ELECTROSTEEL USA, LLC
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

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

ELECTROSTEEL USA, LLC AND SUBSIDIARY

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Certified Public Accountants and Business Advisors

Christopher H. Holland, CPA
S. Stewart Bromley, CPA
Ronnie A. Barnhill, Jr., CPA
Shannon L. Brett, CPA, CFE

Independent Auditor's Report

April 25, 2018

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, 2018 and 2017, and the related consolidated statements of income, of member's equity, and of 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 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.

Post Office Box 8878
Savannah, GA 31412-8878
PHONE 912.235.3410
FAX 912.235.3414
HBBBCPA.com

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, 2018 and 2017, 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.

Holland, Bromley, Barnhill & Brett, LLP

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

ELECTROSTEEL USA, LLC AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2018 AND 2017

	2018	2017
ASSETS		
Current assets		
Cash and equivalents	$ 454,451	$ 550,547
Accounts receivable	1,262,757	1,425,727
Inventory	2,587,841	2,735,207
Prepaid expenses	22,665	9,798
Total current assets	4,327,714	4,721,279
Property and equipment, net	243,726	351,994
Total assets	$ 4,571,440	$ 5,073,273
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities		
Accounts payable	$ 93,099	$ 750,135
Current portion of long-term capital lease obligations	19,037	17,624
Accrued expenses	166,370	172,736
Note payable to related party	-	1,000,000
Note payable	2,250,000	2,250,000
Total current liabilities	2,528,506	4,190,495
Note payable to related party	1,000,000	-
Long-term capital lease obligations	26,079	45,116
Total liabilities	3,554,585	4,235,611
Member's equity		
Contributed capital	3,000,000	3,000,000
Accumulated deficit	(1,983,145)	(2,162,338)
Total member's equity	1,016,855	837,662
Total liabilities and member's equity	$ 4,571,440	$ 5,073,273

(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, 2018 AND 2017

	2018	2017
Net sales	$ 5,162,332	$ 6,510,708
Cost of goods sold	(3,353,682)	(4,523,873)
Inventory provision	(82,963)	(237,060)
Gross profit	1,725,687	1,749,775
Operating expenses		
Payroll, related taxes and benefits	728,916	993,778
Interest	145,159	86,449
Rent	125,376	147,855
Supplies	72,493	84,434
Depreciation	59,747	72,939
Financing fees	57,055	100,017
Travel	51,379	89,830
Insurance	50,830	68,610
Taxes	41,282	37,536
Professional fees and contract labor	33,766	31,302
Utilities	32,637	42,270
Repairs and maintenance	25,592	24,985
Automobile	18,665	30,357
Advertising and promotion	16,486	17,250
Meals and entertainment	11,450	23,221
Shipping	10,732	21,420
Dues and subscriptions	9,452	13,327
Licenses and permits	7,141	7,856
Technology	7,020	14,405
Bank fees	5,916	5,356
Bad debt	4,593	-
Development support	3,069	25,950
Total operating expenses	1,518,756	1,939,147
Other expenses		
Loss on disposal of fixed assets	27,738	-
Total other expenses	27,738	-
Net income (loss) before income taxes	179,193	(189,372)
Income tax provision	-	-
Net income (loss)	$ 179,193	$ (189,372)

(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, 2018 AND 2017

	Contributed Capital	Accumulated Deficit	Member's Equity
Balance at March 31, 2016	$ 3,000,000	$ (1,972,966)	$ 1,027,034
Net loss	-	(189,372)	(189,372)
Balance at March 31, 2017	3,000,000	(2,162,338)	837,662
Net income	-	179,193	179,193
Balance at March 31, 2018	$ 3,000,000	$ (1,983,145)	$ 1,016,855

