



**GAIL Global (USA) Inc.
and Subsidiary**

Consolidated Financial Statements

December 31, 2016



GAIL Global (USA) Inc. and Subsidiary

December 31, 2016

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Independent Auditors' Report

To the Board of Directors and Stockholder of
GAIL Global (USA) Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of GAIL Global (USA) Inc. (a Texas corporation) and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in stockholder'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 U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits 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 auditors' 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 GAIL Global (USA) Inc. and Subsidiary as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated fixed assets rollforward as of December 31, 2016 and 2015 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Pannell Kerr Forster of Texas, PC.

April 28, 2017



GAIL Global (USA) Inc. and Subsidiary

A wholly-owned subsidiary of GAIL (India) Limited

Consolidated Balance Sheets

	December 31,	
	<u>2016</u>	<u>2015</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 3,431,470	\$ 3,316,602
Accounts receivable - oil and natural gas	1,268,807	1,172,432
Accounts receivable - other	20,305	34,063
Accounts receivable - Parent	48,016	435,288
Income tax receivable	-	2,500
Prepaid expenses	<u>8,693</u>	<u>25,508</u>
Total current assets	<u>4,777,291</u>	<u>4,986,393</u>
Oil and natural gas properties, successful effort method		
Proved property costs		
Leasehold costs	54,476,501	55,026,058
Drilling costs	64,409,361	63,352,810
Completion costs	112,518,490	110,103,978
Production equipment and facilities	14,548,460	13,867,580
Asset retirement obligation asset	801,255	739,914
Capitalized interest	4,515,805	3,053,403
Wells in progress costs		
Drilling costs	-	201,381
Completion costs	-	11,289
Unproved leasehold costs	<u>-</u>	<u>112,313</u>
	251,269,872	246,468,726
Office equipment	4,322	1,914
Accumulated depletion, depreciation and amortization	<u>(106,981,818)</u>	<u>(88,786,275)</u>
Oil and natural gas properties, net	<u>144,292,376</u>	<u>157,684,365</u>
Total assets	<u>\$ 149,069,667</u>	<u>\$ 162,670,758</u>

See accompanying notes to consolidated financial statements.

	December 31,	
	<u>2016</u>	<u>2015</u>
Liabilities and Stockholder's Equity		
Current liabilities		
Accounts payable	\$ 2,254,146	\$ 5,486,691
Accrued liabilities	81,786	129,072
Line of credit, net of unamortized deferred financing costs	<u>105,020,477</u>	<u>104,322,034</u>
Total current liabilities	<u>107,356,409</u>	<u>109,937,797</u>
Deferred tax liability, net	1,474,064	3,965,751
Asset retirement obligation	<u>923,116</u>	<u>823,573</u>
Total liabilities	<u>109,753,589</u>	<u>114,727,121</u>
Commitments and contingencies	-	-
Stockholder's equity		
Common stock, \$1 par value; 50,000,000 shares authorized		
36,000,000 shares issued and outstanding	36,000,000	36,000,000
Retained earnings	<u>3,316,078</u>	<u>11,943,637</u>
Total stockholder's equity	<u>39,316,078</u>	<u>47,943,637</u>
Total liabilities and stockholder's equity	<u>\$ 149,069,667</u>	<u>\$ 162,670,758</u>



GAIL Global (USA) Inc. and Subsidiary

A wholly-owned subsidiary of GAIL (India) Limited

Consolidated Statements of Operations

	Year Ended December 31,	
	2016	2015
Oil and natural gas sales	\$ 16,311,462	\$ 23,265,701
Operating expenses		
Lease operating	5,424,979	5,763,502
Production taxes	746,864	1,044,658
Marketing and distribution	796,563	1,131,526
Depletion, depreciation and amortization	18,195,543	25,089,565
Abandonment of expired leases	796,360	-
Accretion expense	38,202	34,093
General and administrative	703,474	745,070
Total operating expenses	<u>26,701,985</u>	<u>33,808,414</u>
Loss from operations	<u>(10,390,523)</u>	<u>(10,542,713)</u>
Other income (expense)		
Interest income	7,008	12,541
Interest expense	(3,729,114)	(1,113,439)
Interest expense capitalized	<u>1,462,402</u>	<u>496,362</u>
Total other expense, net	<u>(2,259,704)</u>	<u>(604,536)</u>
Loss before income tax expense (benefit)	<u>(12,650,227)</u>	<u>(11,147,249)</u>
Income tax expense (benefit)		
Current	(1,530,981)	453,336
Deferred	<u>(2,491,687)</u>	<u>(4,553,400)</u>
Total income tax benefit	<u>(4,022,668)</u>	<u>(4,100,064)</u>
Net loss	\$ <u>(8,627,559)</u>	\$ <u>(7,047,185)</u>

See accompanying notes to consolidated financial statements.



