

# Braj Aggarwal, CPA

Certified Public Account

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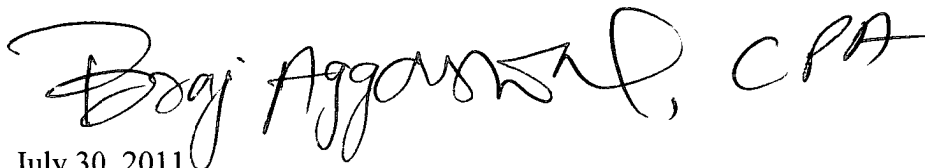
## Independent Auditor's Report

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

We have audited the accompanying balance sheet of Jindal Saw USA LLC (a single member LLC owned by SV Trading Ltd. A Saint Kitts & Nevis Corporation) as of March 31, 2011, and the related statements of income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Jindal Saw USA LLC as of March 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



July 30, 2011

Jackson Heights, New York

**Jindal Saw USA LLC**  
**Balance Sheet as of March 31, 2011**

**Assets**

**Current**

Cash and cash equivalents	\$	82,380
Accounts receivables:		
Trade receivables		1,702,410
Intercompany Receivables		185,804
Others		24,567
Inventories		1,088,534

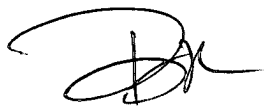
Capital Advances and deposits 512,743

**Total current assets** 3,596,439

**Property, Plant & Equipments net of  
accumulated depreciation of \$1,820,708** 28,241,016

**Total Assets** 31,837,454

See Notes to Financial Statements



**Jindal Saw USA LLC**  
**Balance Sheet as of March 31, 2011**

**Liabilities and Shareholder's Equity**

**Current Liabilities**

Account payable - Trade	\$	2,074,258
Account payable - Intercompany		22,939,012
Account payable - Affiliates		-
Interest payable - Intercompany		2,086,555
Current portion of notes payable - Others		10,076
<b>Total Current Liabilities</b>		<u>27,109,901</u>

**Long-term debt, net of current portions :**

Notes payable		-
<b>Total long-term debt</b>		<u>-</u>


**Total Liabilities** 27,109,901

**Member's Equity**

Stated Capital		10,000,000
Retained Earnings (Deficit)		<u>(5,272,447)</u>
<b>Total member's equity</b>		<u>4,727,553</u>

**Total Liabilities and Member's Equity** 31,837,454

See Notes to Financial Statements



# Jindal Saw USA LLC

Statement of Income  
for the year ended March 31, 2011

	<u>For the year ended March 31, 2011</u>
<b>Net Sales</b>	10,508,894
<b>Cost of Sales - Materials, Labor and Other Costs</b>	<u>8,478,208</u>
<b>Gross Profit</b>	2,030,687
<b>Selling, General and Administrative Expenses</b>	
Selling, General and Administrative Expenses	1,527,056
Depreciation Expense	47,659
<b>Total Selling, General and Administrative Expenses</b>	<u>1,574,715</u>
<b>Operating Income (Expenses):</b>	<u>455,971</u>
<b>Other Income (Expenses):</b>	
Other Income	-
Interest expense	<u>294,905</u>
<b>Total Other Income (Expenses), net</b>	<u>294,905</u>
<b>Income before income taxes</b>	<u>161,066</u>
<b>Income Taxes</b>	
Current income tax expense	-
Total Income Taxes	<u>-</u>
<b>Net Income (loss)</b>	<u><u>161,066</u></u>

See Notes to Financial Statements



## Jindal Saw USA LLC

Statement of Changes of Member's Equity  
for the year ended March 31, 2011

	<u>Member's Stated Capital Account</u>	<u>Retained Earnings</u>	<u>Total Member's Equity</u>
Balance March 31, 2010	\$ 10,000,000	\$ (5,433,513)	\$ 4,566,487
Net Income		161,066	161,066
<b>Balance at March 31, 2011</b>	<u>\$ 10,000,000</u>	<u>\$ (5,272,447)</u>	<u>\$ 4,727,553</u>



