

# Drill Pipe International, LLC

## Financial Statements

*For the Years Ending  
March 31, 2017 and 2016*

**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, 2017 and 2016, 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, 2017 and 2016, 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 26, 2017

# Financial Statements

**Drill Pipe International, LLC**  
Balance Sheet  
As of March 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 530,505	\$ 1,587,647
Accounts receivables:		
Trade receivables net of provision	593,028	759,610
Trade receivables Intercompany	519,095	1,415,451
Inventories	12,450,378	18,702,298
Advances and deposits	725	35,724
<b>Total current assets</b>	<u>14,093,731</u>	<u>22,500,730</u>
<b>Property, Plant &amp; Equipments</b>		
Capital work in progress	-	783,615
<b>Total Assets</b>	<u>14,093,731</u>	<u>23,284,345</u>

See Notes to Financial Statements

**Drill Pipe International, LLC**  
Balance Sheet  
As of March 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Liabilities and Member's Equity</b>		
<b>Current Liabilities</b>		
Account payable - trade	\$ 451,604	\$ 1,824,228
Loan payable - intercompany	5,550,000	8,650,000
Interest payable - intercompany	5,525	38,838
Accounts Payable- Intercompany	6,869,219	6,993,794
<b>Total Current Liabilities</b>	<b>12,876,348</b>	<b>17,506,860</b>
<b>Long-term debt, net of current portions :</b>	-	-
<b>Total long-term debt</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>	<b>12,876,348</b>	<b>17,506,860</b>
<b>Member's Equity</b>		
Shared capital	7,464,769	7,464,769
Retained earnings	(6,247,387)	(1,687,284)
<b>Total member's equity</b>	<b>1,217,382</b>	<b>5,777,485</b>
<b>Total Liabilities and Member's Equity</b>	<b>14,093,731</b>	<b>23,284,345</b>

See Notes to Financial Statements

**Drill Pipe International, LLC**  
Statement of Income  
for the years ended March 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Net Sales</b>	\$ 3,144,301	\$ 5,855,593
Cost of sales - materials, labor and other costs	7,307,806	5,794,132
<b>Gross Profit</b>	<u>(4,163,505)</u>	<u>61,461</u>
<b>Selling, General and Administrative Expenses</b>		
Selling, general and administrative expenses	359,488	3,794,819
<b>Total Selling, General and Administrative Expenses</b>	<u>359,488</u>	<u>3,794,819</u>
<b>Operating Income (Expenses):</b>	<u>(4,522,993)</u>	<u>(3,733,358)</u>
<b>Other Income (Expenses):</b>		
Other income	-	-
Interest expense	37,110	552,274
<b>Total Other Income (Expenses), net</b>	<u>37,110</u>	<u>552,274</u>
<b>Income before income taxes</b>	<u>(4,560,103)</u>	<u>(4,285,632)</u>
<b>Income Taxes</b>		
Current income tax expense	-	-
Deferred tax expense/(benefit)	-	-
<b>Total Income Taxes</b>	-	-
<b>Net Income (loss)</b>	<u>(4,560,103)</u>	<u>(4,285,632)</u>

See Notes to Financial Statements

**Drill Pipe International, LLC**

Statement of Changes of Member's Equity  
for the year ended March 31, 2017 and 2016

	<b>Member's Stated Capital Account</b>	<b>Additional Capital Contributed</b>	<b>Retained Earnings</b>	<b>Total Member's Equity</b>
Balance at March 31, 2015	\$ 7,464,769	\$ -	2,598,348	\$ 10,063,117
Net Profit/ (Loss)			(4,285,632)	(4,285,632)
Balance at March 31, 2016	7,464,769	-	(1,687,284)	5,777,485
Net Profit/ (Loss)			(4,560,103)	(4,560,103)
<b>Balance at March 31, 2017</b>	<b>7,464,769</b>	<b>-</b>	<b>(6,247,387)</b>	<b>1,217,382</b>

See Notes to Financial Statements

**Drill Pipe International, LLC**

## Statement of Cash Flows

For the years ended March 31, 2017 and 2016

	<b>2017</b>	<b>2016</b>
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ (4,560,103)	\$ (4,285,632)
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred tax expense/(benefit)	-	-
Changes in operating assets and liabilities:		
(Increase)/decrease trade receivables	166,582	4,244,571
(Increase)/decrease trade receivables	896,356	-
(Increase)/decrease inventories	6,251,920	2,592,680
(Increase)/decrease Advances and deposits	35,001	(35,724)
Increase/(decrease) account payable - trade	(1,372,624)	(15,507,939)
Increase/(decrease) Loan payable - inter company	(3,100,001)	15,643,794
Increase/(decrease) interest payable- inter company	(33,313)	38,837
Increase/(Decrease) provision for taxes	(124,575)	(1,120,000)
<b>Net cash provided (used) by operating activities</b>	<b>(1,840,757)</b>	<b>1,570,588</b>
<b>Cash Flows from Investing Activities:</b>	<b>-</b>	<b>-</b>
Capital work in progress	783,615	(783,615)
<b>Net cash used in investing activities:</b>	<b>783,615</b>	<b>(783,615)</b>
<b>Cash Flows from Financing Activities:</b>		
Additional equity	-	-
<b>Net cash used in financing activities:</b>	<b>-</b>	<b>-</b>
Net Increase/(decrease) in cash and cash equivalents	(1,057,142)	786,973
Cash and cash equivalents at the beginning of year	1,587,647	800,673
<b>Cash and cash equivalents at the end of year</b>	<b>530,505</b>	<b>1,587,646</b>