GAIL Global (USA) Inc. and Subsidiary

A wholly-owned subsidiary of GAIL (India) Limited

Consolidated Statements of Changes in Stockholder's Equity

For the Years Ended December 31, 2016 and 2015

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, December 31, 2014	\$ 36,000,000	\$ 18,990,822	\$ 54,990,822
Net loss	<u>-</u>	<u>(7,047,185)</u>	<u>(7,047,185)</u>
Balance, December 31, 2015	36,000,000	11,943,637	47,943,637
Net loss	<u>-</u>	<u>(8,627,559)</u>	<u>(8,627,559)</u>
Balance, December 31, 2016	<u>\$ 36,000,000</u>	<u>\$ 3,316,078</u>	<u>\$ 39,316,078</u>

See accompanying notes to consolidated financial statements.



GAIL Global (USA) Inc. and Subsidiary

A wholly-owned subsidiary of GAIL (India) Limited

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2016	2015
Cash flows from operating activities		
Net loss	\$ (8,627,559)	\$ (7,047,185)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depletion, depreciation and amortization	18,195,543	25,089,565
Abandonment of expired leases	796,360	-
Accretion expense	38,202	34,093
Amortization of deferred loan costs	186,443	126,138
Deferred income tax benefit	(2,491,687)	(4,553,400)
Changes in operating assets and liabilities		
Accounts receivable	(82,617)	1,299,521
Accounts receivable - Parent	387,272	(142,348)
Income tax receivable	2,500	782,539
Prepaid expenses	16,814	2,088
Accounts payable	(812,351)	(32,989)
Accrued liabilities	(47,286)	13,181
Net cash provided by operating activities	<u>7,561,634</u>	<u>15,571,203</u>
Cash flows from investing activities		
Additions to oil and natural gas properties	(5,536,164)	(24,281,510)
Additions to office equipment	(2,408)	-
Change in capital expenditure accrual	(2,420,194)	(7,399,379)
Net cash used in investing activities	<u>(7,958,766)</u>	<u>(31,680,889)</u>
Cash flows from financing activities		
Proceeds from borrowings on line of credit	106,750,000	121,000,000
Repayments of line of credit	(106,000,000)	(105,500,000)
Deferred loan costs	(238,000)	(184,520)
Net cash provided by financing activities	<u>512,000</u>	<u>15,315,480</u>
Net increase (decrease) in cash and cash equivalents	114,868	(794,206)
Cash and cash equivalents - beginning of year	<u>3,316,602</u>	<u>4,110,808</u>
Cash and cash equivalents - end of year	<u>\$ 3,431,470</u>	<u>\$ 3,316,602</u>
Non-cash investing and financing activities		
Capitalized asset retirement obligation costs	<u>\$ 61,341</u>	<u>\$ 107,961</u>
Supplemental cash flow information		
Cash paid for interest, net of capitalized interest	<u>\$ 2,129,521</u>	<u>\$ 387,239</u>
Cash paid for taxes	<u>\$ -</u>	<u>\$ 111,957</u>

See accompanying notes to consolidated financial statements.



GAIL Global (USA) Inc. and Subsidiary

A wholly-owned subsidiary of GAIL (India) Limited

Notes to Consolidated Financial Statements

December 31, 2016

NOTE 1 - NATURE OF OPERATIONS

GAIL Global (USA) Inc. ("GGUI") and Subsidiary (collectively, the "Company") was formed on September 26, 2011 as a Texas Corporation. The Company is a wholly-owned subsidiary of GAIL (India) Limited (the "Parent"). The Company is a United States petroleum exploration and production company engaged in the acquisition, exploration, and development of properties for the production of crude oil and natural gas from underground reservoirs.

