

Strategic Report, Report of the Directors and
Financial Statements for the Year Ended 31 December 2016
for
TI Callenberg UK limited



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**Group Package
Accounts**

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for the Year Ended 31 December 2016

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TL Callenberg UK limited

Company Information
for the Year Ended 31 December 2016

DIRECTORS:

A Sorensen
T Stark
P J Bannerman
T Forsstrom
M D Bornak

REGISTERED OFFICE:

Building 7, Buchanan Gate
Stepps
Glasgow
North Lanarkshire
G33 6FB

REGISTERED NUMBER:

SC134398 (Scotland)

AUDITORS:

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
141 Bothwell Street
Glasgow
G2 7EQ

ACCOUNTANTS:

McLay, McAlister & McGibbon LLP
145 St Vincent Street
GLASGOW
G2 5JF

TI Callenberg UK limited**Strategic Report
for the Year Ended 31 December 2016**

The directors present their strategic report for the year ended 31 December 2016.

RESULTS FOR THE YEAR

Turnover has increased from £16,836,101 to £16,941,957. Profit on ordinary activities before tax has decreased from £4,028,687 to £2,700,724. The results for the year are shown in the income statement on page 6.

PRINCIPAL RISKS AND UNCERTAINTIES

The company continues to monitor its key business risks, which primarily relate to the management of their long term contracts, by a system of monitoring and control.

KEY PERFORMANCE INDICATORS

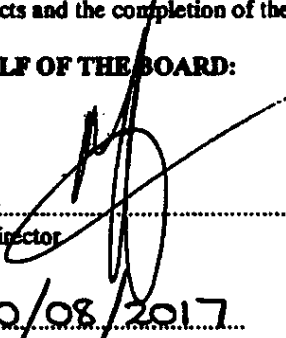
Given the straightforward nature of the business, the company's directors are of the opinion that analysis using key performance indicators is not necessary for the understanding of the development, performance or position of the company.

GOING CONCERN

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

FUTURE OUTLOOK

The directors are confident that the company will remain profitable going forward, through continuing to secure long term contracts and the completion of the ones currently ongoing.

ON BEHALF OF THE BOARD:
.....
T Stark - Director

Date: 10/08/2017

TI Callenberg UK limitedReport of the Directors
for the Year Ended 31 December 2016

The directors present their report with the financial statements of the company for the year ended 31 December 2016.

PRINCIPAL ACTIVITY

The principal activity of the company in the year under review was that of thermal insulation contractors.

DIVIDENDS

An interim dividend of £1,700,000 was paid in the year (2015: £2,800,000). The directors do not recommend the payment of a final dividend. (2015: £nil).

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2016 to the date of this report.

A Sorensen
T Stark
P J Bannerman
T Forsstrom

Other changes in directors holding office are as follows:

J P Traaholt - resigned 17 October 2016
M D Bornak - appointed 18 October 2016

CHARITABLE DONATIONS

There were charitable donations of £nil in the year (2015: £370).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

TI Callenberg UK limited

Report of the Directors
for the Year Ended 31 December 2016

AUDITORS

Pursuant to section 487 of the Companies Act 2006 the auditor will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

ON BEHALF OF THE BOARD:

.....
T Stark, Director

Date: 10/08/2017..

Independent auditors' report to the members of TI Callenberg UK Limited

Report on the financial statements

Our opinion

In our opinion, TI Callenberg UK Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the balance sheet as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.

Kenneth Wilson

Kenneth Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
10 August 2017

TI Callenberg UK limitedStatement of Comprehensive Income
for the Year Ended 31 December 2016

	Notes	31.12.16 £	31.12.15 £
TURNOVER	3	16,941,957	16,836,101
Cost of sales		<u>(13,280,492)</u>	<u>(13,236,510)</u>
GROSS PROFIT		3,661,465	3,599,591
Administrative expenses		<u>(978,228)</u>	<u>(797,132)</u>
OPERATING PROFIT	5	2,683,237	2,802,459
Income from shares in group undertakings		-	1,200,000
Interest receivable and similar income	6	<u>21,962</u>	<u>26,228</u>
		2,705,199	4,028,687
Interest payable and similar expenses	7	<u>(4,475)</u>	<u>-</u>
PROFIT BEFORE TAXATION		2,700,724	4,028,687
Tax on profit	8	<u>(574,932)</u>	<u>(567,022)</u>
PROFIT FOR THE FINANCIAL YEAR		2,125,792	3,461,665
OTHER COMPREHENSIVE INCOME		<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>2,125,792</u>	<u>3,461,665</u>

TI Callenberg UK limited (Registered number: SC134398)

Balance Sheet
31 December 2016

	Notes	31.12.16 £	31.12.15 £
FIXED ASSETS			
Tangible assets	10	111,877	39,028
Investments	11	<u>411,352</u>	<u>411,346</u>
		<u>523,229</u>	<u>450,374</u>
CURRENT ASSETS			
Stocks	12	802,120	1,678,000
Debtors	13	8,252,882	7,619,873
Cash in hand		<u>72</u>	<u>1,224</u>
		9,055,074	9,299,097
CREDITORS			
Amounts falling due within one year	14	<u>(7,740,117)</u>	<u>(8,337,077)</u>
NET CURRENT ASSETS		<u>1,314,957</u>	<u>962,020</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,838,186</u>	<u>1,412,394</u>
CAPITAL AND RESERVES			
Called up share capital	16	1,000	1,000
Retained earnings	17	<u>1,837,186</u>	<u>1,411,394</u>
SHAREHOLDERS' FUNDS		<u>1,838,186</u>	<u>1,412,394</u>

The financial statements were approved by the Board of Directors on its behalf by:

10/08/2017 and were signed on

T Stark - Director

The notes form part of these financial statements

TI Callenberg UK limited**Statement of Changes in Equity**
for the Year Ended 31 December 2016

	Called up share capital £	Retained earnings £	Total equity £
Balance at 1 January 2015	1,000	749,729	750,729
Changes in equity			
Dividends	-	(2,800,000)	(2,800,000)
Total comprehensive income	-	<u>3,461,665</u>	<u>3,461,665</u>
Balance at 31 December 2015	<u>1,000</u>	<u>1,411,394</u>	<u>1,412,394</u>
Changes in equity			
Dividends	-	(1,700,000)	(1,700,000)
Total comprehensive income	-	<u>2,125,792</u>	<u>2,125,792</u>
Balance at 31 December 2016	<u>1,000</u>	<u>1,837,186</u>	<u>1,838,186</u>

The notes form part of these financial statements

TI Callenberg UK limited**Notes to the Financial Statements**
for the Year Ended 31 December 2016**1. STATUTORY INFORMATION**

TI Callenberg UK limited is a private company, limited by shares, registered in Scotland. The company's registered number and registered office address can be found on the Company Information page.

