

Jindal Saw USA, LLC

FINANCIAL STATEMENTS

**For the Years Ended March 31, 2017 and 2016
With Reports of Independent Auditors**

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

115 North Broadway
Hicksville, NY 11801
Phone 718-426-4661 Fax: 718-233-2525

Jindal Saw USA, LLC

FINANCIAL STATEMENTS

**Years Ended March 31, 2017 and 2016
With Report of Independent Auditor**

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REPORT OF INDEPENDENT AUDITOR

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, 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.

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 100% owned subsidiary, 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, 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

Jindal Saw USA LLC

Balance Sheets

As of March 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current		
Cash and cash equivalents	\$ 1,666,726	\$ 2,418,171
Accounts receivables:		
Trade receivables	3,387,586	5,007,840
Intercompany receivables	7,511,239	7,737,224
Others	270,065	270,065
Inventories	3,533,308	5,198,496
Prepaid expense	80,038	75,302
Loans and advances	1,230,609	1,041,851
Deferred Tax Asset	800,039	2,030,572
Intercompany Loans	5,550,000	6,550,000
Total current assets	<u>24,029,609</u>	<u>30,329,521</u>
Investment in Share Capital of DPI	<u>7,464,769</u>	<u>7,464,769</u>
Property, Plant & Equipments Net	<u>46,606,828</u>	<u>50,385,544</u>
Total Assets	<u><u>78,101,206</u></u>	<u><u>88,179,834</u></u>

See Notes to Financial Statements

Jindal Saw USA LLC

Balance Sheets

As of March 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Liabilities and Member's Equity		
Current Liabilities		
Account payable - trade	\$ 2,414,699	\$ 6,918,979
Interest payable - intercompany	2,228,166	2,490,651
Current portion of long term loan	2,036,980	1,683,698
Accrued expenses	707,170	50,327
Line of credit	-	4,010,000
Current Portion of Intercompany loan payable	2,333,334	1,555,556
Provision for taxes	0.00	1,900,038
Total Current Liabilities	<u>9,720,350</u>	<u>18,609,249</u>
Long-term debt, net of current portions :		
Long term loan	12,125,030	7,394,777
Intercompany loan payable	11,183,308	19,961,087
Total long-term debt	<u>23,308,338</u>	<u>27,355,864</u>
Deferred tax liability	6,306,923	6,867,558
Total Liabilities	<u>39,335,610</u>	<u>52,832,670</u>
Member's Equity		
Shared capital	15,000,000	15,000,000
Retained earnings	23,765,596	20,347,164
Total member's equity	<u>38,765,596</u>	<u>35,347,164</u>
Total Liabilities and Member's Equity	<u><u>78,101,206</u></u>	<u><u>88,179,834</u></u>

See Notes to Financial Statements

Jindal Saw USA LLC

Statement of Income

for the years ended March 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Net Sales	\$ 27,979,214	\$ 40,027,524
Cost of Sales - materials, labor and other costs	19,769,508	28,373,239
Gross Profit	<u>8,209,706</u>	<u>11,654,284</u>
Selling, General and Administrative Expenses		
Selling, general and administrative expenses	1,958,472	3,594,486
Depreciation expense	2,831,647	2,771,305
Total Selling, General and Administrative Expenses	<u>4,790,119</u>	<u>6,365,791</u>
Operating Income (Expenses):	<u>3,419,587</u>	<u>5,288,493</u>
Other Income (Expenses):		
Other income	-	610,999
Interest expense	(670,754)	(115,562)
Total Other Income (Expenses), net	<u>(670,754)</u>	<u>495,437</u>
	-	
Income before income taxes	<u>2,748,833</u>	<u>5,783,930</u>
Income Taxes		
Current income tax expense	-	1,900,038
Income tax - reversal of PY provision for tax	(1,339,497)	-
Deferred tax expense/(benefit)	669,898	(1,083,928)
Total Income Taxes	<u>(669,599)</u>	<u>816,111</u>
Net Income (loss)	<u>3,418,432</u>	<u>4,967,820</u>

See Notes to Financial Statements

Jindal Saw USA LLC

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

	Member's Stated Capital Account	Additional Capital Contributed	Retained Earnings	Total Member's Equity
Balance at March 31, 2015	\$ 10,000,000	\$ 5,000,000	\$ 15,379,344	\$ 30,379,344
Net income			4,967,820	4,967,820
Balance at March 31, 2016	10,000,000	5,000,000	20,347,164	35,347,164
Net income			3,418,432	3,418,432
Balance at March 31, 2017	10,000,000	5,000,000	23,765,596	38,765,596