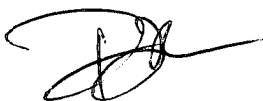
# Jindal Saw USA LLC

## Statement of Cash Flows

For the year ended March 31, 2011

	For the year ended March 31, 2011
<b>Cash Flows From Operating Activities:</b>	
Net Income	\$ 161,066
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	981,395
Changes in operating assets and liabilities:	
Accounts receivables:	
(Increase)/Decrease Trade receivables	(981,892)
(Increase)/Decrease Intercompany Receivables	22,616
(Increase)/Decrease Other receivables	(14,679)
(Increase)/Decrease Inventories	(761,278)
(Increase)/Decrease Prepaid expenses and deposits	1,104,116
Increase/(Decrease) Account payable - Trade	1,323,495
Increase/(Decrease) Account payable - Intercompany	-
Increase/(Decrease) Interest payable - Intercompany	294,265
Net cash provided (used) by operating activities	<u>2,129,104</u>
<b>Cash Flows from Investing Activities:</b>	
Capital expenditures	(4,961,282)
Net cash used in investing activities:	<u>(4,961,282)</u>
<b>Cash Flows from Financing Activities:</b>	
Advances from related parties	(6,053,060)
Proceeds from financing agreement	-
Payments to financing company	(11,760)
Equity Increased	9,000,000
Net cash used in financing activities:	<u>2,935,180</u>
Net Increase/(Decrease) in cash and cash equivalents	103,002
Cash and cash equivalents at the beginning of year	<u>(20,623)</u>
<b>Cash and cash equivalents at the end of year</b>	<u><u>82,379</u></u>
<b>Supplemental Cash Flow Information</b>	
Federal income taxes paid	-
Interest paid	-

See Notes to Financial Statements



**Jindal Saw USA, LLC**  
**Notes to Financial Statement**  
**March 31, 2011**

**Note 1 – Organization**

**Organization and Operations**

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 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 of the Company have been prepared in accordance with the Generally Accepted Accounting Principles (GAAP) used in the United States of America. The following notes describe the significant accounting policies.

**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
5. The costs incurred, or to be incurred in respect of the transaction, can be measured reliably.



**Jindal Saw USA, LLC**  
**Notes to Financial Statement**  
**March 31, 2011**

**Note 2 – Summary of Significant Accounting Policies**

**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 has determined not to provide for allowance and believes the receivables are fully collected and no allowance for doubtful accounts is need to be provided as of March 31, 2011.

**Inventories**

Inventories consist of raw material consumables, such as coating powder and paint used in the operations and are valued at the lower of cost or market using the first in first out cost method.

**Property, Plant and Equipment**

Property, Plant and Equipment are stated at cost. Depreciation is calculated over the estimated useful lives of the assets using the straight-line method. The Company uses straight-line depreciation method for machinery and equipment in manufacturing and processing operations and for certain other manufacturing equipment. 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 Statement**  
**March 31, 2011**

**Note 2 – Summary of Significant Accounting Policies**

**Fair Value of Financial Instruments**

The Company considers the fair value of all financial instruments to be not materially different from their carrying values, at March 31, 2011 based on management's estimate of the Company's ability to borrow funds under the terms and conditions similar to those applicable to the Company's existing debt.

**Advertising Costs**


Advertising costs are expensed when incurred.

**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.

**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, The Company has two customers which represent 37% and 24% of the Company's total revenue. As of March 31, 2011 these two customers had balances representing 11% and 29% of the outstanding trade receivables.



**Jindal Saw USA, LLC**  
**Notes to Financial Statement**  
**March 31, 2011**

**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, 2010 and March 31, 2011 are as follows:

	Balance December 31, 2010	Additions	Adjustment Retirements	Balance March 31, 2011	Estimated Useful Lives (Years)
Land	\$ 3,900,000	\$ -	\$ -	\$ 3,900,000	
Buildings	7,817,056	9,600		7,826,656	40
Machinery and equipment	11,053,051	75,393	(67,996)	11,060,449	7-30
Autos, Trucks and other vehicles	184,046	43,184		227,230	5-7
Computers	76,811	18,718		95,528	5
Furniture, fixtures and office equipment	28,575	16,726		45,301	3-10
Construction in progress	<u>3,022,298</u>	<u>4,865,656</u>		<u>7,887,954</u>	
Total property and equipment	26,081,838	5,029,277	(67,996)	31,043,119	
Less Accumulated depreciation	<u>1,820,708</u>	<u>981,395</u>		<u>2,802,103</u>	
Net property and equipment	<u><u>24,261,130</u></u>	<u><u>4,047,882</u></u>	<u><u>(67,996)</u></u>	<u><u>28,241,016</u></u>	

Depreciation expenses for the period ending March 31, 2011 was \$981,395.