2. ACCOUNTING POLICIES**Basis of preparation**

These financial statements have been prepared in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

TI Callenberg UK Limited is a company limited by shares and incorporated and domiciled in the UK.

The Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Going Concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemption in preparing these financial statements, as permitted by FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows.

Related party exemption

The company has taken advantage of exemption, under the terms of Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', not to disclose related party transactions with wholly owned subsidiaries within the group.

Turnover

Turnover represents net invoiced sales of goods and services, excluding value added tax. The basis for contract accounting is shown in the payments on account and amounts recoverable on contracts accounting policy.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Plant and machinery	- 20% on cost
Fixtures and fittings	- 20% on cost
Motor vehicles	- 25% on cost
Computer equipment	- 25% on cost

Tangible fixed assets are initially measured at cost and subsequently measured at cost less depreciation.

Investments in subsidiaries

Investments in subsidiary undertakings are recognised at cost.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Cost includes all direct expenditure and an appropriate proportion of fixed and variable overheads.

TI Callenberg UK limitedNotes to the Financial Statements - continued
for the Year Ended 31 December 2016**2. ACCOUNTING POLICIES - continued****Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method, in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes with certain limited exceptions.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the asset can be utilised.

Deferred tax is calculated on a undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. The deferred tax balance is not discounted.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Pension costs and other post-retirement benefits

The company operates a defined contribution pension scheme. Contributions payable to the company's pension scheme are charged to profit or loss in the period to which they relate.

Leasing

Payments (excluding costs for serviced and insurance) made under operating leases are recognised in the profit and loss account on a straight line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives are recognised in the profit and loss over the term of the lease as an integral part of the total lease expense.

Investments

Fixed asset investments are stated at cost less provision for diminution in value.

Payments on account and amounts recoverable on contracts

Payments on account and amounts recoverable on contracts are based on the measured value of the work completed in comparison to that invoiced as at the balance sheet date.

Amounts recoverable on contracts, which are included in debtors, are stated at cost plus attributable profit less any foreseeable losses. The profit is calculated on a prudent basis to reflect the proportion of work carried out at the year end, by recording turnover and related costs as contract activity progresses. Full provision is made for losses on all contracts in the year in which they are first foreseen. Payments received on account of contracts are included in creditors.

TI Callenberg UK limited**Notes to the Financial Statements - continued
for the Year Ended 31 December 2016****3. TURNOVER**

The turnover and profit before taxation are attributable to the one principal activity of the company.

An analysis of turnover by geographical market is given below:

	31.12.16	31.12.15
	£	£
United Kingdom	15,722,527	16,006,748
Europe	432,905	18,835
United States of America	594,413	-
Asia	192,112	810,518
	<u>16,941,957</u>	<u>16,836,101</u>

4. EMPLOYEES AND DIRECTORS

	31.12.16	31.12.15
	£	£
Wages and salaries	4,051,146	3,961,095
Social security costs	395,469	400,878
Other pension costs	82,619	90,675
	<u>4,529,234</u>	<u>4,452,648</u>

The average monthly number of employees during the year was as follows:

	31.12.16	31.12.15
Office and Management	4	4
Manufacturing and Insulation	121	122
	<u>125</u>	<u>126</u>

	31.12.16	31.12.15
	£	£
Directors' remuneration	<u>237,928</u>	<u>129,368</u>

The number of directors to whom retirement benefits were accruing was as follows:

Money purchase schemes	<u>1</u>	<u>1</u>
------------------------	----------	----------

Information regarding the highest paid director for the year ended 31 December 2016 is as follows:

	31.12.16	31.12.15
	£	£
Total emoluments.	<u>237,928</u>	<u>129,368</u>

TI Callenberg UK limited**Notes to the Financial Statements - continued
for the Year Ended 31 December 2016****5. OPERATING PROFIT**

The operating profit is stated after charging/(crediting):

	31.12.16	31.12.15
	£	£
Depreciation - owned assets	53,740	67,827
Auditors' remuneration - audit services	25,000	40,259
Foreign exchange differences	(35,824)	9,117
Operating lease expenses	<u>85,736</u>	<u>85,736</u>

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	31.12.16	31.12.15
	£	£
Group loan interest	<u>21,962</u>	<u>26,228</u>

7. INTEREST PAYABLE AND SIMILAR EXPENSES

	31.12.16	31.12.15
	£	£
Other interest	<u>4,475</u>	<u>-</u>

8. TAXATION**Analysis of the tax charge**

The tax charge on the profit for the year was as follows:

	31.12.16	31.12.15
	£	£
Current tax:		
UK corporation tax on profit for the year	541,040	567,022
Adjustments in respect of prior periods	<u>33,892</u>	<u>-</u>
Total current tax	<u>574,932</u>	<u>567,022</u>

TI Callenberg UK limitedNotes to the Financial Statements - continued
for the Year Ended 31 December 2016**8. TAXATION - continued****Reconciliation of total tax charge included in profit and loss**

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	31.12.16 £	31.12.15 £
Profit before tax	<u>2,700,724</u>	<u>4,028,687</u>
Profit multiplied by the standard rate of corporation tax in the UK of 20% (2015 - 20.250%)	540,145	815,809
Effects of:		
Expenses not deductible for tax purposes	607	1,080
Capital allowances in excess of depreciation	(22)	-
Depreciation in excess of capital allowances	-	6,126
Income from shares in group undertakings	-	(245,851)
Other adjustments	310	(10,142)
Adjustments to tax charge in respect of prior years	33,892	-
	<u>574,932</u>	<u>567,022</u>
Total tax charge	<u>574,932</u>	<u>567,022</u>

Reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) were substantively enacted on 2 July 2014. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015.

An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 15 September 2016. This will reduce the Company's future tax charge accordingly.

