ELECTROSTEEL USA, LLC
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020 AND 2019

Holland, Bromley, Barnhill & Brett LLP
Certified Public Accountants and Business Advisors

ELECTROSTEEL USA, LLC AND SUBSIDIARY

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Independent Auditor's Report

May 20, 2020

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, 2020 and 2019, and the related consolidated statements of income, member's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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 audits. We conducted our audits 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.

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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, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the consolidated financial statements, the Company has adopted Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers" (Topic 606). Our opinion is not modified with respect to that matter.

Holland, Bromley, Barnhill & Brett, LLP

Holland, Bromley, Barnhill & Brett, LLP
Savannah, Georgia

ELECTROSTEEL USA, LLC AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2020 AND 2019

	2020	2019
ASSETS		
Current assets		
Cash and equivalents	$ 414,914	$ 475,283
Accounts receivable	1,564,623	1,871,011
Inventory, net	3,346,271	2,791,667
Prepaid expenses	39,823	44,121
Total current assets	5,365,631	5,182,082
Property and equipment, net	261,243	295,258
Total assets	$ 5,626,874	$ 5,477,340
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities		
Accounts payable	$ 754,518	$ 225,612
Accrued expenses	168,401	135,632
Current portion of long-term capital lease obligations	16,604	19,231
Note payable to related party	-	500,000
Note payable	2,250,000	2,250,000
Total current liabilities	3,189,523	3,130,475
Long-term capital lease obligations	39,968	56,653
Total liabilities	3,229,491	3,187,128
Member's equity		
Contributed capital	3,000,000	3,000,000
Accumulated deficit	(602,617)	(709,788)
Total member's equity	2,397,383	2,290,212
Total liabilities and member's equity	$ 5,626,874	$ 5,477,340

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

ELECTROSTEEL USA, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED MARCH 31, 2020 AND 2019

	2020	2019
Net sales	$ 6,143,869	$ 6,928,851
Cost of goods sold	(4,167,287)	(4,951,548)
Inventory provision	(138,460)	(94,841)
Gross profit	1,838,122	1,882,462
Operating expenses		
Payroll, related taxes and benefits	799,263	768,714
Interest	121,247	140,387
Rent	111,110	88,969
Bad debt	95,676	-
Financing fees	80,571	64,265
Depreciation	71,877	64,418
Professional fees and contract labor	57,296	62,260
Travel	55,620	59,419
Insurance	54,648	49,445
Advertising and promotion	45,698	10,574
Supplies	39,541	103,686
Repairs and maintenance	34,398	40,988
Automobile	32,727	18,190
Taxes	28,785	44,846
Utilities	28,433	31,956
Dues and subscriptions	20,466	17,216
Technology	19,226	15,996
Meals	12,038	11,314
Bank fees	7,788	7,537
Shipping	6,455	6,073
Product testing and development	3,383	-
Entertainment	2,740	-
Development support	1,396	371
Licenses and permits	569	6,621
Total operating expenses	1,730,951	1,613,245
Other income		
Consulting services	-	1,000,000
Gain on disposal of fixed assets	-	4,140
Total other income	-	1,004,140
Net income before income taxes	107,171	1,273,357
Income tax provision	-	-
Net income	$ 107,171	$ 1,273,357

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

ELECTROSTEEL USA, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY

FOR THE YEARS ENDED MARCH 31, 2020 AND 2019

	Contributed Capital	Accumulated Deficit	Member's Equity
Balance at March 31, 2018	$ 3,000,000	$ (1,983,145)	$ 1,016,855
Net income	-	1,273,357	1,273,357
Balance at March 31, 2019	3,000,000	(709,788)	2,290,212
Net income	-	107,171	107,171
Balance at March 31, 2020	$ 3,000,000	$ (602,617)	$ 2,397,383

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

ELECTROSTEEL USA, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31, 2020 AND 2019

		2020		2019
Cash flows from operating activities				
Net income	$	107,171	$	1,273,357
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation		71,877		64,418
Bad debt		95,676		-
Gain on disposal of assets		-		(4,140)
Changes in assets and liabilities				
Decrease (increase) in accounts receivable		210,712		(608,254)
Increase in inventory		(554,604)		(203,826)
Decrease (increase) in prepaid expenses		4,298		(21,456)
Increase in accounts payable		528,906		132,513
Increase (decrease) in accrued expenses		32,769		(30,738)
Net cash provided by operating activities		496,805		601,874
Cash flows from investing activities				
Purchases of property and equipment		(37,862)		(111,809)
Net cash used for investing activities		(37,862)		(111,809)
Cash flows from financing activities				
Borrowings under capital lease agreements		-		50,537
Repayments under capital lease agreements		(19,312)		(19,770)
Repayments under note payable agreements		(500,000)		(500,000)
Net cash used for financing activities		(519,312)		(469,233)
Net (decrease) increase in cash		(60,369)		20,832
Cash - beginning of year		475,283		454,451
Cash - end of year	$	414,914	$	475,283
Supplemental disclosure of cash flow information				
Cash paid during the year for				
Interest	$	144,241	$	139,769
Income taxes	$	-	$	-

(The accompanying notes are an integral part of the consolidated 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 inventory and fabricates the castings in the United States of America 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

Basis of accounting

The Company's consolidated financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Expenses are recognized when incurred, rather than when paid. Revenues are recognized when earned, rather than when received.