See Notes to Financial Statements

Jindal Saw USA LLC

Statement of Cash Flows

For the years ended March 31, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities:		
Net income	\$ 3,418,432	\$ 4,967,820
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,831,647	2,771,305
Deferred tax expense	669,898	(1,083,928)
Changes in operating assets and liabilities:		
(Increase)/decrease trade receivables	1,620,254	(253,067)
(Increase)/decrease intercompany receivables	225,985	(6,786,362)
(Increase)/decrease other receivables	-	451,906
(Increase)/decrease Interet Receivables- Intercompany	1,000,000	
(Increase)/decrease inventories	1,665,189	(157,841)
(Increase)/decrease prepaid expenses and deposits	(4,736)	(75,302)
(Increase)/decrease loans and advances	(188,758)	506,380
Increase/(decrease) account payable - trade	(4,504,280)	369,195
Increase/(decrease) intercompany loan payable	777,778	-
Increase/(decrease) account payable-affiliates	-	(10,564)
Increase/(decrease) interest payable - intercompany	(262,485)	139,992
Increase/(decrease) current portion of note payable to banks	353,282	(42,304)
Increase/(Decrease) accrued expenses	656,844	(69,257)
Increase/(Decrease) provision for taxes	(1,900,038)	(504,565)
Increase/(Decrease) notes payable	-	(1,734,305)
Increase/(Decrease) line of credit	(4,010,000)	4,010,000
Net cash provided (used) by operating activities	2,349,012	2,499,103
Cash Flows from Investing Activities:		
Net Change in Fixed assets	947,068	(1,056,883)
Investment in Drill Pipe International, LLC	-	
Net cash used in investing activities:	947,068	(1,056,883)
Cash Flows from Financing Activities:		
Increase/(Decrease) long term loan	4,730,253	-
Increase/(Decrease) Long term intercompany loans	(8,777,779)	-
Proceeds from financing agreement	-	-
Additional equity	-	-
Net cash used in financing activities:	(4,047,526)	-
Net Increase/(decrease) in cash and cash equivalents	(751,445)	1,442,220
Cash and cash equivalents at the beginning of year	2,418,171	975,951
Cash and cash equivalents at the end of year	1,666,726	2,418,171
Supplemental Cash Flow Information		
Federal income taxes provision	-	1,900,038
Interest provided	(670,754)	(115,562)

See Notes to Financial Statements

Jindal Saw USA, LLC
Notes to financial statements
Years ended March 31, 2017 and 2016

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 before tax of \$ 2,748,833 and \$ 5,783,930 during the years ended March 31, 2017 and 2016 respectively.

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:

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 has 100% subsidiary and accounted at cost method in 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:

Jindal Saw USA, LLC
Notes to financial statements
Years ended March 31, 2017 and 2016

	March, 2017		March, 2016	
	After	Before	After	Before
<u>Statement of Operations</u>				
Current tax - Federal and State	-	1,241,783	1,900,038	2,050,697
Deferred tax expense/(Benefit) - Federal & State	669,898	(132,760)	(1,083,928)	74,916
Income tax - Reversal of PY excess provision of tax	(1,339,497)	(1,490,156)	-	-
<u>Statement of Assets and Liabilities</u>				
Deferred tax asset	800,039	798,105	2,030,572	871,728
Deferred tax liability	6,306,923	6,661,176	6,867,558	6,867,558
Provision for tax	-	1,241,783	1,900,038	2,050,697
Retained earnings	23,765,596	22,167,626	20,347,164	19,037,661

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 22, 2017.

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.

Reclassification of Prior Year Amounts

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations.

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.

Jindal Saw USA, LLC
Notes to financial statements
Years ended March 31, 2017 and 2016

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 collectible; 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 collectible and no additional allowance for doubtful accounts are needed to be provided as of March 31, 2017.

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.

Jindal Saw USA, LLC
Notes to financial statements
Years ended March 31, 2017 and 2016

As at March 31, 2017 and 2016, inventories consisted of the followings:

	<u>2017</u>	<u>2016</u>
Raw Material	500,077	1,799,932
Stores & Spares	1,774,050	2,020,081
Loose Tools and others	227,818	193,110
Capital Items	512,251	292,516
Finished Goods	519,112	779,036
Work-in- progress	-	-
Material in transit	-	113,821
	<u>3,533,308</u>	<u>5,198,496</u>

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.

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.

Jindal Saw USA, LLC
Notes to financial statements
Years ended March 31, 2017 and 2016

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, 2017 the Company had three customers which represent 17%, 28% and 7% of the Company's total revenue and these customers had balances 16%, 20% and 7% of the total outstanding trade receivables. As at March 31, 2016 three customers represent 19.70%, 21% and 10.16% of the company’s total revenue and these three customers had balances representing 13.74%, 14.62% and 17.43% of the outstanding trade receivables.