9. DIVIDENDS

	31.12.16 £	31.12.15 £
Ordinary shares of £1 each		
Interim	<u>1,700,000</u>	<u>2,800,000</u>

TI Callenberg UK limited

Notes to the Financial Statements - continued
for the Year Ended 31 December 2016

10. TANGIBLE FIXED ASSETS

	Plant and machinery £	Fixtures and fittings £	Motor vehicles £	Computer equipment £	Totals £
COST					
At 1 January 2016	322,933	34,739	144,656	60,207	562,535
Additions	<u>99,930</u>	<u>-</u>	<u>20,850</u>	<u>5,809</u>	<u>126,589</u>
At 31 December 2016	<u>422,863</u>	<u>34,739</u>	<u>165,506</u>	<u>66,016</u>	<u>689,124</u>
DEPRECIATION					
At 1 January 2016	294,953	33,321	139,334	55,899	523,507
Charge for year	<u>41,363</u>	<u>845</u>	<u>7,674</u>	<u>3,858</u>	<u>53,740</u>
At 31 December 2016	<u>336,316</u>	<u>34,166</u>	<u>147,008</u>	<u>59,757</u>	<u>577,247</u>
NET BOOK VALUE					
At 31 December 2016	<u>86,547</u>	<u>573</u>	<u>18,498</u>	<u>6,259</u>	<u>111,877</u>
At 31 December 2015	<u>27,980</u>	<u>1,418</u>	<u>5,322</u>	<u>4,308</u>	<u>39,028</u>

11. FIXED ASSET INVESTMENTS

	31.12.16 £	31.12.15 £
Shares in group undertakings	411,352	6
Loans to group undertakings	<u>-</u>	<u>411,340</u>
	<u>411,352</u>	<u>411,346</u>

Additional information is as follows:

	Shares in group undertakings £
COST	
At 1 January 2016	6
Reclassification/transfer	<u>411,346</u>
At 31 December 2016	<u>411,352</u>
NET BOOK VALUE	
At 31 December 2016	<u>411,352</u>
At 31 December 2015	<u>6</u>

During the year it was discovered that the loans to group undertakings were the cost of purchasing shares in two subsidiary companies, and therefore these amounts have been reclassified to reflect this in the year.

TI Callenberg UK limitedNotes to the Financial Statements - continued
for the Year Ended 31 December 201611. **FIXED ASSET INVESTMENTS - continued**

The company's investments at the Balance Sheet date in the share capital of companies include the following:

European Manning Services Limited

Registered office: Building 7, Buchanan Gate, Stepps, Glasgow, G33 6FB

Nature of business: Supply of labour

	% holding		
Class of shares:			
Ordinary	100.00	31.12.16	31.12.15
		£	£
Aggregate capital and reserves		844,567	28,556
Profit for the year		<u>816,011</u>	<u>737,947</u>

The directors consider the value of the investments to be supported by their underlying assets.

TI Callenberg Japan

Registered office: 19-16 Dialand 3-chome, Nagasaki 850 0963, Japan

Nature of business: Supplier of insulation

	% holding		
Class of shares:			
Ordinary	100.00	31.12.16	31.12.15
		£	£
Aggregate capital and reserves		422,212	320,055
Profit for the year		<u>24,149</u>	<u>90,129</u>

TI Callenberg Korea Co

Registered office: 305 Dongsang-Ro, Onyang-Eup, Ulsan, 689-901, South Korea

Nature of business: Supplier of insulation

	% holding		
Class of shares:			
Common Stock	100.00	31.12.16	31.12.15
		£	£
Aggregate capital and reserves		1,180,060	(734,245)
Profit/(loss) for the year		<u>2,042,288</u>	<u>(1,261,461)</u>

	Loans to group undertakings
	£
At 1 January 2016	411,340
New in year	6
Transfer	<u>(411,346)</u>
At 31 December 2016	<u>-</u>

12. **STOCKS**

	31.12.16	31.12.15
	£	£
Stocks	<u>802,120</u>	<u>1,678,000</u>

TI Callenberg UK limited**Notes to the Financial Statements - continued
for the Year Ended 31 December 2016****13. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	31.12.16	31.12.15
	£	£
Trade debtors	2,433,740	2,750,063
Amounts recoverable on contract	84,417	84,417
Due by group companies	5,726,742	4,761,991
Other debtors	<u>7,983</u>	<u>23,402</u>
	<u>8,252,882</u>	<u>7,619,873</u>

The amounts owed by group companies falling due within one year includes the pooled bank balance. The amounts are interest free and repayable on demand.

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31.12.16	31.12.15
	£	£
Payments on account	6,268,426	6,650,989
Trade creditors	128,087	373,897
Corporation tax	309,174	195,678
Social security and other taxes	402,030	549,597
Other creditors	18,525	109,809
Owed to group companies	290,336	60,043
Accruals & deferred income	<u>323,539</u>	<u>397,064</u>
	<u>7,740,117</u>	<u>8,337,077</u>

Amounts owed to group companies are interest free and repayable on demand.

15. LEASING AGREEMENTS

Minimum lease payments under non-cancellable operating leases fall due as follows:

	31.12.16	31.12.15
	£	£
Within one year	85,736	85,736
Between one and five years	<u>257,208</u>	<u>342,944</u>
	<u>342,944</u>	<u>428,680</u>

16. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:		Nominal value:	31.12.16	31.12.15
Number:	Class:		£	£
1,000	Ordinary	£1	<u>1,000</u>	<u>1,000</u>

TI Callenberg UK limitedNotes to the Financial Statements - continued
for the Year Ended 31 December 2016**17. RESERVES**

	Retained earnings £
At 1 January 2016	1,411,394
Profit for the year	2,125,792
Dividends	<u>(1,700,000)</u>
At 31 December 2016	<u>1,837,186</u>

18. ULTIMATE PARENT COMPANY

The entire share capital of the company is beneficially owned by TI Marine Contracting AS which is incorporated in Norway.

The ultimate parent company and controlling party is Trident Maritime Systems, LLC which is incorporated in the USA

Callenberg Group AB is the smallest group for which consolidated financial statements are prepared, which include these results. A copy of the consolidated financial statements may be obtained from the registered office:

Box 8833
SE 40271 Gothenberg
Sweden

19. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying value of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Material estimates and assumptions are made in particular with regards to establishing the following policies:

(i) Estimation of costs to complete

In order to determine the profit and loss that the Company is able to recognise on its long term contracts in a specific period, the Company has to allocate total costs of the contracts between the proportion completing in the period and the proportion to complete in a future period. The assessment of the total costs to be incurred requires a degree of estimation. However, Company management has established internal controls to review and ensure the appropriateness of estimates made. The profit is calculated on a prudent basis to reflect the proportion of work carried out at the year end, by recording turnover and related costs a contract activity progresses. Full provision is made for losses on all contracts in the year in which they are first foreseen.