(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, 2018 AND 2017

	2018	2017
Cash flows from operating activities		
Net income (loss)	$ 179,193	$ (189,372)
Adjustments to reconcile net income (loss) to net cash used for operating activities		
Depreciation	59,747	72,939
Loss on disposal of assets	27,738	-
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	162,970	(293,616)
Decrease in inventory	147,366	675,999
(Increase) decrease in prepaid expenses	(12,867)	5,165
Decrease in accounts payable	(657,036)	(3,170,123)
Increase (decrease) in accrued expenses	(6,366)	(122,577)
Net cash used for operating activities	(99,255)	(3,021,585)
Cash flows from investing activities		
Proceeds from sale of property and equipment	29,000	-
Purchases of property and equipment	(8,217)	(47,571)
Net cash provided by (used for) investing activities	20,783	(47,571)
Cash flows from financing activities		
Borrowings under capital lease agreements	-	43,080
Repayments under capital lease agreements	(17,624)	(14,557)
Borrowings under note payable agreements	-	3,950,000
Repayments under note payable agreements	-	(700,000)
Net cash (used for) provided by financing activities	(17,624)	3,278,523
Net (decrease) increase in cash	(96,096)	209,367
Cash - beginning of year	550,547	341,180
Cash - end of year	$ 454,451	$ 550,547
Supplemental disclosure of cash flow information		
Cash paid during the year for		
Interest	$ 114,081	$ 78,238
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 inventory and fabricates the 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

Basis of accounting

The Company's 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. 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.

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. Prior to fiscal year 2018, the Company stated inventory at the lower of cost or market. The change was made prospectively in fiscal year 2018 in accordance with a new accounting standard. The change had no effect on 2018 earnings. As of March 31, 2018 and 2017, inventory consists of finished goods, including pipes, fittings, glands, and related products. Based on management's review of potentially slow moving or obsolete inventory, a reserve for inventory was not deemed necessary at either fiscal year end.

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 $59,747 and $72,939 for the years ended March 31, 2018 and 2017, respectively.

Revenue recognition
The Company recognizes revenue for product sales when persuasive evidence of an arrangement exists, title and risk of ownership passes to the customer, the sales price is fixed or determinable, and collectability is probable. These criteria are typically met at the time the product is shipped. A provision is made at the time the related revenue is recognized for estimated product returns, discounts, and other sales promotion expenses. Sales, use, value-added, and other excise taxes are not recognized in revenue.

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 2014.

If incurred, the Company recognizes interest and penalties related to income tax withholdings and unrecognized tax benefits in interest expense. The Company has $5,147 and $0, respectively accrued for interest and penalties as of March 31, 2018 and 2017 which represents all related interest and penalties recorded for the years then ended.

Advertising
The Company expenses advertising as incurred. Advertising expense totaled $16,486 and $17,250 for the years ended March 31, 2018 and 2017, 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. For each of the years ending March 31, 2018 and 2017, management determined an accrual related to estimated warranties was not deemed necessary.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of credit risk

During the years ended March 31, 2018 and 2017, approximately 45% and 63%, respectively, of total sales were to two customers. Four of the Company's customers individually met the 10% threshold of sales during the year ended March 31, 2018, and two of the Company's customers met this threshold in fiscal year 2017. At March 31, 2018 and 2017, approximately 48% and 64%, respectively, of total accounts receivable were from two customers. Four of the Company's customers individually met the 10% threshold of accounts receivable for each of the years ended March 31, 2018 and 2017.

During the years ended March 31, 2018 and 2017, the Company purchased substantially all inventory from the Parent.

The Company maintains cash at a commercial bank in deposit accounts. As of March 31, 2018, the Federal Deposit Insurance Corporation (FDIC) insured deposits up to $250,000 per financial institution. At March 31, 2018 and 2017, the Company had uninsured cash of approximately $106,000 and $372,000, 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 April 25, 2018, 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. This agreement was dissolved effective March 31, 2017, and the Company's operations at the California depot ceased in April 2017.

Under this agreement, the Company's pricing of pipe sold to this distributor was based on market prices of ductile iron pipe. Sales were first recorded at an established initial price. Market prices were then agreed upon periodically by the Company and the distributor. The Company issued credit memos to the distributor when market prices were below prices initially invoiced. The Company invoiced the distributor for the price difference when market prices were above prices initially invoiced.