**Jindal Saw USA, LLC**  
**Notes to Financial Statement**  
**March 31, 2011**

**Note 4 – Debt:**

Debt was composed of a vehicle loan through a financing company with monthly payments of \$1,033 per month maturing 2012.

The debt will mature as follows:

	<u>Financing Co</u>
Fiscal year ending March 31, 2012	\$ 10,076
Thereafter	0.00
	<u>10,076</u>

**Note 5 – Intercompany, Related Party and Affiliates Disclosure Information**

The Company has transactions with related parties including companies affiliated through common ownership of the member who owns the company. The company has transactions mainly with SV Trading Limited, JSW Steel (USA) and Jindal Saw Ltd., US Branch. The company receives advances from SV Trading and is charged interest at LIBOR plus 100 Bps on the outstanding amounts.

**Intercompany**

**Intercompany receivables Due From**

Jindal Saw Ltd. US branch	138,263
Jindal Saw Ltd.	47,542
Total Intercompany Receivables	<u>185,805</u>

**Intercompany Revenue**

Intercompany Revenue with Jindal Saw Ltd.  
and JSW Steel USA

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**Jindal Saw USA, LLC**  
**Notes to Financial Statement**  
**March 31, 2011**

**Note 6 – Intercompany, Related Party and Affiliates Disclosure Information**

Intercompany transactions with SV Trading are as follows:

**Intercompany Payables**

Advances from SV Trading Limited \$ 22,939,012

Interest payable SV Trading Limited 2,086,555

**Intercompany transactions with SV Trading Ltd.**

Interest expense recorded in for the year 294,266

**Intercompany transactions with Jindal Saw Ltd.**

Purchase of Machinery 262,072

Sale of Machinery 582,738



**Jindal Saw USA, LLC**  
**Notes to Financial Statement**  
**March 31, 2011**

**Note 7 – Income Taxes:**

The company has elected to file as a Corporation for federal tax purposes. The company's deferred tax liabilities, deferred tax assets and deferred tax asset valuation allowances at March 31, 2011 is as follows

	<u>As of March 31, 2011</u>
<b>Deferred tax assets/benefits related to:</b>	
Net operating loss carry forward	\$ 2,118,168
Allowance for doubtful accounts	-
Interest not currently deductible	659,435
Other	-
<b>Total Deferred tax assets/benefits</b>	<u>2,777,603</u>
<b>Deferred tax liability related to:</b>	
Tax depreciation greater than financial	626,384
<b>Total Deferred tax liability</b>	<u>564,084</u>
<b>Less deferred tax valuation allowance</b>	<u>2,151,219</u>
<b>Net Deferred tax assets/benefits (liability)</b>	<u>-</u>

The company has approximately \$8.27 million in net operating loss (NOL) carry forwards for federal income tax purposes for the period ending March 31, 2011. The net operating loss carry forwards if not utilized will expire in various years through 2030. Since The Company incurred losses in the first few years of operations and resulted in a tax loss, a valuation allowance was set up for the full amount of deferred tax asset until the company has profits where the NOLs can be utilized.



**Jindal Saw USA, LLC**  
**Notes to Financial Statement**  
**March 31, 2011**

**Note 8 – Commitments and Contingencies**

**Operating Leases**

Rental expense under operating leases totaled \$45,134 for the period ended March 31, 2011. The company enters into various equipment rental agreements during the year which are operating leases. The rental agreements are short-term and cancellable and are not capital leases.

**Contingencies**

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

A handwritten signature in black ink, appearing to be the initials 'JS' followed by a flourish.