Trident Maritime Systems, LLC and Subsidiaries

**Consolidated Financial Statements
December 31, 2016 and 2015**

Trident Maritime Systems, LLC and Subsidiaries
Index
December 31, 2016 and 2015

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Report of Independent Auditors

The Board of Directors of
Trident Maritime Systems, LLC and Subsidiaries

We have audited the accompanying consolidated statements of Trident Maritime Systems, LLC and Subsidiaries which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive loss, of changes in member's interest and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the 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 our 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, we consider internal control relevant to the Company'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 Company'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 Trident Maritime Systems, LLC and Subsidiaries at December 31, 2016 and 2015, 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.

PricewaterhouseCoopers LLP

April 28, 2017

Trident Maritime Systems, LLC and Subsidiaries
Consolidated Balance Sheets
December 31, 2016 and 2015

	2016	2015
Assets		
Cash	\$ 25,287,284	\$ 11,465,989
Receivables, net of allowance for doubtful accounts of \$788,353 and \$668,285 for 2016 and 2015, respectively	70,235,934	30,223,253
Inventories, net	12,312,273	5,477,139
Costs and estimated earnings in excess of billings on uncompleted contracts	69,351,721	33,005,027
Current income taxes refundable	647,299	161,186
Prepaid expenses	2,857,305	1,965,942
Total current assets	180,691,816	82,298,536
Property and equipment, net	16,292,415	9,683,737
Other long-term assets	5,911,126	316,185
Deferred income taxes, net	9,853,408	8,854,663
Intangible assets, net	40,216,968	26,883,935
Goodwill, net	39,595,057	31,170,191
Total assets	\$ 292,560,790	\$ 159,207,247
Liabilities and Member's Interest		
Current portion of long-term debt	\$ 3,444,669	\$ 5,858,215
Accounts payable	29,387,759	10,717,844
Current income taxes payable	975,985	-
Accrued expenses	37,332,755	11,735,941
Billings in excess of cost and estimated earnings on uncompleted contracts	55,136,175	11,463,171
Total current liabilities	126,277,343	39,775,171
Noncurrent deferred tax liabilities	1,188,617	-
Long-term debt, less current portion	98,393,022	82,553,528
Total liabilities	225,858,982	122,328,699
Member's Interest		
Member's interest	80,828,721	59,583,480
Accumulated other comprehensive loss	(907,138)	(671,757)
Additional paid-in capital	19,797,454	999,335
Accumulated deficit	(33,017,229)	(23,032,510)
Total member's interest	66,701,808	36,878,548
Total liabilities and member's interest	\$ 292,560,790	\$ 159,207,247

The accompanying notes are an integral part of these consolidated financial statements.

Trident Maritime Systems, LLC and Subsidiaries
Consolidated Statements of Comprehensive Loss
December 31, 2016 and 2015

	2016	2015
Net revenue	\$ 265,178,481	\$ 246,149,190
Cost of revenues	209,808,766	204,425,159
Amortization of intangible assets	9,266,966	10,491,495
	<u>46,102,749</u>	<u>31,232,536</u>
Selling, general and administrative expenses	31,996,338	22,797,835
Amortization of goodwill	4,644,093	4,316,097
Acquisition and merger expenses	5,006,829	-
Operating income	<u>4,455,489</u>	<u>4,118,604</u>
Other income (expense)		
Interest income	52,981	158
Interest expense	(7,233,134)	(7,328,544)
Loss on debt extinguishment	(4,327,261)	-
Miscellaneous expense	107,929	(308,950)
Other expense, net	<u>(11,399,485)</u>	<u>(7,637,336)</u>
Net loss before income tax expense	(6,943,996)	(3,518,732)
Income tax expense	3,040,723	1,894,823
Net loss	<u>(9,984,719)</u>	<u>(5,413,555)</u>
Other comprehensive loss, net of tax		
Foreign currency translation loss	<u>(235,381)</u>	<u>(454,993)</u>
Comprehensive loss	<u>\$ (10,220,100)</u>	<u>\$ (5,868,548)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Trident Maritime Systems, LLC and Subsidiaries
Consolidated Statements of Changes in Member's Interest
December 31, 2016 and 2015

	Member's Interest	Accumulated Other Comprehensive Loss	Additional Paid-in Capital	Accumulated Deficit	Total
Member's interest at December 31, 2014	\$ 59,583,480	\$ (216,764)	\$ -	\$ (17,618,955)	\$ 41,747,761
Net loss	-	-	-	(5,413,555)	(5,413,555)
Foreign currency translation loss arising during the year	-	(454,993)	-	-	(454,993)
Stock-based compensation	-	-	999,335	-	999,335
Member's interest at December 31, 2015	59,583,480	(671,757)	999,335	(23,032,510)	36,878,548
Net loss	-	-	-	(9,984,719)	(9,984,719)
Foreign currency translation loss arising during the year	-	(235,381)	-	-	(235,381)
Equity contribution for Callenberg acquisition	21,245,241	-	18,054,759	-	39,300,000
Stock-based compensation	-	-	743,360	-	743,360
Member's interest at December 31, 2016	\$ 80,828,721	\$ (907,138)	\$ 19,797,454	\$ (33,017,229)	\$ 66,701,808

The accompanying notes are an integral part of these consolidated financial statements.

