ELECTROSTEEL USA, LLC AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

HOLLAND, HENRY & BROMLEY, LLP
CERTIFIED PUBLIC ACCOUNTANTS

ELECTROSTEEL USA, LLC AND SUBSIDIARY

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Independent Auditor's Report

April 20, 2016

To the Member of
Electrosteel USA, LLC and Subsidiary

We have audited the accompanying consolidated financial statements of Electrosteel USA, LLC and subsidiary (the Company), which comprise the consolidated balance sheets as of March 31, 2016 and 2015, and the related consolidated statements of income, of member's equity, and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Electrosteel USA, LLC and subsidiary as of March 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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ELECTROSTEEL USA, LLC AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2016 AND 2015

	2016	2015
ASSETS		
Current assets		
Cash and equivalents	$ 341,180	$ 830,535
Accounts receivable	1,132,111	1,288,676
Inventory	3,411,206	3,617,489
Prepaid insurance	14,963	17,319
Total current assets	4,899,460	5,754,019
Property and equipment, net	377,362	444,762
Total assets	$ 5,276,822	$ 6,198,781
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities		
Accounts payable	$ 3,920,258	$ 4,481,776
Current portion of long-term capital lease obligation	10,267	9,801
Accrued credit insurance	-	8,136
Accrued expenses	295,313	248,038
Total current liabilities	4,225,838	4,747,751
Long-term capital lease obligation	23,950	34,217
Total liabilities	4,249,788	4,781,968
Member's equity		
Contributed capital	3,000,000	3,000,000
Accumulated deficit	(1,972,966)	(1,583,187)
Total member's equity	1,027,034	1,416,813
Total liabilities and member's equity	$ 5,276,822	$ 6,198,781

(The accompanying notes are an integral part of the financial statements.)

ELECTROSTEEL USA, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED MARCH 31, 2016 AND 2015

	2016	2015
Net sales	$ 5,153,927	$ 7,859,151
Cost of goods sold	(3,744,034)	(6,351,368)
Inventory provision	(144,523)	(70,073)
Gross profit	1,265,370	1,437,710
Operating expenses		
Payroll, related taxes and benefits	871,517	651,011
Rent	158,458	146,926
Travel	73,349	58,134
Depreciation	68,968	65,785
Insurance	67,973	80,013
Supplies	61,666	105,961
Taxes	59,883	33,970
Advertising and promotion	49,790	31,703
Professional fees	37,293	18,819
Utilities	37,091	31,100
Shipping	28,645	12,514
Automobile	27,859	18,257
Repairs and maintenance	23,253	7,706
Contract labor	20,542	39,684
Meals and entertainment	16,164	9,591
Other	15,303	2,208
Technology	12,874	11,109
Dues and subscriptions	9,088	-
Fabrication shop	7,625	41,841
Bank fees	3,732	3,944
Licenses and permits	2,236	11,860
Interest	1,840	1,874
Total operating expenses	1,655,149	1,384,010
Net (loss) income before income taxes	(389,779)	53,700
Income tax provision	-	-
Net (loss) income	$ (389,779)	$ 53,700

(The accompanying notes are an integral part of the financial statements.)

ELECTROSTEEL USA, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY

FOR THE YEARS ENDED MARCH 31, 2016 AND 2015

	Contributed Capital	Accumulated Deficit	Member's Equity
Balance at March 31, 2014	$ 3,000,000	$ (1,636,887)	$ 1,363,113
Net income	-	53,700	53,700
Balance at March 31, 2015	3,000,000	(1,583,187)	1,416,813
Net loss	-	(389,779)	(389,779)
Balance at March 31, 2016	$ 3,000,000	$ (1,972,966)	$ 1,027,034

(The accompanying notes are an integral part of the financial statements.)

ELECTROSTEEL USA, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31, 2016 AND 2015

	2016	2015
Cash flows from operating activities		
Net (loss) income	$ (389,779)	$ 53,700
Adjustments to reconcile net (loss) income to net cash (used for) provided by operating activities		
Depreciation	68,968	65,785
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	156,565	(799,123)
Decrease (increase) in inventory	206,283	(981,597)
Decrease (increase) in prepaid insurance	2,356	(3,512)
(Decrease) increase in accounts payable	(561,518)	2,085,664
(Decrease) increase in accrued credit insurance	(8,136)	8,136
Increase in accrued expenses	47,275	237,647
Net cash (used for) provided by operating activities	(477,986)	666,700
Cash flows from investing activities		
Purchases of property and equipment	(1,568)	(145,029)
Net cash used for investing activities	(1,568)	(145,029)
Cash flows from financing activities		
Borrowings under capital lease agreement	-	51,845
Repayments under capital lease agreement	(9,801)	(7,827)
Net cash (used for) provided by financing activities	(9,801)	44,018
Net (decrease) increase in cash	(489,355)	565,689
Cash - beginning of year	830,535	264,846
Cash - end of year	$ 341,180	$ 830,535
Supplemental disclosure of cash flow information		
Cash paid during the year for		
Interest	$ 1,840	$ 1,874
Income taxes	$ -	$ -

(The accompanying notes are an integral part of the financial statements.)