On September 28, 2011, the Company entered into a purchase and participation agreement (the "Agreement") with Carrizo Oil & Gas, Inc. and two of its affiliates (collectively "Carrizo") and paid \$63,650,000 to acquire a 20% working interest in oil and natural gas properties located in the Eagle Ford Shale area in Dimmit, Frio, LaSalle and McMullen Counties of the State of Texas. The Agreement also requires the Company to pay up to an amount not to exceed \$31,350,000 (the "carry"), representing 50% of Carrizo's share of all development costs (as defined in the Agreement), through June 30, 2013. The Company fulfilled its carry obligation with Carrizo at December 31, 2012. The Agreement also provides the Company the right of first refusal to acquire a 20% working interest in future acquisitions of oil and natural gas leases in the Eagle Ford Shale area made by Carrizo within a defined area of mutual interest (as defined in the Agreement).

During 2013, the Company's Board of Directors approved the formation of a wholly-owned subsidiary to enter into contractual agreements to secure capacity rights in a certain liquefied natural gas ("LNG") liquefaction terminal and related pipelines, to purchase and deliver natural gas to the terminal, and to perform any other activities that may be required in the sale of LNG. On March 28, 2013, Gail Global (USA) LNG LLC ("GGULL") was formed as a Delaware limited liability company.

In April 2013, GGULL entered into a terminal service agreement for 2.3 million tons per annum of capacity for a term of approximately 20 years, commencing on the in-service date of the LNG liquefaction terminal, which is expected late in 2017.

In November 2014, GGULL entered into a gas sale and purchase and capacity agreement for up to 430,000 dekatherm per day of natural gas for a term of approximately 20 years, commencing on the in-service date of the LNG liquefaction terminal, which is expected late in 2017. This agreement is subject to certain performance commitments by the Company that are subject to default provisions.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of GGUI and GGULL. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less from the date of purchase.



GAIL Global (USA) Inc. and Subsidiary

A wholly-owned subsidiary of GAIL (India) Limited

Notes to Consolidated Financial Statements

December 31, 2016

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Oil and Natural Gas Properties

The Company uses the successful efforts method of accounting for oil and natural gas producing activities. Costs to acquire mineral interests in oil and natural gas properties, to drill and equip exploratory wells that find proved reserves, to drill and equip development wells, and related asset retirement costs, are capitalized. Exploratory wells that do not find proved oil and natural gas reserves are expensed when that determination is made, which is less than one year from the date that total debt is reached and the well is logged. With respect to amounts paid by the Company for its carry obligation, they are recorded to oil and natural gas properties in cost categories incurred as tangible and intangible drilling costs and completion costs and production equipment and facilities. Additionally, interest costs are capitalized to oil and natural gas properties during the period that unevaluated leasehold costs and costs of wells in progress are undergoing development and preparation for their intended use until reserves have been identified. Interest cost totaling \$1,462,402 and \$496,362 were capitalized for the years ended December 31, 2016 and 2015, respectively. Costs to drill exploratory wells that do not find proved reserves are expensed when it is determined that the wells are uneconomical and will not be completed. Geological and geophysical costs and costs of carrying and retaining unproved properties are expensed when incurred.

Capitalized costs of producing oil and natural gas properties, after considering estimated residual salvage values, are depreciated and depleted on a field level (common reservoir) basis using the unit-of-production method using proved producing oil and natural gas reserves. Unproved property costs, costs of wells in progress and related capitalized interest costs are excluded from the base subject to depletion until the related costs are considered developed or until proved reserves are found. Oil and natural gas leasehold costs are depleted using the unit-of-production method based on total proved oil and natural gas reserves.

Upon sale or retirement of a complete unit of a proved property, the cost and related accumulated depreciation, depletion, and amortization are eliminated from the property accounts, and the resulting gain or loss is recognized in the statement of operations. On the retirement or sale of a partial unit of proved property, the cost and related accumulated depreciation, depletion, and amortization apportioned to the interest retired or sold are eliminated from the property accounts, and the resulting gain or loss is recognized in the statements of operations.

Upon sale of an entire interest in an unproved property, gain or loss on the sale is recognized, taking into consideration the amount of any recorded impairment if the property had been assessed individually. If a partial interest in an unproved property is sold, the amount received is treated as a reduction of the cost of the interest retained.

Proved oil and natural gas properties are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable, which is generally performed at the field level. Assets are grouped at the lowest level for which there is identifiable cash flows that are largely independent of the cash flows of other groups of assets. The Company estimates the future undiscounted cash flows of the affected properties to judge the recoverability of carrying amounts. If the net costs is in excess of the undiscounted future net cash flows then the fair value is determined using the discounted future net cash flows as the new carrying value with any excess net cost recorded as an impairment with a corresponding amount recorded to accumulated depletion, depreciation and amortization. At December 31, 2016 and 2015, no impairment of proved oil and natural gas properties is required.