Trident Maritime Systems, LLC and Subsidiaries
Consolidated Statements of Cash Flows
December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Net loss	\$ (9,984,719)	\$ (5,413,555)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	15,893,866	16,141,457
Loss on disposal of property and equipment	-	31,960
Stock-based compensation	743,360	999,335
Deferred income taxes	(8,980,221)	(1,094,794)
Accretion of discount on long-term debt	435,082	580,104
Loss on debt extinguishment	4,327,261	-
Changes in operating assets and liabilities		
Receivables, net	(24,116,056)	(1,084,202)
Inventories, net	2,310,544	1,206,124
Costs and estimated earnings in excess of billings on uncompleted contracts	(1,905,938)	(3,434,431)
Prepaid expenses	(1,345,976)	(375,602)
Other assets	(2,618,012)	(319,331)
Accounts payable	12,270,638	857,926
Accrued expenses	11,733,699	2,191,372
Billings in excess of costs and estimated earnings on uncompleted contracts	7,832,640	330,014
Income tax receivable/payable	2,514,551	98,233
Net cash provided by operating activities	9,110,719	10,714,610
Cash flows from investing activities		
Capital expenditures	(1,118,534)	(2,244,325)
Proceeds from sale of property and equipment	-	90,874
Acquisition of business, net of cash acquired	(25,013,397)	-
Net cash used in investing activities	(26,131,931)	(2,153,451)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	99,807,356	-
Payments on long-term debt	(88,871,089)	(1,127,311)
Proceeds from revolving credit facility	18,500,000	3,400,000
Payments on revolving credit facility	(18,500,000)	(8,000,000)
Payments on debt extinguishment	(2,272,662)	-
Proceeds from capital contributed	22,800,000	-
Net cash provided by (used in) financing activities	31,463,605	(5,727,311)
Effects of exchange rate changes on cash	(621,098)	(109,450)
Net increase in cash and cash equivalents	13,821,295	2,724,398
Cash and cash equivalents		
Beginning of year	11,465,989	8,741,591
End of year	\$ 25,287,284	\$ 11,465,989
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	\$ 6,617,674	\$ 7,272,062
Cash paid during the period for income taxes	4,775,258	2,260,447
Non-cash investing and financing activities		
Capital expenditures included in accounts payable	\$ 46,013	\$ 133,376
Contingent consideration	6,230,000	-
Seller financing of acquisition assumed by Direct Parent	16,500,000	-

The accompanying notes are an integral part of these consolidated financial statements.

Trident Maritime Systems, LLC and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

1. Description of Business

Trident Maritime Systems, LLC ("Trident") was incorporated in Delaware on October 10, 2014, and is wholly-owned by Trident Maritime Systems Holdings, LLC (the "Direct Parent"). The Company provides an array of services including interior marine vessel design, testing and installation services for both Navy and commercial applications, manufacture of metal furniture, electrical and automation shipboard systems and repair services, and the supply of HVAC, fire suppression, steering, and cargo handling systems. The following companies listed in the table below all are wholly-owned subsidiaries of Trident Maritime Systems, LLC collectively (the "Company"):

Company	Immediate Parent	Year Acquired	State or Country	Year Registered
US Joiner Holding Company	Trident Maritime Systems, LLC	2011	Delaware	2011
US Joiner LLC	US Joiner Holding Company	2011	Virginia	2003
Turnbull LLC	US Joiner Holding Company	2011	Virginia	2008
US Joiner Canada Ltd.	US Joiner Holding Company	2011	Nova Scotia	2011
Infinity Marine Offshore LLC	US Joiner Holding Company	2012	Texas	2001
Infinity Marine Brasil Instalacoes Navais LTDA	Infinity Marine Offshore LLC	2012	Brazil	2011
JCI Metal Products Inc.	US Joiner Holding Company	2012	California	1999
Joiner Holding International S.a.r.l.	US Joiner Holding Company	2012	Luxembourg	2012
USJ S.r.l.	Joiner Holding International S.a.r.l.	2012	Italy	2012
Infinity Marine Offshore Singapore PRD LTD	Joiner Holding International S.a.r.l.	2012	Singapore	2012
IMECO Holding Company	Trident Maritime Systems, LLC	2012	Delaware	2012
IMECO Inc.	IMECO Holding Company	2012	Michigan	1992
Joiner International Poland Sp. Z.o.o.	Baltec Holdings International S.a.r.l.	2013	Poland	2013
RAACI Holding Company	Trident Maritime Systems, LLC	2014	Delaware	2014
Robichaux Automation and Control, Inc. ("RAACI")	RAACI Holding Company	2014	Louisiana	2005
8902348 Canada Inc.	Joiner Systems Inc.	2014	Ontario	2014
Joiner Systems Group	Joiner Systems Inc.	2014	Quebec	2010
Joiner Systems Inc.	US Joiner Holding Company	2014	Quebec	1994
Joiner Systems International Inc.	Joiner Systems Inc.	2014	Quebec	2010

Trident Maritime Systems, LLC and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

Joiner Systems Technology	Joiner Systems Inc.	2014	Quebec	2009
Joiner Systems, Inc.	Joiner Systems Inc.	2014	British Columbia	2014
Company	Immediate Parent	Year Acquired	State or Country	Year Registered
Baltec Holding Company	Trident Maritime Systems, LLC	2015	Delaware	2015
Baltec Marine LLC	Baltec Holding Company	2015	Delaware/ Florida	2015
Baltec Holdings International S.a.r.l.	Baltec Holding Company	2016	Luxembourg	2016
Baltec Marine Sp. Z.o.o.	Baltec Holding Company	2016	Poland	2016
Trident-Callenberg Holdco UK Limited	Trident Maritime Systems, LLC	2016	United Kingdom	2016
Trident-Callenberg Holdco Norway AS	Trident-Callenberg Holdco UK Limited	2016	Norway	2016
Callenberg Group AB	Trident-Callenberg Holdco Norway AS	2016	Sweden	2005
Callenberg AS	Callenberg Group AB	2016	Norway	2003
Callenberg BV	Callenberg Group AB	2016	Netherlands	2016
Callenberg Inc	Callenberg Group AB	2016	USA	1984
Callenberg Technology AB	Callenberg Group AB	2016	Sweden	2001
Callenberg A/S	Callenberg Group AB	2016	Denmark	2003
Callenberg Technology do Brasil LTDA	Callenberg Group AB	2016	Brazil	2005
Callenberg China Technology Co LTD	Callenberg Group AB	2016	China	2016
IES Callenberg LTD	Callenberg Group AB	2016	United Kingdom	1982
TI Marine Contracting AS	Callenberg Group AB	2016	Norway	2001
TI Callenberg China Co. LTD	TI Marine Contracting AS	2016	China	2006
TI Callenberg UK LTD	TI Marine Contracting AS	2016	United Kingdom	1991
TI Callenberg Japan Co. LTD	TI Callenberg UK LTD	2016	Japan	2013
TI Callenberg Korea Co. LTD	TI Callenberg UK LTD	2016	South Korea	2011
European Manning Services LTD	TI Callenberg UK LTD	2016	United Kingdom	1998

Trident Maritime Systems, LLC and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

The percentages of revenues for the operating lines of business were as follows for the years ended December 31, 2016 and 2015:

	2016	2015
Marine outfitting and insulation	55%	53%
Electromechanical and distributed systems	26%	20%
Cruise repair and maintenance	14%	22%
Power, propulsion, and control	5%	5%
	<u>100%</u>	<u>100%</u>

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include Trident Maritime Systems, LLC and the accounts of its wholly owned subsidiaries. Effective October 3, 2016, the consolidated financial statements, in addition to the above named entities, also include Trident-Callenberg Holdco UK Limited and its wholly owned subsidiaries ("Callenberg"). All material intercompany accounts and transactions have been eliminated from the consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ materially from those estimates.