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.

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.

Accounts receivable

The Company maintains an insurance policy which insures the collectability of all customer balances up to a preapproved credit limit. Based on management's analysis of receivables, past experience, and the insurance policy, no allowance for uncollectible accounts has been recorded.

Inventory

Inventory is stated at the lower of cost or net realizable value, with cost determined on the basis of the average cost of all similar items available during the period. As of March 31, 2020 and 2019, inventory consists of finished goods, including pipes, fittings, glands, and related products. Based on management's review of the net realizable value of certain inventory items, an impairment reserve for inventory of $3,200 and $64,000, is included in inventory on the accompanying consolidated balance sheets as of March 31, 2020 and 2019, respectively.

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.

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 $71,877 and $64,418 for the years ended March 31, 2020 and 2019, respectively.

New accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers" (Topic 606), or Accounting Standards Codification 606 (ASC 606). This guidance outlines a single, comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance issued by the FASB. Under the new revenue recognition standard, entities apply a five-step model that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, companies identify the performance obligations within their contracts with customers, allocate the transaction price received from customers to each performance obligation identified within their contracts, and recognize revenue as the performance obligations are satisfied. The new guidance requires enhanced disclosures, including revenue recognition policies to identify performance obligations to customers and significant judgments in measurement and recognition. On April 1, 2019, the Company adopted ASC 606 and all the related amendments to all contracts using the modified retrospective method.

The adoption of ASC 606 did not have a significant impact on the Company's consolidated financial statements. The majority of the Company's revenue arrangements generally consist of a single performance obligation to transfer promised goods or services. Based on the Company's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously are consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption.

Revenue recognition

The Company generates revenues primarily from the sales of pipes and fittings. Revenues are recognized when control of these products is transferred to customers (when goods are shipped), in an amount that reflects the consideration the Company expects to be entitled for exchanging those products. The Company does not have any significant financing components as payment is received at or shortly after the point of sale.

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. For each of the years ending March 31, 2020 and 2019, management determined an accrual related to estimated warranties was not deemed necessary.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 2016.

If incurred, the Company recognizes interest and penalties related to income tax withholdings and unrecognized tax benefits in interest expense. The Company had $0 accrued for interest and penalties as of March 31, 2020 and 2019 which represents all related interest and penalties recorded for the years then ended.

Advertising
The Company expenses advertising as incurred. Advertising expense totaled $45,698 and $10,574 for the years ended March 31, 2020 and 2019, respectively.

Concentration of credit risk
During the years ended March 31, 2020 and 2019, approximately 37% and 34%, respectively, of total sales were to two customers. Two of the Company's customers individually met the 10% threshold of sales during the year ended March 31, 2020, and three of the Company's customers met this threshold in fiscal year 2019. At March 31, 2020 and 2019, approximately 49% and 42%, respectively, of total accounts receivable were from two customers. Three of the Company's customers individually met the 10% threshold of accounts receivable for the years ended March 31, 2020 and 2019.

During the years ended March 31, 2020 and 2019, the Company purchased substantially all inventory from the Parent.

The Company maintains cash at a commercial bank in deposit accounts. As of March 31, 2020, the Federal Deposit Insurance Corporation (FDIC) insured deposits up to $250,000 per financial institution. At March 31, 2020 and 2019, the Company had uninsured cash of approximately $166,000 and $153,000, respectively.

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 prior year amounts have been reclassified to conform with current year presentation.

Subsequent events
The Company has evaluated subsequent events through May 20, 2020, the date the consolidated financial statements were available to be issued.

NOTE 3 - 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, 2020 and 2019, the Company's contributions into the retirement plan totaled $10,599 and $8,960, respectively.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2020 and 2019 consists of the following:

	2020	2019
Computer equipment	$ 14,984	$ 2,184
Land improvements	74,253	76,063
Machinery and equipment	611,891	590,524
	701,128	668,771
Accumulated depreciation	(439,885)	(373,513)
Total property and equipment	$ 261,243	$ 295,258

For the years ended March 31, 2020 and 2019, equipment acquired under capital lease agreements totaling $103,067 and $173,430, respectively, is included in the property, plant and equipment balances.