GAIL Global (USA) Inc. and Subsidiary

A wholly-owned subsidiary of GAIL (India) Limited

Notes to Consolidated Financial Statements

December 31, 2016

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Oil and Natural Gas Properties (Continued)

Unproved oil and natural gas properties are periodically assessed for impairment of value, and a loss is recognized at the time of impairment by providing an impairment allowance. During the year ended December 31, 2016, abandonment of expired leases totaling \$796,360 were charged to expense due to the expiration of these leases. At December 31, 2015, no impairment of unproved oil and natural gas properties was required.

Deferred Financing Costs

Deferred financing costs are those costs incurred in connection with obtaining a line of credit and are amortized to interest expense, on a straight-line basis, which approximates the interest method, over the term of the line of credit. Deferred financing costs are presented as a direct deduction of the carrying value of line of credit.

Asset Retirement Obligation

The Company records an asset retirement obligation for the abandonment of oil and natural gas producing properties. The asset retirement obligation is recorded at its estimated fair value on the date that the obligation is incurred and accretion expense is recognized over time as the discounted liability is accreted to its expected settlement value. Fair value is measured using expected future cash outflows, which consider an estimate of the cost to plug and abandon wells (excluding salvage), future inflation rates and is discounted at the Company's credit-adjusted risk-free interest rate.

The fair value of the estimated asset retirement cost is capitalized as part of the carrying amount of the applicable proved oil and natural gas property and depleted using the unit-of-production method. Periodically the asset retirement obligation is re-measured to determine if a revision to the estimate is necessary with any revisions being recorded as an adjustment to oil and natural gas property cost.

Revenue Recognition and Natural Gas Imbalances

Revenues from the sale of crude oil and natural gas production are recognized when oil and natural gas is sold at a fixed and determinable price, delivery has occurred, title has transferred and collectability is reasonably assured, net of royalties. An accrual is recorded at each reporting period by estimating the oil and natural gas volumes produced and delivered, net of royalties, and corresponding oil and natural gas prices for periods when actual production information is not available. Crude oil that remains within the field tanks, natural gas that remains in a pipeline and natural gas liquids that remain within a tank that is not sold at each reporting period is considered not produced. The Company follows the sales method of accounting for oil and gas revenues whereby revenue is recognized for all oil and gas sold to purchasers, regardless of whether the sales are proportionate to the Company's ownership interest in the property. Production imbalances, if any, are recognized as an asset or liability to the extent that the Company has an imbalance on a specific property that is in excess of its remaining proved oil and gas reserves. Oil and gas sales volumes are not significantly different from the Company's share of production and as of December 31, 2016 and 2015, the Company did not have any material production imbalances.



GAIL Global (USA) Inc. and Subsidiary

A wholly-owned subsidiary of GAIL (India) Limited

Notes to Consolidated Financial Statements

December 31, 2016

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the consolidated financial statements.

Significant estimates include volumes of oil and natural gas reserves used in calculating depreciation, depletion and amortization of oil and natural gas properties, future net revenues and abandonment obligations, impairment of developed and undeveloped properties, the collectability of outstanding accounts receivable, contingencies, and the results of current and future litigation. Oil and natural gas reserve estimates, which are the basis for unit-of-production depreciation and depletion, have numerous inherent uncertainties. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Subsequent drilling results, testing, and production may justify revision of such estimates. Accordingly, reserve estimates are often different from the quantities of oil and natural gas that are ultimately recovered. In addition, reserve estimates are sensitive to changes in wellhead prices of crude oil and natural gas, which has a direct effect on future revenues and volumes of oil and natural gas that can be produced economically. Such prices have been volatile in the past and can be expected to be volatile in the future.

The significant estimates are based on current assumptions that may be materially affected by changes to future economic conditions, such as the market prices received for sales of volumes of oil and natural gas, and are primarily based upon the data and information received from the joint venture operator. Future changes in these assumptions may affect these significant estimates materially in the near term.

Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current period and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The state of Texas has a gross margin tax that applies to the Company. Taxable margin is defined as total revenue less deduction for costs of goods sold or compensation and benefits in which total calculated taxable margin cannot exceed 70% of total revenue.