Reclassifications

For comparative purposes, certain amounts in the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation.

Revenue and Cost Recognition

The Company's revenues on fixed-price contracts are recognized on the percentage of completion method of accounting in the ratio that costs incurred bear to total estimated costs and for certain contracts that are longer in term a milestone method is utilized. These estimates are based upon management's assessment of remaining costs to be incurred and could differ either positively or negatively from actual results in amounts that could be significant. Contract costs include all direct material and direct labor costs and certain indirect costs related to contract performance. Selling, general and administrative costs are charged to expense as incurred and, therefore, are not included in the calculation of the estimated costs to complete. Provisions for estimated losses on contracts are recognized in the initial period such losses are determined.

Costs and estimated earnings in excess of billings on uncompleted contracts (an asset) represent costs and estimated profit thereon in excess of related contract billings on contracts in progress at the consolidated balance sheet dates. Billings in excess of costs and estimated earnings on uncompleted contracts (a liability) represent billings on contracts in excess of related contract costs and estimated profit thereon at the consolidated balance sheet dates. Billings are generally based on the terms of the contracts and the actual costs incurred at a given point in time.

Trident Maritime Systems, LLC and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Assets and liabilities related to long-term contracts are included in current assets and current liabilities in the accompanying consolidated balance sheets, as they will be liquidated in the normal course of contract completion, although this may require more than one year.

As long-term contracts can extend over one or more years, revisions in estimates of cost and gross profit during the course of the work are reflected in the accounting period in which the facts which require the revisions become known.

The Company generally recognizes revenue for fabricated products upon their shipment.

Cash

The Company maintains cash at financial institutions which may at times exceed federally insured amounts. At December 31, 2016 and 2015, the Company had \$23,620,291 and \$9,509,349, respectively, in excess of federally insured limits. The amount at December 31, 2016 includes \$18,428,102 related to the Callenberg entities. The Company has not experienced any losses due to cash balances exceeding these limits.

Accounts Receivables

The Company regularly extends credit to customers for purchases made in the normal course of business based upon management's assessment of their creditworthiness. A valuation allowance is provided for those accounts for which collection is doubtful; and uncollectible accounts are written off and charged against the allowance. Increases in the allowance are charged to selling, general and administrative expenses. Accounts are judged to be delinquent principally based on contractual terms. In estimating the allowance, management considers, among other things, how recently and how frequently payments have been received and the financial position of the customer.

Deferred Financing Costs

Deferred financing costs to the lender and third parties are capitalized and accreted or amortized depending on the payee over the terms of the respective debt agreements using the straight-line method which approximates the effective interest method. There were no financing costs capitalized in 2016 and 2015. Accretion of debt discount costs for the years ended December 31, 2016 and 2015 was \$435,082 and \$580,104, respectively. There were no amortization cost in 2016 and 2015. Additionally, as part of the refinancing of the long term debt with BNP PARIBAS Securities Corp ("BNP"), that occurred on October 3, 2016, the Company recorded a loss on extinguishment in 2016 of \$4,327,261.

Inventories, net

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out (FIFO) basis and includes material, labor and overhead. In this capacity the Company manufactures customer-specific products under purchase orders as well as spare parts retail. The customer-specific products generally ship upon completion of an order and do not maintain finished goods. As a result of the short production cycle most of the inventory value is concentrated in raw materials, work in process. The allowance for obsolete and slow moving inventory and lower of cost or market considerations was \$1,072,960 and \$284,867 at December 31, 2016 and 2015, respectively.

Property and Equipment, net

Property and equipment are stated at cost. Routine repairs and maintenance are charged against income (loss) as incurred, while those expenditures that significantly improve or extend the useful lives of existing assets are capitalized. Depreciation and amortization are provided using the

Trident Maritime Systems, LLC and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

straight-line method with a ten percent salvage value based on the estimated useful lives of the related assets which range from 3 to 39 years as follows:

Building and improvements	39 years
Machinery and equipment	7 years
Tooling	7 years
Furniture and fixtures	7 years
Computer software	5 years
Vehicles	3-5 years
Computer equipment	3-5 years

When items of property or equipment are sold or retired, the related cost and accumulated depreciation or amortization is removed from the account and any gain or loss is included in income (loss) from operations.

Intangible Assets, net

Intangible assets consists of contract backlog, customer relationships, trade name, noncompete agreements, engineering libraries and developed technology as a result of acquisitions made in current and prior years. These intangible assets were recorded at fair value at the date of acquisition and are stated net of accumulated amortization as of December 31, 2016 and 2015.

The Company applies the provisions of Accounting Standards Codification ("ASC") Topic 350, *Intangibles, Goodwill, and Other*, which requires the amortization of long-lived intangible assets to reflect the pattern in which the economic benefits of the intangible assets are expected to be realized. The intangible assets are amortized over their remaining estimated useful lives which range from two to ten years (Note 7).

Goodwill, net

Goodwill represents the excess of the cost of acquired businesses over the fair value of their identifiable net assets. Effective January 1, 2013, the Company elected to amortize goodwill in accordance with Accounting Standards Update (ASU) No. 2014-2, *Accounting for Goodwill* ("ASU2014-02"), and tests for impairment in accordance with ASC Topic 350, *Intangibles, Goodwill, and Other*. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The Company tests goodwill for impairment at the reporting unit level whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company had no impairment during the years ended December 31, 2016 and 2015.

Long-Term Assets

The carrying values of long-term assets, which include property and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Conditions that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or a significant adverse change that would indicate that the carrying amount of an asset or group of assets is not recoverable. There were no such events requiring an impairment assessment during the years ended December 31, 2016 and 2015.

