

Jindal Saw USA LLC

Financial Statements

*For the Years Ending
March 31, 2016 and 2015*

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

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Jindal Saw USA LLC

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REPORT OF INDEPENDENT AUDITORS

To the Board of Members
Jindal Saw USA, LLC
Baytown, Texas

We have audited the accompanying financial statements of Jindal Saw USA, LLC, a Texas limited liability corporation (a single member LLC owned by SV Trading Ltd., a Saint Kitts & Nevis Corporation), 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.

Basis for Qualified Opinion

As discussed in Note 2 to these financial statements, which are for Jindal Saw USA, LLC stand-alone financial statements, the Company reports its investment in Drill Pipe International, LLC, a 100 percent owned subsidiary on the cost method of accounting.

These financial statements do not consolidate the financial position or results of operations from its subsidiary in accordance with Generally Accepted Accounting Principles accepted in the United States of America and are not intended to be a full presentation under generally accepted accounting principles. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Opinion

In our opinion, except for the effects of not consolidating all owned subsidiaries, as discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Jindal Saw USA, 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

Jindal Saw USA LLC

Balance Sheet

As of March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current		
Cash and cash equivalents	\$ 2,418,171	\$ 975,951
Accounts receivables:		
Trade receivables	12,386,735	12,133,668
Intercompany receivables	6,908,330	121,968
Others	270,065	721,971
Inventories	5,198,496	5,040,656
Prepaid expense	75,302	-
Loans and advances	1,041,851	1,548,229
Investment in Share Capital of DPI	7,464,769	7,464,769
Deferred Tax Asset	871,728	822,731
Total current assets	<u>36,635,446</u>	<u>28,829,943</u>
Property, Plant & Equipments Net	<u>50,385,544</u>	<u>52,099,966</u>
Total Assets	<u><u>87,020,990</u></u>	<u><u>80,929,909</u></u>

See Notes to Financial Statements

Jindal Saw USA LLC

Balance Sheet

As of March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Liabilities and Member's Equity		
Current Liabilities		
Account payable - trade	\$ 6,918,979	\$ 6,549,783
Account payable - intercompany	21,516,642	21,516,642
Account payable - affiliates	-	10,564
Interest payable - intercompany	2,490,651	2,350,659
Current portion of long term loan	1,683,698	1,726,002
Accrued expenses	50,327	119,584
Line of credit	4,010,000	-
Provision for taxes	2,050,697	2,404,603
Total Current Liabilities	<u>38,720,994</u>	<u>34,677,837</u>
Long-term debt, net of current portions :		
Long term loan	7,394,777	9,129,082
Total long-term debt	<u>7,394,777</u>	<u>9,129,082</u>
Deferred tax liability	6,867,558	6,743,645
Total Liabilities	<u>52,983,329</u>	<u>50,550,564</u>
Member's Equity		
Shared capital	15,000,000	15,000,000
Retained earnings	19,037,661	15,379,345
Total member's equity	<u>34,037,661</u>	<u>30,379,345</u>
Total Liabilities and Member's Equity	<u>87,020,990</u>	<u>80,929,909</u>

See Notes to Financial Statements

Jindal Saw USA LLC
Statement of Income
for the year ended March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Net Sales	\$ 40,027,524	\$ 60,226,231
Cost of Sales - Materials, Labor and Other Costs	28,373,239	45,973,244
Gross Profit	<u>11,654,284</u>	<u>14,252,987</u>
Selling, General and Administrative Expenses		
Selling, General and Administrative Expenses	3,594,486	3,389,831
Depreciation Expense	2,771,305	960,989
Total Selling, General and Administrative Expenses	<u>6,365,791</u>	<u>4,350,821</u>
Operating Income (Expenses):	<u>5,288,493</u>	<u>9,902,166</u>
Other Income (Expenses):		
Other Income	610,999	-
Interest expense	(115,562)	(1,336,099)
Total Other Income (Expenses), net	<u>495,437</u>	<u>(1,336,099)</u>
Income before income taxes	<u>5,783,930</u>	<u>8,566,067</u>
Income Taxes		
Current income tax expense	2,050,697	2,100,000
Deferred tax expense/(benefit)	74,916	510,936
Total Income Taxes	<u>2,125,614</u>	<u>2,610,936</u>
Net Income (loss)	<u><u>3,658,316</u></u>	<u><u>5,955,131</u></u>

See Notes to Financial Statements

Jindal Saw USA LLC
Statement of Changes of Member's Equity
for the year ended March 31, 2016 and 2015

	Member's Stated Capital Account	Additional Capital Contributed	Retained Earnings	Total Member's Equity
Balance at March 31, 2014	\$ 10,000,000	\$ 5,000,000	\$ 9,424,214	\$ 24,424,214
Net income			5,955,131	5,955,131
Balance at March 31, 2015	10,000,000	5,000,000	15,379,345	30,379,345
Net income			3,658,316	3,658,316
Balance at March 31, 2016	10,000,000	5,000,000	19,037,661	34,037,661