The Company was responsible for certain shipping costs related to the delivery of pipe. As of March 31, 2018 and 2017, a liability of $0 and $111,265, respectively, is included in accrued expenses on the consolidated balance sheets for the estimated shipping costs of undelivered products owned by the distributor and previously located at the Company's closed California depot.

NOTE 4 - 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, 2018 and 2017, the Company's contributions into the retirement plan totaled $7,494 and $4,785, respectively.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2018 and 2017 consists of the following:

	2018	2017
Computer equipment	$ 11,439	$ 11,439
Land improvements	76,063	76,063
Machinery and equipment	525,770	631,462
	613,272	718,964
Accumulated depreciation	(369,546)	(366,970)
Total property and equipment	$ 243,726	$ 351,994

Equipment acquired under capital lease agreements totaling $106,843 is included in the property, plant and equipment balances for each of the years ending March 31, 2018 and 2017.

NOTE 6 - 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, 2018, 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)	$ 460,000
Depreciation difference	(45,000)
	415,000
Less valuation allowance	(415,000)
	$ -

During the year ended March 31, 2018, the Company experienced net operating income of approximately $224,000 for income tax purposes. The Company has accumulated NOLs of approximately $2,226,000 for the years ended March 31, 2017 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, 2018, 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 $415,000 has been recorded, and a valuation allowance has been established for the entire amount.

NOTE 7 - 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 $76,196 and $41,371 related to this note is included in the accompanying consolidated statements of income for the years ended March 31, 2018 and 2017, respectively. The loan originally matured on August 23, 2017 and was renewed through August 19, 2018. 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 $57,055 and $100,017 for the years ended March 31, 2018 and 2017, respectively. These fees are included as financing fees in the accompanying consolidated statements of income.

NOTE 8 - RELATED PARTY TRANSACTIONS

For the years ended March 31, 2018 and 2017, the Company purchased inventory from the Parent totaling $1,035,686 and $1,764,124, respectively. Additionally, purchases of $0 and $218,831 were made from another subsidiary of the Parent during the years ended March 31, 2018 and 2017, respectively.

The Company sold $0 and $4,700 of inventory to the Parent during the years ended March 31, 2018 and 2017, respectively.

During the years ended March 31, 2018 and 2017, respectively, the Company expensed $45,805 and $88,767 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 7.

Commissions totaling $0 and $42,139 were paid to the Company by the Parent during the years ended March 31, 2018 and 2017, respectively.

The Company has an amount due to the Parent of $17,359 and $730,128 at March 31, 2018 and 2017, respectively, which is included in accounts payable 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. Interest expense of $35,000 and $39,624 related to this note is included in the accompanying consolidated statements of income for the years ended March 31, 2018 and 2017, respectively. At March 31, 2018 and 2017, $1,000,000 was outstanding under this agreement. The principal balance outstanding and related interest at a rate of 3.5% were due to be repaid March 31, 2018. The note was renewed in April 2018, and the principal balance outstanding and related interest at a rate of 2.12% are due to be repaid March 31, 2020.

NOTE 9 - LEASE AGREEMENTS

The Company leases real estate under operating lease agreements that expire at various times through 2021. Total expenses under these operating lease agreements were $123,778 and $146,209 for the years ended March 31, 2018 and 2017, respectively. The depot location in Stockton, CA was closed, and the related lease terminated during fiscal year 2018. The Company also leases equipment under capital lease agreements that mature at various times through fiscal year 2023.

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

Year ending March 31,	Capital Leases	Operating Leases
2019	$ 22,939	$ 83,500
2020	12,781	84,000
2021	8,648	7,000
2022	8,648	-
2023	734	-
Thereafter	-	-
	53,750	$ 174,500
Less amount representing interest	8,634	
Principal portion of lease payments	$ 45,116	
Current maturities	$ 19,037	
Noncurrent maturities	26,079	
	$ 45,116	

Total interest expense incurred during the years ended March 31, 2018 and 2017 for the capital lease obligations was $5,406 and $5,454, respectively.