NOTE 1 - DESCRIPTION OF ORGANIZATION

Electrosteel USA, LLC (the Company) is a wholly-owned subsidiary of Electrosteel Castings, LTD (the Parent) and is responsible for the exclusive distribution of their castings throughout North America. These castings include ductile iron pipe, fabricated ductile iron pipe and ductile iron fittings used extensively in the waterworks industry. The Company unloads inventories and fabricates these castings in the United States of America (U.S.) while maintaining a sales team responsible for marketing to utilities and contractors. The Company was organized on September 30, 2008, as a limited liability company in the state of Delaware to engage principally in the business of providing ductile iron pipes and fittings. The Company does not have a termination date. The liability of the member of the Company is limited to the member's total capital contributions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Accounting Standards Board (FASB) Codification

The Company's financial statements adhere to the FASB Accounting Standards Codification (Codification) which is the source of authoritative U.S. generally accepted accounting principles (U.S. GAAP) to be applied by non-governmental entities.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of Electrosteel USA, LLC and its wholly-owned subsidiary, Waterfab LLC, collectively referred to as "the Company". Upon consolidation, all material intercompany balances and transactions are eliminated. Effective March 31, 2014, operations of Waterfab, LLC were discontinued.

Basis of accounting

The Company prepares its financial statements on the accrual basis of accounting. Expenses are recognized when incurred, rather than when paid. Revenues are recognized when earned, rather than when received.

Accounts receivable

The Company maintains an insurance policy which insures the collectability of all customer balances up to a preapproved credit limit. Under this policy, the Company pays a premium and an additional established amount per customer each year to cover all accounts receivable. Based on management's analysis of receivables, past experience, and the insurance policy, no allowance for uncollectible accounts has been recorded.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Shipping income and related cost

Revenue related to shipping charged to customers is included in sales, and overall shipping expenses are separately reported in operating expenses in the accompanying consolidated statements of income.

Inventory

Inventory is stated at the lower of cost or market, with cost determined on the basis of the average cost of all similar items available during the period. As of March 31, 2016 and 2015, inventory consists of finished goods, including pipes, fittings, glands, and related products. No reserve for inventory was deemed necessary at either fiscal year end.

Property and equipment

Property and equipment acquisitions are recorded at cost. Depreciation is calculated over the estimated useful lives of the related assets using the straight-line method. Estimated useful lives by asset class are as follows: machinery and equipment, three to ten years; office equipment, three to seven years; and land improvements, five to ten years. Depreciation expense totaled $68,968 and $65,785 for the years ended March 31, 2016 and 2015, respectively.

Income taxes

The Company is organized as a limited liability company. For federal and state income tax purposes, the Company elected to be treated as a C-corporation and is subject to income taxes under Internal Revenue Service guidelines.

The Company adheres to guidance issued by the Codification with respect to accounting for uncertainty in income taxes. Under this guidance, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. Once this threshold is met, the amount recognized in the financial statements is the largest amount of tax benefit likely realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company does not expect the total amount of unrecognized tax benefit to significantly change in the next twelve months. The Company is no longer subject to examination by taxing authorities for the years before 2012.

If incurred, the Company would recognize interest and penalties related to unrecognized tax benefits in interest expense. The Company has no amounts accrued for interest or penalties as of March 31, 2016 and 2015. Additionally, no interest or penalties were recorded for the years then ended.

Cash and cash equivalents

For financial statement purposes, the Company considers cash and cash equivalents to include all investments with an original maturity of ninety days or less.

Advertising

The Company expenses advertising as incurred. Advertising expense totaled $49,790 and $31,703 for the years ended March 31, 2016 and 2015, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of credit risk

During the years ended March 31, 2016 and 2015, approximately 73% and 81%, respectively, of total sales were to two customers. At March 31, 2016 and 2015, approximately 82% and 71%, respectively, of total accounts receivable were from two customers.

During the years ended March 31, 2016 and 2015, the Company purchased substantially all inventory from the Parent.

The Company maintains cash at a commercial bank in deposit accounts. As of March 31, 2016, the Federal Deposit Insurance Corporation (FDIC) insured deposits up to $250,000 per financial institution. At March 31, 2016 and 2015, the Company had uninsured cash of approximately $90,000 and $584,000, respectively.

Product warranties

The Company provides a one-year warranty on all products sold, which covers defects in materials. The Company's warranty liability is based upon historical warranty cost experience. An accrual related to estimated warranties of $26,190 and $0, respectively, is recorded in accrued expenses on the accompanying consolidated balance sheets as of March 31, 2016 and 2015.