The Company will account for interest and penalties assessed as a result of an examination in income tax expense. The Company had no tax-related interest or penalties for the years ended December 31, 2016 and 2015. Management has evaluated the Company's tax positions and concluded that the Company has taken no uncertain tax positions that require adjustment to the consolidated financial statements.



GAIL Global (USA) Inc. and Subsidiary

A wholly-owned subsidiary of GAIL (India) Limited

Notes to Consolidated Financial Statements

December 31, 2016

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sales-Based Taxes

The Company pays certain governmental taxes based on its sales of oil and natural gas to customers. The Company reports its sales at the gross amount and the related taxes, primarily severance taxes, are included in production taxes in the accompanying statement of operations. Total sales-based taxes incurred by the Company for the years ending December 31, 2016 and 2015 amounted to \$746,864 and \$1,044,658, respectively.

Fair Value of Financial Instruments

The Company measures fair value under Accounting Standard Codification 820, "Fair Value Measurements and Disclosures," which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements.

A three-level valuation hierarchy for disclosure of fair value measurements categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. Level 1 inputs include observable inputs such as quoted prices in active markets at the measurement date for identical, unrestricted assets or liabilities. Level 2 inputs include inputs that are observable directly or indirectly such as quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability. Level 3 inputs include unobservable inputs for which there is little or no market data and which the Company makes its own assumptions about how market participants would price the assets and liabilities.

The Company's financial instruments are cash and cash equivalents, accounts receivable, accounts payable and debt. The recorded values of cash and cash equivalents, accounts receivable and accounts payable approximate their fair values based on their short-term nature. The recorded value of debt approximates the fair value, as interest rates approximate current market rates.

The initial measurement of asset retirement obligations at fair value is calculated using discounted cash flow techniques and based on internal estimates of future retirement costs associated with property, plant and equipment. Significant Level 3 inputs used in the calculation of asset retirement obligations include plugging costs and reserve lives. A reconciliation of the Company's asset retirement obligations is presented in NOTE 3 - ASSET RETIREMENT OBLIGATIONS.



GAIL Global (USA) Inc. and Subsidiary

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Notes to Consolidated Financial Statements

December 31, 2016

NOTE 3 - ASSET RETIREMENT OBLIGATIONS

A summary of the changes in the asset retirement obligation for the years ending December 31:

	<u>2016</u>	<u>2015</u>
Beginning of year	\$ 823,573	\$ 681,519
Liabilities incurred	61,341	107,961
Accretion expense	<u>38,202</u>	<u>34,093</u>
End of year	<u>\$ 923,116</u>	<u>\$ 823,573</u>

NOTE 4 - LINE OF CREDIT

The Company entered into a credit facility of \$114,000,000 (the "Line of Credit") for a committed loan with a bank in December 2016. The outstanding balance on the credit facility at December 31, 2016 was \$105,250,000. Principal is due at maturity on December 19, 2017. Borrowings under the Line of Credit accrue interest at the one-month LIBOR (0.77% at December 31, 2016) plus 1% and is payable monthly. The Line of Credit has a commitment fee equal to 0.20% per annum times the average daily amount by which the commitment exceeds the outstanding principal amount. The commitment fee will accrue at all times, as defined, and will be due and payable in arrears on the last day of each interest period. The Line of Credit is guaranteed by the Parent for an annual fee of 0.575% payable quarterly in advance calculated based on the outstanding principal plus overdue interest.

The Company entered into a credit facility of \$114,000,000 (the "Former Line of Credit") for a committed loan with a group of banks in December 2015. In December 2015, the Company reduced the credit facility to \$113,500,000. The outstanding balance on the credit facility at December 31, 2015 was \$104,500,000. Principal is due at maturity on December 19, 2016. Borrowings under the Line of Credit accrue interest at the one-month LIBOR (0.36% at December 31, 2015) plus 0.70% and is payable monthly. The Line of Credit has a commitment fee equal to 0.20% per annum times the average daily amount by which the commitment exceeds the outstanding principal amount. The commitment fee will accrue at all times, as defined, and will be due and payable in arrears on the last day of each interest period. The Former Line of Credit is guaranteed by the Parent for an annual fee of 2.20% payable quarterly in advance calculated based on the outstanding principal plus overdue interest.