See Notes to Financial Statements

**Drill Pipe International, LLC**  
**Notes to financial statements**  
**For the years ended March 31, 2017 and 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 \$ 4,560,103 during the year ended March 31, 2017 and \$ 4,285,631 for March 31, 2016 and on that date, had a net worth of \$ 1,217,383 as on March 31, 2017 and \$ 5,777,485 as on March 31, 2016.

**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.

**Drill Pipe International, LLC**  
**Notes to financial statements**  
**For the years ended March 31, 2017 and 2016**

**Change in Accounting Policy**

During the year, the management has changed the accounting policy of booking income tax liability and expense. As explained in Note 1 above, the company is a 100% subsidiary of Jindal SAW USA, LLC and accounted at cost method in holding company's financial statement. In IRS, the company files its Income tax return on consolidated basis. Thus, to show fair presentation of tax liability and tax expense, the management has chosen to consolidate the tax calculation of holding company (Jindal Saw USA, LLC) and 100% subsidiary company (Drill Pipe International, LLC) on consolidated basis into holding company only, instead of separate entity basis as it was being calculated earlier till March 31, 2016. This has resulted in change in the financial statement presented on comparative basis for both the holding and subsidiary company. The effect of this change in current year and previous year, before and after change in accounting policy is as below:

	<b>March, 2017</b>		<b>March, 2016</b>	
	<b>After</b>	<b>Before</b>	<b>After</b>	<b>Before</b>
<b><u>Statement of Operations</u></b>				
Current tax - Federal and State	-	-	-	-
Deferred tax expense/(Benefit) - Federal & State	-	(288,467)	-	(1,309,502)
<b><u>Statement of Assets and Liabilities</u></b>				
Deferred tax asset	-	1,597,970	-	1,309,502
Deferred tax liability	-	-	-	-
Retained earnings	(6,247,386)	(4,649,417)	(1,687,283)	(377,782)

**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;
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.

**Drill Pipe International, LLC**  
**Notes to financial statements**  
**For the years ended March 31, 2017 and 2016**

**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.

**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, 2017 and 2016, inventories consisted of the followings:

Description	2017	2016
Raw material	7,264,946	10,345,070
Stores and spares	244,494	477,670
Finished goods	4,940,938	7,879,558
Work in progress	-	-
Material in transit	-	-
<b>Total</b>	<b>12,450,378</b>	<b>18,702,298</b>

**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.

**Drill Pipe International, LLC**  
**Notes to financial statements**  
**For the years ended March 31, 2017 and 2016**

**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. During the year company has changed its accounting policy for tax calculation, as the result of change the tax calculation will be made on consolidated basis in the books of holding company (Jindal Saw USA, LLC) instead of separate entity basis as it was prepared up to last year.

**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 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 22%, 16%, and 13% of the Company’s total revenue. In Previous Year, the company has two customers which represents 35% and 26 % of revenue.

**4 – Debts:**

Company does not have any short term or long term debt as of March 31, 2017 and 2016.

**Drill Pipe International, LLC**  
**Notes to financial statements**  
**For the years ended March 31, 2017 and 2016**

**5 – 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, 2017 and March 31, 2016:

**Intercompany transactions with Jindal Saw USA, LLC**

	<b>As on March 31, 2017</b>	<b>As on March 31, 2016</b>
Purchases of RTW pipes from Jindal Saw Ltd.	-	972,605
Purchases of tool joint from Jindal Saw USA, LLC	99,425	665,726
Job work processing charges from Jindal Saw USA, LLC	115,666	304,950
Labor, utilities and other reimbursements	525,319	3,421,727

**Intercompany Payables:**

Jindal Saw Limited, India	Nil	973,745
WTL Loan and Interest	Nil	2,133,312
Jindal Saw USA, LLC Accounts Payable	6,869,218	6,993,795
Jindal SAW USA, LLC Loan and Interest Payable	5,555,525	6,555,525

**Intercompany Receivables:**

Jindal Saw Limited, India	71,303	71,303
Jindal Saw USA, LLC	447,791	794,485
Tube Technologies Inc.	-	549,661

**6 - 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.

**Drill Pipe International, LLC**  
**Notes to financial statements**  
**For the years ended March 31, 2017 and 2016**

**7 - Income Taxes:**

The Company's deferred tax liabilities and deferred tax assets at March 31, 2017 and 2016, are considered at consolidated level.

**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 26, 2017 the issuance date of the financial statements.