Trident Maritime Systems, LLC and Subsidiaries **Notes to Consolidated Financial Statements** **December 31, 2016 and 2015**

Fair Value Measurements

The Company follows generally accepted accounting principles for fair value measurements relating to financial and nonfinancial assets and liabilities in the consolidated financial statements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset and liability. The three levels of inputs that may be used are as follows:

- Level 1 Quoted prices in active markets for identical assets or liabilities;
- Level 2 Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 Unobservable inputs that reflect the reporting entity's own assumptions.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used are required to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth information regarding the Company's financial instruments that are measured at fair value in the consolidated balance sheet as of December 31, 2016:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant unobservable Inputs (Level 3)	Fair Value at December 31, 2016
Assets				
Currency forward contracts	\$ (800,342)	\$ -	\$ -	\$ (800,342)
	<u>\$ (800,342)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (800,342)</u>

The Company does not have any assets or liabilities that are measured on a recurring basis at fair value on December 31, 2015.

Stock-Based Compensation

The Company recognizes stock-based compensation expense in accordance with ASC 718-*Compensation - Stock Compensation* for all share-based payments for those shares expected to vest. Stock compensation expense is recognized for all share-based payments on a straight-line basis over the estimated term of the vesting or service period.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to both differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax

Trident Maritime Systems, LLC and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

assets and liabilities of a change in tax rates is recognized in income (loss) in the period that includes the enactment date of the change. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company applies provisions related to the accounting for uncertain income tax positions included in ASC Subtopic 740-10, *Income Taxes - Overall* (ASC 740-10). These provisions require the Company to recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% of likely being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties, if any, related to unrecognized tax benefits as a component of income tax (benefit) expense.

Warranty

The Company warrants its products against defect for a period of twelve months. Estimates of future costs to satisfy warranty obligations will be primarily based on historical trends and, if these costs are significantly different from historical trends, estimates of future failure rates and future costs of repair including materials consumed in the repair and labor and overhead amounts necessary to perform the repair will be provided for and expensed accordingly. Prior to the acquisition in 2016, the Company has not experienced significant warranty claims and had not historically provided for any future warranty claims. Callenberg has experienced warranty claims, and the company has provided \$3,507,154 for future warranty claims at December 31, 2016, and the Company has provided for any future warranty claims in the amount of \$3,507,154 and \$0 as of December 31, 2016 and 2015, respectively.

Shipping and Handling Costs

Shipping and handling costs incurred by the Company are expensed as incurred. These costs are included in cost of revenues on the accompanying consolidated statements of comprehensive loss.

Foreign Currency Translation

The financial statements of most foreign subsidiaries are measured using the foreign currency as the functional currency. Assets and liabilities denominated in foreign currency have been translated into U.S. Dollars using the exchange rates in effect at the consolidated balance sheet dates. Equity accounts are translated at historical rates, except for the change in retained earnings during the year which is the result of the income statement translation process. Revenue and expense accounts are translated using the average exchange rate during the period. The cumulative translation adjustments associated with the net assets of foreign subsidiaries are recorded in accumulated other comprehensive loss in the accompanying consolidated statements of comprehensive loss.

Business Combinations.

The Company allocates the total purchase price of the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the business combination date, with the excess purchase price recorded as goodwill. The purchase price allocation process requires the Company to use significant estimates and assumptions, including fair value estimates, as of the business combination date. Although the Company believes the assumptions and estimates made are reasonable and appropriate, based in part on historical experience and information obtained from management of the acquired company, in part on valuation models that incorporate projections of expected future cash flows and operating plans, and they are inherently uncertain. Valuations are performed by management or third party valuation specialists under management's supervision. In determining the fair value of assets acquired and liabilities assumed in business

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combinations, as appropriate, we may use one of the following recognized valuation methods: the income approach (including discounted cash flows from relief from royalty and excess earnings model), the market approach and/or the replacement cost approach.

Examples of significant estimates used to value certain intangible assets acquired include but are not limited to:

- sales volume, pricing and future cash flows of the business overall;
- future expected cash flows from customer relationships, and other identifiable intangible assets, including future price levels, rates of increase in revenue and appropriate attrition rate;
- the acquired company's brand and competitive position, royalty rate quantum, as well as assumptions about the period of time the acquired brand will continue to benefit to the combined company's product portfolio; and
- cost of capital, risk-adjusted discount rates and income tax rates.

Different assumptions regarding projected performance and other factors associated with the acquired assets may affect the amount recorded under each type of assets and liabilities, mainly between property plant and equipment, intangibles assets, goodwill and deferred income tax liabilities and subsequent assessment could result in future impairment charges. The purchase price allocation process also entails us to refine these estimates over a measurement period not to exceed one year to reflect new information obtained surrounding facts and circumstances existing at the acquisition date.

New Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards update ("ASU") 2014-09, *Revenue from Contracts with Customers*, ("ASU 2014-09"). Previous revenue recognition guidance in U.S. generally accepted accounting principles comprised broad revenue recognition concepts together with numerous revenue requirements for particular industries or transactions, which sometimes resulted in different accounting for economically similar transactions. The core principle of the guidance is that an entity should recognize revenue to depict 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. To achieve this core principal, five steps are required to be applied. In addition, ASU 2014-09 expands and enhances disclosure requirements which require disclosing sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This includes both qualitative and quantitative information. The amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2017 for private companies, including interim periods within that reporting period. Early application is not permitted. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers* (Topic 606): *Deferral of the Effective Date*, ("ASU 2015-14"). The amendments in ASU 2015-14 delay the effective date of ASU 2014-09 by one year to annual reporting periods beginning after December 15, 2018 and allow early adoption as of the original public entity effective date. In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients*, which provides clarifying guidance in certain narrow areas and adds some practical expedients. The effective dates for these ASUs are the same as the effective date for ASU No. 2014-09. The Company is evaluating the effects of the adoption of these provisions on the consolidated financial statements.