The following table comprises the outstanding note payable balance at December 31:

	<u>2016</u>	<u>2015</u>
Line of credit	\$ 105,250,000	\$ 104,500,000
Less: Unamortized deferred financing costs	<u>(229,523)</u>	<u>(177,966)</u>
Line of credit, net of unamortized deferred financing costs	<u>\$ 105,020,477</u>	<u>\$ 104,322,034</u>



GAIL Global (USA) Inc. and Subsidiary

A wholly-owned subsidiary of GAIL (India) Limited

Notes to Consolidated Financial Statements

December 31, 2016

NOTE 5 - INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes using a U.S. Federal statutory corporate rate of 34%. Significant components of the Company's deferred tax liability as of December 31 are as follows:

	<u>2016</u>	<u>2015</u>
Differences in depletion, depreciation and amortization of property for tax purposes	\$ (15,813,161)	\$ (11,059,885)
Net operating loss carryforward	15,448,229	7,705,137
Tax credit carryforward	243,615	244,528
Capitalized interest expense	<u>(1,352,747)</u>	<u>(855,531)</u>
Total deferred tax liability	\$ (1,474,064)	\$ (3,965,751)

The Company had a net operating loss carryforward available at December 31, 2016 amounting to approximately \$45,436,000 which begins to expire in 2035.

NOTE 6 - RELATED PARTY TRANSACTIONS

The Company recorded interest expense related to the Parent's guarantee of bank loans in 2016 and 2015 totaling \$2,253,018 and \$182,270, respectively. At December 31, 2016 and 2015, \$15,166 and \$88,336, respectively, remains unpaid and is included within accrued liabilities.

The Company incurred general and administrative expenses incurred by its Parent on behalf of the Company of \$76,667 and \$119,059 in 2016 and 2015, respectively. At December 31, 2016 and 2015, \$8,340 and \$75,059, respectively, was unpaid and included in accounts payable.

GGULL charges GAIL (India) Limited (Parent) for certain services provided on behalf of the Parent, recorded as a reduction in general and administrative expenses on the accompanying consolidated statement of operations. At December 31, 2016 and 2015, accounts receivable - Parent included \$48,016 and \$435,288, respectively, related to these charges.

NOTE 7 - CONCENTRATIONS OF CREDIT RISK AND FINANCIAL INSTRUMENTS

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash, accounts receivable and debt. The Company maintains its cash with financial institutions it believes have a high credit quality. The Company at times maintains bank deposits in excess of federally-insured limits. The possibility of a loss exists if the bank holding excess deposits was to fail. All of the Company's accounts receivable resulting from oil and natural gas sales is from Carrizo as operator of 100% of the Company's properties. To mitigate this credit risk, the Company closely monitors the payment history and credit worthiness of Carrizo. The carrying value of the debt approximates fair value because the interest rate is based on current market rates commensurate with debt instruments that carry similar credit risk.



GAIL Global (USA) Inc. and Subsidiary

A wholly-owned subsidiary of GAIL (India) Limited

Notes to Consolidated Financial Statements

December 31, 2016

NOTE 8 - SUBSEQUENT EVENTS

The Company has evaluated subsequent events through April 28, 2017, the date the financial statements were available to be issued and have determined that there are no subsequent events to be reported.