See Notes to Financial Statements

Jindal Saw USA LLC

Statement of Cash Flows

For the year ended March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities:		
Net income	\$ 3,658,316	\$ 5,955,131
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,771,305	2,949,742
Deferred tax expense	74,916	510,936
Changes in operating assets and liabilities:		
(Increase)/decrease trade receivables	(253,067)	(2,425,678)
(Increase)/decrease intercompany receivables	(6,786,362)	112,595
(Increase)/decrease other receivables	451,906	454,666
(Increase)/decrease inventories	(157,841)	(2,700,082)
(Increase)/decrease prepaid expenses and deposits	(75,302)	(1,517,325)
(Increase)/decrease Loans and advances	506,379	-
Increase/(decrease) account payable - trade	369,195	(625,006)
Increase/(decrease) accounts payable - intercompany	-	(1,700,000)
Increase/(decrease) account payable-affiliates	(10,564)	-
Increase/(decrease) interest payable - intercompany	139,992	1,015,359
Increase/(decrease) current portion of note payable to banks	(42,304)	1,726,002
Increase/(Decrease) accrued expenses	(69,257)	101,811
Increase/(Decrease) provision for taxes	(353,906)	1,658,913
Increase/(Decrease) notes payable	(1,734,305)	8,482,618
Increase/(Decrease) line of credit	4,010,000	-
Net cash provided (used) by operating activities	<u>2,499,103</u>	<u>13,999,681</u>
Cash Flows from Investing Activities:		
Net Change in Fixed assets	(1,056,883)	(6,823,470)
Investment in Drill Pipe International, LLC	-	(7,464,770)
Net cash used in investing activities:	<u>(1,056,883)</u>	<u>(14,288,240)</u>
Cash Flows from Financing Activities:		
Notes payable to World Transload		
Proceeds from financing agreement	-	-
Additional equity	-	-
Net cash used in financing activities:	<u>-</u>	<u>-</u>
Net Increase/(decrease) in cash and cash equivalents	1,442,220	(288,558)
Cash and cash equivalents at the beginning of year	<u>975,951</u>	<u>1,264,509</u>
Cash and cash equivalents at the end of year	<u>2,418,171</u>	<u>975,951</u>
Supplemental Cash Flow Information		
Federal income taxes provision	2,050,697	2,100,000
Interest provided	(115,562)	(1,336,099)

See Notes to Financial Statements

JINDAL SAW USA, LLC
NOTES TO FINANCIAL STATEMENTS
Years ended March 31, 2016 and 2015

Note 1 – Nature of Business

Jindal Saw USA, LLC (the "Company") is a Texas Limited Liability Company, which was incorporated in year 2007. The Company is a single member LLC which is 100% owned by SV Trading Company, which is indirectly owned by Jindal Saw Ltd., India. The operations consist of steel pipe double jointing and pipe coating facilities for steel up to 48 inches in diameter in Baytown Texas. The pipe processed is not owned by the Company but is processed for the customer based on specification required.

The Company made a net profit of \$ 3,658,316 during the year ended March 31, 2016, and, net worth is of \$ 34,037,661.

On May 22, 2014 the company acquired 100 percent interest in Drill Pipe International, LLC (a Minnesota limited liability company), which is a drill pipe production and selling in Minnesota and Texas States.

The Company engages in business activities which involve various risks, and future success is dependent upon a number of factors which include, among others, generating sufficient revenues, the market demand and price for the company's products, the price of raw materials and obtaining the necessary funds.

Note 2 - Summary of Significant Accounting Policies

The financial statements are prepared under accounting principles generally accepted in the United States of America ("GAAP"), except that the subsidiaries of the Company are recorded on the cost basis and not consolidated in these financial statements. The following notes describe the significant accounting policies:

Principles of Consolidation

The consolidated financial statements of Jindal Saw USA, LLC include the financial statements the accounts of the Company and its entire controlled subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation. The Company did not have Variable interest entities ("VIE") as of May 29, 2016.

A VIE is an entity where less than 100% interest is owned, and through a series of tests, an owner is shown to have control over that entity and would be required to consolidate that entity. The subsidiary of Jindal Saw USA, LLC are wholly owned and require consolidation.

JINDAL SAW USA, LLC
NOTES TO FIANANCIALS STATEMENTS
Years ended March 31, 2016 and 2015

Note 2 - Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements, in conformity with the Generally Accepted Accounting Principles (GAAP) used in the United States of America, requires management to make estimates and assumptions that affects 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 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 pipe double jointing or coating processes has been completed and accepted by the customer. The revenue is recognized when the following has been satisfied:

1. the Company has completed the processes and the customer has inspected and accepted the pipe;
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.