NOTE 5 - INCOME TAXES

The Company accounts for income taxes in accordance with U.S. GAAP 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, 2020, 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)	$ 232,000
Depreciation difference	(55,000)
	177,000
Less valuation allowance	(177,000)
	$ -

During the year ended March 31, 2020, the Company experienced net operating income of approximately $140,000 for income tax purposes. The Company has accumulated NOLs of approximately $1,150,000 for the years ended March 31, 2019 and earlier, and they will be utilized to offset current year taxable income and carried forward to offset taxable income in future years. Because the NOLs fully offset the taxable income for the year ended March 31, 2020, no income tax provision is reflected on the consolidated statements of income. The NOLs will begin to expire in 2030. A related deferred tax asset of $177,000 has been recorded, and a valuation allowance has been established for the entire amount.

NOTE 6 - NOTE PAYABLE

In August 2016, the Company entered into a short-term loan facility agreement with ICICI Bank UK for $2,250,000. Interest on the loan is charged at a rate of LIBOR plus 2% and is payable by the Company to ICICI Bank UK quarterly. Interest expense of $95,996 and $100,026 related to this note is included in the accompanying consolidated statements of income for the years ended March 31, 2020 and 2019, respectively. The loan originally matured on August 23, 2017. The loan was renewed through August 19, 2018, August 20, 2019, and again through August 19, 2020. The loan is included in current liabilities in the accompanying consolidated balance sheets. The loan is collateralized by a $2,500,000 line of credit maintained by the Parent. Fees paid and payable to the Parent for maintaining this line of credit as collateral, as well as other loan fees, totaled $80,571 and $64,265 for the years ended March 31, 2020 and 2019, respectively. These fees are included as financing fees in the accompanying consolidated statements of income.

NOTE 7 - RELATED PARTY TRANSACTIONS

For the years ended March 31, 2020 and 2019, the Company purchased inventory from the Parent totaling $4,038,042 and $4,251,201, respectively.

During the years ended March 31, 2020 and 2019, respectively, the Company expensed $80,571 and $64,265 for amounts paid and payable to the Parent in consideration of the line of credit maintained by the Parent and used as collateral for the Company's short-term loan facility with ICICI Bank UK, as described in Note 6.

The Company has an amount due to the Parent of $628,961 and $17,580 at March 31, 2020 and 2019, respectively, which is included in accounts payable and accrued expenses on the consolidated balance sheets.

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 a total of $1,700,000 during the fiscal year ended March 31, 2017. At March 31, 2020 and 2019, $0 and $500,000, respectively, was outstanding under this agreement and is included on the consolidated balance sheets. Interest accrued at a rate of 2.12%, and related expense of $4,665 and $15,600 is included in the accompanying consolidated statements of income for the years ended March 31, 2020 and 2019, respectively.

During the year ended March 31, 2019, the Company provided consulting services to Electrosteel Doha for Trading, LLC, another wholly-owned subsidiary of the Parent. The company received and recognized revenue of $1,000,000 related to these services. The Company did not provide these services during the year ended March 31, 2020.

NOTE 8 - LEASE AGREEMENTS

The Company leases real estate under an operating lease agreement that expired in May 2020, subsequent to year end. As of financial statement issuance, this lease is payable on a month-to-month basis, while the formal lease agreement is in the process of being renewed. Total expenses under this operating lease agreement were $103,500 and $86,500 for the years ended March 31, 2020 and 2019, respectively. The Company also leases equipment under capital lease agreements that mature at various times through fiscal year 2024.

The minimum future installments under capital and operating lease agreements are as follows:

Year ending March 31,	Capital Leases	Month-to-Month Lease
2021	$ 20,401	$ 7,000
2022	20,401	-
2023	12,484	-
2024	10,676	-
2025	-	-
Thereafter	-	-
	63,962	$ 7,000
Less amount representing interest	7,390	
Principal portion of lease payments	$ 56,572	
Current maturities	$ 16,604	
Noncurrent maturities	39,968	
	$ 56,572	

Total interest expense incurred during the years ended March 31, 2020 and 2019 for the capital lease obligations was $5,237 and $4,217 respectively.

NOTE 9 - SUBSEQUENT EVENTS

The Company has evaluated events that occurred subsequent to March 31, 2020, for potential recognition and disclosure in these consolidated financial statements. As of March 31, 2020, there was a global outbreak of a new strain of coronavirus, COVID-19, which the World Health Organization declared to be a global pandemic in March 2020. To date, COVID-19 has resulted in government-imposed quarantines, certain travel restrictions and other public health safety measures. The impact of the COVID-19 outbreak on the Company's financial condition and results of operations will depend on future developments, including the duration and spread of the outbreak and related advisories and restrictions that could impact the Company. The impact of the COVID-19 outbreak and associated effects on the Company and the overall economy are uncertain and cannot be predicted. Any applicable subsequent events have been evaluated through May 20, 2020, the date of issuance of these consolidated financial statements.