Supplementary Information



GAIL Global (USA) Inc. and Subsidiary

A wholly owned subsidiary of GAIL (India) Limited

Consolidated Fixed Assets Rollforward

Year Ended December 31, 2016

	COST			DEPLETION, DEPRECIATION AND AMORTIZATION			NET BOOK VALUE			
	Balance at December 31, 2015	Additions/ Transfers, net	Retirements	Balance at December 31, 2016	Balance at December 31, 2015	Additions/ Transfers	Retirements	Balance at December 31, 2016	December 31,	
									2015	2016
Oil and Natural Gas Properties										
<i>Proved property costs</i>										
Leasehold costs	\$ 55,026,058	\$ 134,490	\$ 684,047	\$ 54,476,501	\$ 5,331,126	\$ 1,071,727	\$ -	\$ 6,402,853	\$ 49,694,932	\$ 48,073,648
Drilling costs	63,352,810	1,056,551	-	64,409,361	28,775,240	5,291,556	-	34,066,796	34,577,570	30,342,565
Completion costs	110,103,978	2,414,512	-	112,518,490	47,669,500	9,663,923	-	57,333,423	62,434,478	55,185,067
Production equipment and facilities	13,867,580	680,880	-	14,548,460	5,432,736	1,635,607	-	7,068,343	8,434,844	7,480,117
ARO and capitalized interest	3,793,317	1,523,743	-	5,317,060	1,576,371	532,358	-	2,108,729	2,216,946	3,208,331
Total proved property costs	246,143,743	5,810,176	684,047	251,269,872	88,784,973	18,195,171	-	106,980,144	157,358,770	144,289,728
<i>Unproved leasehold costs</i>	112,313	-	112,313	-	-	-	-	-	112,313	-
Total	246,256,056	5,810,176	796,360	251,269,872	88,784,973	18,195,171	-	106,980,144	157,471,083	144,289,728
<i>Wells in progress costs</i>										
Drilling costs	201,381	(201,381)	-	-	-	-	-	-	201,381	-
Completion costs	11,289	(11,289)	-	-	-	-	-	-	11,289	-
Total wells in progress costs	212,670	(212,670)	-	-	-	-	-	-	212,670	-
Total oil and natural gas properties	246,468,726	5,597,506	796,360	251,269,872	88,784,973	18,195,171	-	106,980,144	157,683,753	144,289,728
Other										
Office equipment	1,914	2,408	-	4,322	1,302	372	-	1,674	612	2,648
Total other	1,914	2,408	-	4,322	1,302	372	-	1,674	612	2,648
Grand total	\$ 246,470,640	\$ 5,599,914	\$ 796,360	\$ 251,274,194	\$ 88,786,275	\$ 18,195,543	\$ -	\$ 106,981,818	\$ 157,684,365	\$ 144,292,376

See independent auditors' report on supplementary information.



GAIL Global (USA) Inc. and Subsidiary

A wholly owned subsidiary of GAIL (India) Limited

Consolidated Fixed Assets Rollforward

Year Ended December 31, 2015

	COST			DEPLETION, DEPRECIATION AND AMORTIZATION				NET BOOK VALUE		
	Balance at December 31, 2014	Additions/ Transfers, net	Retirements	Balance at December 31, 2015	Balance at December 31, 2014	Additions/ Transfers	Retirements	Balance at December 31, 2015	December 31,	
									2014	2015
Oil and Natural Gas Properties										
<i>Proved property costs</i>										
Leasehold costs	\$ 54,844,953	\$ 181,105	\$ -	\$ 55,026,058	\$ 3,773,822	\$ 1,557,304	\$ -	\$ 5,331,126	\$ 51,071,131	\$ 49,694,932
Drilling costs	57,104,806	6,248,004	-	63,352,810	21,466,523	7,308,717	-	28,775,240	35,638,283	34,577,570
Completion costs	94,007,521	16,096,457	-	110,103,978	33,894,169	13,775,331	-	47,669,500	60,113,352	62,434,478
Production equipment and facilities	10,734,097	3,133,483	-	13,867,580	3,438,109	1,994,627	-	5,432,736	7,295,988	8,434,844
ARO and capitalized interest	3,188,994	604,323	-	3,793,317	1,123,157	453,214	-	1,576,371	2,065,837	2,216,946
Total proved property costs	219,880,371	26,263,372	-	246,143,743	63,695,780	25,089,193	-	88,784,973	156,184,591	157,358,770
<i>Unproved leasehold costs</i>	112,313	-	-	112,313	-	-	-	-	112,313	112,313
Total	219,992,684	26,263,372	-	246,256,056	63,695,780	25,089,193	-	88,784,973	156,296,904	157,471,083
<i>Wells in progress costs</i>										
Drilling costs	2,086,571	(1,885,190)	-	201,381	-	-	-	-	2,086,571	201,381
Completion costs	-	11,289	-	11,289	-	-	-	-	-	11,289
Total wells in progress costs	2,086,571	(1,873,901)	-	212,670	-	-	-	-	2,086,571	212,670
Total oil and natural gas properties	222,079,255	24,389,471	-	246,468,726	63,695,780	25,089,193	-	88,784,973	158,383,475	157,683,753
Other										
Office equipment	1,914	-	-	1,914	930	372	-	1,302	984	612
Total other	1,914	-	-	1,914	930	372	-	1,302	984	612
Grand total	\$ 222,081,169	\$ 24,389,471	\$ -	\$ 246,470,640	\$ 63,696,710	\$ 25,089,565	\$ -	\$ 88,786,275	\$ 158,384,459	\$ 157,684,365

See independent auditors' report on supplementary information.