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. The Company's receivables are mainly receivables from trade receivables. Management believes receivables are fully good and collectibles and no additional allowance for doubtful accounts are needed to be provided as of March 31, 2016.

JINDAL SAW USA, LLC
NOTES TO FIANANCIALS STATEMENTS
Years ended March 31, 2016 and 2015

Note 2 – Summary of Significant Accounting Policies (Continued)

Inventories

Inventories consist of raw materials, consumables, small tools, such as coating powder and paint used in the operations and is 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 and 2015, inventories consisted of the followings:

	2016	2015
Raw Material	1,799,932.00	1,766,126.02
Stores & Spares	2,020,081.00	1,545,894.18
Loose Tools and others	193,110.00	168,448.62
Capital Items	292,516.00	219,379.56
Finished Goods	779,036.00	595,915.00
Work-in- progress	-	744,892.50
Material in transit	113,821.00	
	5,198,496.00	5,040,655.88

Property, Plant and Equipment

Property, Plant and Equipment are stated at cost less accumulated depreciation. Depreciation is calculated over the estimated useful lives of the assets using the straight-line method, however land is not depreciated.

The Company uses straight-line depreciation method for machinery and equipment in manufacturing and processing operations and for certain other manufacturing equipments.

Expenditures for renewals and improvements are capitalized; repairs and maintenance are charged to expense as incurred.

The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be fully recoverable. Based on periodic assessments of the realizability of its long-term assets and the analysis of undiscounted future cash flows for its long-term assets, no impairment of long-term assets need to be recognized by the company.

JINDAL SAW USA, LLC
NOTES TO FINANCIAL STATEMENTS
Years ended March 31, 2016 and 2015

Note 2 – Summary of Significant Accounting Policies (Continued)

Federal Income Taxes

The Company has elected to be taxed as a corporation under the Federal tax laws. The company records income taxes pursuant to the liability method. Deferred tax assets and liabilities are recorded based upon differences between the financial statement and tax bases of assets and liabilities and the available tax carry forwards. A deferred tax valuation allowance is recorded to state deferred tax assets at the estimated net realizable value.

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 is 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, as at March 31, 2016 the Company had three customers which represent 19.70%, 21% and 10.16% of the Company's total revenue and these three customers had balances 13.74%, 14.62% and 17.43% of the total outstanding trade receivables. As at March 31, 2015, three customers represent 26.36%, 9.71% and 10.94% of the Company’s total revenue and these three customers had balances representing 18.35%, 5.35% and 8.45% of the outstanding trade receivables.

JINDAL SAW USA, LLC
NOTES TO FIANANCIALS STATEMENTS
Years ended March 31, 2016 and 2015

Note 3 – Property, Plant and Equipment

The Property, Plant and Equipment have been recorded at cost. The Property, Plant and Equipment as of March 31, 2016 and March 31, 2015 are as follows:

	Balance March 31, 2015	Additions	Adjustment Retirements	Balance March 31, 2016	Estimated Useful Lives (Years)
Land	\$ 5,901,775	\$ -	\$ -	5,901,775	
Buildings	21,254,020	-	-	21,254,020	5-40
Machinery and equipment	30,757,764	916,628	-	31,674,392	7-30
Autos, Trucks and other vehicles	4,314,212	81,535	-	4,395,747	5-7
Computers	179,171	-	-	179,171	5
Furniture, fixtures and office equip.	342,862	10,768	-	353,630	3-10
Construction in progress	2,690,746	724,381	676,429	2,738,698	
Total property and equipment	65,440,550	1,733,312	676,429	66,497,433	
Less Accumulated depreciation	13,340,585	-	-	16,111,889	
Net property and equipments	52,099,965	-	-	50,385,544	

Depreciation expenses for the period ending March 31, 2016 were \$ 2,771,305.

JINDAL SAW USA, LLC
NOTES TO FIANANCIALS STATEMENTS
Years ended March 31, 2016 and 2015

Note 4 – Debts:

The company's debts constitute of Equipment and Car leasing through financing companies.

Loan details are as follows:

Particulars	Opening as on April 1, 2015	Addition during the year	Re-payment during the year	Balance as of March 31, 2016
Vehicle Loan	89,437	-	23,583	61,573
BOA Equipment Loan	8,809,524	-	1,428,572	7,380,952
BOA Equipment Loan-II	1,742,257	-	225,209	1,517,048

Debts due within one year are as follows:

Vehicle Loan	21,146.00
BOA Equip Loan	1,428,571.00
BOA Equip Loan	233,981.00
	1,683,698.00

Note 5 – Intercompany, Related Party and Affiliates Disclosure Information (Receivables)

In the current year the Company has transactions with related parties including companies affiliated through common ownership of the member who owns the Company. The Company has transactions mainly with SV Trading Limited, Jindal Saw Ltd, US Branch, World Transload & Logistics, LLC and its subsidiary Drill Pipe International, LLC.

