were charges by the Jindal Saw USA, LLC for manufacturing the drill pipe as subcontracting jobs. These expenses includes, proportionate depreciation on property, plant and equipment, financial charge of SV Trading investments, other charges and margin of Jindal Saw USA, LLC.

**6- Income Taxes:**

The Provision for income taxes consisted of the following components for the year ended March 31, 2016:

<b>Current:</b>	
Federal	\$ -
States	-
<b>Deferred:</b>	
Federal	1,309,502
States	-
<b>Total income tax benefit</b>	<b>1,309,502</b>

**7- Business Combination**

Effective since May 22, 2014, the Company Jindal Saw US, LLC acquired a 100 percent membership interest in Drill Pipe International, LLC. As a result of acquisition, The Company expects to have a good market exposure in drill pipe industry. The acquisition is as per Net asset basis. As per net asset method, there is no goodwill has been generated in this acquisition.

The considerations include current liabilities which includes, accounts payables and the advances received from the customers at the time of acquisitions.

**DRILL PIPE INTERNATIONAL, LLC**  
**NOTES TO FIANANCIALS STATEMENTS**

**Year ended March 31, 2016**

**7- Business Combination (Continued)**

Following table summarizes the consideration paid for the acquired entity, and the amount of assets and liabilities acquired as of the acquisition dates.

**At May 22, 2014**

<b>Assets</b>	
<b>Current Assets</b>	
Cash and Cash equivalents	255,536.05
Accounts Receivable	4,903,758.18
Inventory	<u>17,621,909.90</u>
<b>Total Current Assets</b>	<b>22,781,204.13</b>
Fixed Assets	<u>-</u>
<b>Total Assets</b>	<b><u>22,781,204.13</u></b>
<b>Liabilities &amp; Equity</b>	
<b>Current Liabilities</b>	
Accounts Payable	13,970,876.25
Advances from customers	<u>1,345,558.79</u>
<b>Total Current Liabilities</b>	<b>15,316,435.04</b>
Long term Liabilities	<u>-</u>
<b>Total Liabilities</b>	<b><u>15,316,435.04</u></b>
<b>Total Net worth</b>	<u>7,464,769.09</u>
<b>Purchase consideration for DPI</b>	<u>7,464,769.09</u>
<b>Value Paid for DPI</b>	<u>7,464,769.09</u>
<b>Goodwill/Reserve</b>	<u>-</u>

**DRILL PIPE INTERNATIONAL, LLC**  
**NOTES TO FIANANCIALS STATEMENTS**

**Year ended March 31, 2016**

**8- Commitments and Contingencies**

The contingent considerations are current liabilities which includes, accounts payables and the advances received from the customers at the time of acquisitions.

**9- Subsequent Events**

The Company has evaluated subsequent events through May 29, 2016 the issuance date of the financial statements.