Use of estimates

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to prior year consolidated financial statements to conform to the presentation of current year consolidated financial statements.

Subsequent events

The Company has evaluated subsequent events through April 20, 2016, the date the consolidated financial statements were available to be issued.

NOTE 3 - SIGNIFICANT AGREEMENT

In October 2014, the Company entered into a five-year agreement with a pipe distributor to provide ductile iron pipe to seven branches located throughout the western U.S. As part of this agreement, the Company opened a new depot in Stockton, California to facilitate the receiving, storing and delivering of ductile iron pipe to this pipe distributor. A minimum annual sales volume of $3,000,000 is estimated in this agreement.

The Company's pricing of pipe sold to this distributor is based on market prices of ductile iron pipe. Sales are first recorded at an established initial price. Market prices are then agreed upon each quarter by the Company and the distributor. The Company issues credit memos to the distributor when market prices are below prices initially invoiced. The Company invoices the distributor for the price difference when market prices are above prices initially invoiced. As of March 31, 2016 and 2015, a liability of $119,513 and $93,104, respectively, is included in accrued expenses on the consolidated balance sheets to reserve for estimated decreases in market prices of ductile iron pipe below the prices initially invoiced.

The Company is responsible for certain shipping costs related to the delivery of pipe. As of March 31, 2016 and 2015, a liability of $65,718 and $104,638, respectively, is included in accrued expenses on the consolidated balance sheets for the estimated shipping costs of undelivered products owned by the distributor and located at the Company's California depot.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2016 and 2015 consists of the following:

	2016	2015
Computer equipment	$ 11,439	$ 11,439
Land improvements	76,063	76,063
Machinery and equipment	583,891	582,323
	671,393	669,825
Accumulated depreciation	(294,031)	(225,063)
Total property and equipment	$ 377,362	$ 444,762

NOTE 5 - INCOME TAXES

The Company accounts for income taxes under the provisions of the Codification topic on Income Taxes which requires, among other things, the determination of deferred tax assets and liabilities based on the differences between the financial accounting and tax bases of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the currently enacted tax rate to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be settled or realized. At March 31, 2016, the Company had a net long term deferred tax asset which was fully offset by a valuation allowance as detailed below:

Net operating loss carryforwards (NOLs)	$ 816,000
Depreciation difference	(110,000)
	706,000
Less valuation allowance	(706,000)
	$ -

During the year ended March 31, 2016, the Company experienced a net operating loss of approximately $356,000 for income tax purposes. The Company has accumulated NOLs of approximately $1,792,000 for the years ended March 31, 2015 and earlier, and they will be carried forward to offset taxable income in future years. The total NOL of approximately $2,148,000 will begin to expire in 2030. A related deferred tax asset of $816,000 has been recorded, and a valuation allowance has been established for the entire amount.

NOTE 6 - RELATED PARTY TRANSACTIONS

For the years ended March 31, 2016 and 2015, the Company purchased inventory from the Parent totaling $3,004,875 and $6,154,694, respectively. Additionally, purchases of $5,675 were made from another subsidiary of the Parent during the year ended March 31, 2015.

The Company has an amount due to the Parent of $3,889,569 and $4,410,778 at March 31, 2016 and 2015, respectively, which is included in accounts payable on the consolidated balance sheets.

NOTE 7 - RETIREMENT PLAN

In 2014, the Company began sponsoring a SIMPLE IRA retirement plan. Employees are eligible to participate immediately with no minimum service requirement. The SIMPLE IRA plan provides for an employer match of 100% of the first 3% of salary deferred by an employee. For the years ended March 31, 2016 and 2015, the Company's contributions into the retirement plan total $3,661 and $2,307, respectively.

NOTE 8 - OPERATING LEASE AGREEMENTS

The Company leases real estate under operating lease agreements that expire at various times through 2019. Total expenses under these operating lease agreements were $152,250 and $120,750 for the years ended March 31, 2016 and 2015, respectively. The Company also leased two vehicles under operating lease agreements that expired in 2016. Commitments under these non-cancelable agreements in future years follow:

For the year ending March 31,	
2017	$ 145,769
2018	123,778
2019	13,000
2020 and thereafter	-
	$ 282,547

NOTE 9 - CAPITAL LEASE AGREEMENT

At March 31, 2016 and 2015, the Company was the lessee under the following capital lease agreement:

	2016	2015
Lease agreement dated June 2014 to De Lage Landen Financial Services in 60 equal monthly installments of $970 including interest at 4.65%. Note is secured by equipment and matures June 2019.	$ 34,217	$ 44,018
Current portion	10,267	9,801
Long-term portion	$ 23,950	$ 34,217

NOTE 10 - SUBSEQUENT EVENT

In April 2016, the Company entered into a short-term loan agreement with another wholly-owned subsidiary of the Parent. As part of this agreement, the Company received $900,000 that is to be repaid in addition to 3.5% interest in July 2016.