The Company receives advances from SV Trading and is charged interest at LIBOR plus 500 Bps on the outstanding amounts. A promissory note payable to World Transload & Logistics, LLC, on account of Drill Pipe International, LLC's business acquisition amounted to \$ 7,000,000 with the interest at 2 percent per annum.

JINDAL SAW USA, LLC
NOTES TO FIANANCIALS STATEMENTS
Years ended March 31, 2016 and 2015

Note 5 – Intercompany, Related Party and Affiliates Disclosure Information (Continued)

Intercompany receivables Due From

Jindal Saw Ltd. US branch	\$ 340,968
Net receivables from Drill Pipe International, LLC	6,064,168

Note 5 – Intercompany, Related Party and Affiliates Disclosure Information (Payables)

Intercompany transactions are as follows:

Intercompany Payables

Loans from SV Trading Limited	\$ 14,516,642
Interest payable SV Trading Limited	2,228,166
Net Payable Jindal Saw Ltd.	30,062

Intercompany transactions with World Transload & Logistics, LLC

Note payable	\$7,000,000
Interest payable	262,485

Intercompany transactions:

Purchase of machinery-Jindal Saw Ltd	\$113,821
Purchase of steel pipes-Jindal Saw Ltd	119,200
Sale/service of expenses reimbursement-Jindal Saw Ltd	77,796
Purchase of consumables/services-World Transload	31,130
Sale material/service to World Transload	195,785
Sale of material/service to Drill Pipe International	970,675

JINDAL SAW USA, LLC
NOTES TO FIANANCIALS STATEMENTS
Years ended March 31, 2016 and 2015

Note 5 – Intercompany, Related Party and Affiliates Disclosure Information (Continued)

Intercompany interest transactions

Interest expenses recorded and payable to SV Trading Ltd.	Nil (waived)
Interest expenses recorded and payable to World Transload	122,493

Note 6 – Income Taxes:

The company has elected to file as a Corporation for federal tax purposes. The company's deferred tax liabilities and deferred tax assets at March 31, 2016 is as follows:

	<u>As of March 31, 2016</u>
Current deferred tax assets related to:	
Interest not currently deductible	871,728
Other	-
Total current deferred tax assets	<u>871,728</u>
Non-Current deferred tax liability related to:	
Tax depreciation greater than financial	(6,867,558)
Total non-current deferred tax liability	<u>(6,867,558)</u>
Net deferred tax assets/benefits (liability)	<u>(5,995,830)</u>

The Company would be subject to corporate taxes of approximately \$2,050,697. The provision of \$2,050,697 & 2,100,000 for taxes and deferred tax expense of \$74,916 & \$510,936 has been provided on the income for the year ending March 31, 2016 & 2015 respectively.

JINDAL SAW USA, LLC
NOTES TO FIANANCIALS STATEMENTS
Years ended March 31, 2016 and 2015

Note 7 – Commitments and Contingencies

Operating Leases

Rental expense under operating leases totaled \$ 18,082 for the period ended March 31, 2016. The Company had two equipment rental agreements as of march 31, 2016 which are operating leases. The rental agreements are short-term and cancellable and are not capital leases.

Contingencies

The company is subject to certain disputes and claims, which has arisen in the ordinary course of business. These actions, when ultimately concluded and determined, will not, in the opinion of management, have a material adverse effect on the financial position or results of operations of the company.

Note 8- Business Combination

Effective since May 22, 2014, the Company 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 assumption current liabilities which includes, accounts payables and the advances received from the customers at the time of acquisitions.

JINDAL SAW USA, LLC
NOTES TO FIANANCIALS STATEMENTS
Years ended March 31, 2016 and 2015

Note 8- 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

Assets

Current Assets

Cash and Cash equivalents	255,536.05
Accounts Receivable	4,903,758.18
Inventory	<u>17,621,909.90</u>
Total Current Assets	22,781,204.13
Fixed Assets	<u>-</u>
Total Assets	<u>22,781,204.13</u>

Liabilities & Equity

Current Liabilities

Accounts Payable	13,970,876.25
Advances from customers	<u>1,345,558.79</u>
Total Current Liabilities	15,316,435.04
Long term Liabilities	<u>-</u>
Total Liabilities	<u>15,316,435.04</u>

Total Net worth	<u>7,464,769.09</u>
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Purchase consideration for DPI	<u>7,464,769.09</u>
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Value Paid for DPI	<u>7,464,769.09</u>
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Goodwill/Reserves	<u>-</u>
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Note 9 - Subsequent Events

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