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, 2017 and March 31, 2016 are as follows:

Jindal Saw USA, LLC
Notes to financial statements
Years ended March 31, 2017 and 2016

	Balance as on March 31,	Additions	Retirement	Balance as on March 31,	Estimated Useful Life (Years)
Land	5,901,775	-	-	5,901,775	
Computer and Network	179,171	-	-	179,171	5
Vehicles	965,599	-	-	965,599	5-7
Buildings	21,254,020	-	-	21,254,020	5-40
Machinery and equipment	30,742,078	-	(333,950)	30,408,127	7-30
Electric Installations	4,207,932	-	-	4,207,932	5-7
Office Equipment	154,530	-	-	154,530	3-10
Furniture & fixtures	353,631	-	-	353,631	3-10
Construction in progress	2,738,698	783,616	(1,660,967)	1,861,347	
Total property and equipment	66,497,433	783,616	(1,994,917)	65,286,132	
Less: Accumulated depreciation	16,111,889	2,831,648	(264,234)	18,679,303	
Net property and equipments	50,385,544	-	(1,730,684)	46,606,829	

Depreciation expenses for the period ending March 31, 2017 and 2016 were \$ 2,831,648 and \$ 2,771,305 respectively.

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, 2016	Addition during the year	Re-payment during the year	Balance as of March 31, 2017	Average Interest rate as of March 31, 2017	
Vehicle Loan	61,573	-	20,691	40,882	3.99%	
BOA Equipment Loan	7,380,952	-	1,309,523	6,071,429	2.62%	
BOA Equipment Loan-II	1,517,048	-	214,799	1,302,249	4.15%	
BOA Real Estate Loan		7,000,000	233,333	6,766,667	3.44%	
Repayment Schedule						
	2017-18	2018-19	2019-2020	2020-2021	2021-22	Thereafter
Vehicle Loan	14,877	14,877	11,525	146	-	-
BOA Equip Loan	1,428,571	1,428,571	1,428,572	1,785,714	-	-
BOA Real Estate Loan	350,000	350,000	350,000	350,000	350,000	5,016,666
BOA Equip Loan	254,133	254,133	264,883	276,087	263,326	-
Total	2,047,581	2,047,581	2,054,980	2,411,947	613,326	5,016,666

Note 5 – Intercompany, Related Party and Affiliates Disclosure Information

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

Jindal Saw USA, LLC
Notes to financial statements
Years ended March 31, 2017 and 2016

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.

Intercompany receivables Due From	As of March, 2017	As of March, 2016
Jindal Saw Ltd. US branch	658,998	340,968
Net receivables from Drill Pipe International, LLC	6,852,240	6,064,168

Intercompany Payables	As of March, 2017	As of March, 2016
Loans from SV Trading Limited	14,516,642	14,516,642
Interest payable SV Trading Limited	2,228,166	2,228,166
Net Payable Jindal Saw Ltd.	204,521	30,062

Intercompany transactions with World Transload & Logistics, LLC		
Note payable	7,000,000	7,000,000
Interest payable	NIL	262,485

Intercompany transactions:	As of March, 2017	As of March, 2016
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	3,046,835	77,796
Purchase of consumables/services-World Transload	-	31,130
Sale material/service to World Transload	67,200	195,785
Sale of material/service to Drill Pipe International	215,091	970,675

Intercompany interest transactions		
Interest expenses recorded and payable to SV Trading Ltd.	Nil (waived)	Nil (waived)
Interest expenses recorded and paid to World Transload	139,992	122,493

Jindal Saw USA, LLC
Notes to financial statements
Years ended March 31, 2017 and 2016

Note 6 – Income Taxes:

The company has elected to file as a Corporation for federal tax purposes along with Drill Pipe International, LLC (100% subsidiary) on consolidated basis. The calculation of provision for taxes and deferred tax has been made on consolidated basis as well (see Note 2 regarding change of accounting policy). The company's deferred tax liabilities and deferred tax assets at March 31, 2017 and 2016 are as follows:

Current deferred tax assets related to:

Interest not currently deductible	781,792	885,321
Other	18,247	1,145,251
Total current deferred tax assets	800,039	2,030,572

Non-Current deferred tax asset related to:

Net operating losses	354,253	-
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Non-Current deferred tax liability related to:

Tax depreciation greater than financial	(6,661,176)	(6,867,558)
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Total non-current deferred tax (liability)	(6,306,923)	(6,867,558)
Net deferred tax assets/(liability)	(5,506,884)	(4,836,986)

The Company would be subject to Nil corporate taxes on consolidated basis. The company's 100% subsidiary has earned net losses of around \$4.56 million.

Note 7 – Commitments and Contingencies

Operating Leases

Rental expense under operating leases totaled Nil for the period ended March 31, 2017. The Company had two equipment rental agreements as of March 31, 2017 which are operating leases. The rental agreements are short-term and cancellable and are not capital leases.

Jindal Saw USA, LLC
Notes to financial statements
Years ended March 31, 2017 and 2016

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 - Subsequent Events

The Company has evaluated subsequent events through May 26, 2017 the issuance date of the financial statements.