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In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory* ("ASU 2015-11"), which applies to inventory valued at first-in, first-out (FIFO) or average cost. ASU 2015-11 requires inventory to be measured at the lower of cost and net realizable value, rather than at the lower of cost or market. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The Company is evaluating the effects of the adoption of this provision on the consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments* (Topic 805), which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. The new guidance requires that the cumulative impact of a measurement-period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified which eliminates the requirement to restate prior period financial statements. The ASU requires disclosure of the nature and amount of measurement-period adjustments as well as information with respect to the portion of the adjustments recorded in current-period earnings that would have been recorded in previous reporting periods if the adjustments to provisional amounts had been recognized as of the acquisition date. The Company is currently in the process of evaluating this new standard update and therefore, disclosures included within these consolidated financial statements have been updated to reflect the new disclosure requirements.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which amends ASC 740, Income Taxes. The amendments provide guidance on classification of deferred taxes. The amendment is effective for fiscal years beginning on or after December 15, 2017 and can be applied prospectively or retrospectively. Effective December 31, 2015, the Company has early adopted the new standards on a prospective basis, which has been reflected on the balance sheet at December 31, 2015.

In February 2016, the FASB issued ASU No. 2016-2, *Leases Subtopic 842*. This new standard amends the codification and creates Topic 842, Leases. The core principle of Topic 842 requires companies to recognize lease assets and lease liabilities by lessees for all operating leases. The pronouncement is effective for fiscal years beginning after December 15, 2019 and interim periods beginning the following year with early adoption being permitted. The new standard must be adopted using a modified retrospective transition, and the transition will require application of the new guidance at the beginning of the earliest comparative period presented. The Company is currently evaluating the impact of this new guidance on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting*. The amendments are intended to improve the accounting for employee share-based payments and affect all organizations that issue share-based payment awards to their employees. The ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2018. The Company is evaluating the impact of this new guidance on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*. The amendments provide guidance for eight specific cash flow issues and are intended to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU is effective retrospectively for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company has chosen to early adopt this ASU and therefore, disclosures included within these consolidated financial statements have been updated to reflect the new disclosure requirements.

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In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes: Intra-Entity Transfers of Assets Other than Inventory*. The amendments remove the prohibition against the recognition of current and deferred income tax effects of intra-entity transfers of assets other than inventory until the asset has been sold to an outside party. The ASU is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual periods beginning after December 15, 2019. The Company is evaluating the effects of the adoption of these provisions on the consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations: Clarifying the Definition of a Business*. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. The ASU is effective prospectively for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Company is evaluating the effects of the adoption of these provisions on the consolidated financial statements.

3. Acquisition

Callenberg Group AB

On October 3, 2016, Trident Callenberg Holdco Norway Limited, a wholly owned subsidiary of Trident Maritime Systems, LLC, acquired 100% of the issued and outstanding shares of Callenberg Group AB. The purchase price was \$48,745,241, of which \$32,245,241 was paid in cash, \$16,500,000 was seller financed by the Direct Parent on the Company's behalf, and \$6,230,000 was accrued as future contingent consideration payable. The purchase agreement also allowed for a working capital adjustment, which was finalized by the purchasers and sellers in March 2017. The purchase price also allows for additional purchase price payable to the seller, which is calculated based on earnings before interest, taxes, depreciation and amortization as defined in the acquisition agreement for years subsequent to the acquisitions. The acquisition date fair value of each class of consideration transferred is as follows:

Cash	\$ 32,245,241
Seller financing assumed by the Direct Parent	16,500,000
Contingent consideration for seller earnout agreement	6,230,000
	<u>\$ 54,975,241</u>

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The acquisition of Callenberg Group AB has been accounted for using the purchase method of accounting by allocating the cost of the acquisition to the assets acquired, including intangible assets, based upon their estimated fair values at the acquisition date. Accordingly, their results of operations have been included in the accompanying consolidated statements of comprehensive loss from the acquisition date. The estimated fair value of assets acquired and liabilities assumed at the acquisition date is as follows:

Cash and cash equivalents	\$ 7,231,844
Accounts receivable	16,599,095
Costs and estimated earnings in excess of billings on uncompleted contracts	28,027,103
Inventory	8,305,042
Intangible assets	22,600,000
Property and equipment	7,482,000
Other assets	3,677,872
Goodwill	13,068,959
Total assets acquired	106,991,915
Accounts payable and accrued expenses	22,359,215
Billings in excess of costs and estimated earnings on uncompleted contracts	27,701,849
Other non-current liabilities	1,955,610
Total liabilities assumed	52,016,674
Net assets acquired	\$ 54,975,241

The Company incurred \$5,006,829 of acquisition related costs.

4. Receivables, Net

Receivables are as follows at December 31, 2016 and 2015:

	2016	2015
Trade	\$ 70,656,652	\$ 27,533,559
Contingent consideration receivable	-	2,303,463
Other	367,635	1,054,516
Allowance for doubtful accounts	(788,353)	(668,285)
	\$ 70,235,934	\$ 30,223,253

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5. Contract Accounting Matters

Costs, estimated earnings, and billings on uncompleted contracts are as follows at December 31, 2016 and 2015:

	2016	2015
Costs incurred on uncompleted contracts	\$ 541,656,618	\$ 304,883,304
Estimated earnings	<u>168,133,841</u>	<u>109,358,986</u>
	709,790,459	414,242,290
Less: Billings to date	<u>695,574,913</u>	<u>392,700,434</u>
	<u>\$ 14,215,546</u>	<u>\$ 21,541,856</u>

The amounts above are included in the accompanying consolidated balance sheets under the following captions:

	2016	2015
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 69,351,721	\$ 33,005,027
Billings in excess of costs and estimated earnings on uncompleted contracts	<u>(55,136,175)</u>	<u>(11,463,171)</u>
	<u>\$ 14,215,546</u>	<u>\$ 21,541,856</u>

Generally accepted accounting principles provide criteria for updating revisions in contract estimates and contract profits; generally revisions are made in the reporting period when circumstances requiring the revision become known and extend through the period through which the consolidated financial statements are issued. In any given year, the Company has changes in contracts as well as changes in costs associated with the contracts.

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6. Property and Equipment, Net

Property and equipment, net consists of the following as of December 31, 2016 and 2015:

	2016	2015
Land	\$ 635,636	\$ 483,413
Buildings and improvements	5,867,884	4,451,993
Machinery and equipment	7,770,195	5,388,759
Tooling	302,362	41,286
Computer equipment	1,175,278	640,001
Computer software	2,392,477	1,042,113
Furniture and fixtures	1,801,674	1,033,700
Vehicles	2,148,584	1,532,457
Construction in progress	175,642	181,959
	<u>22,269,732</u>	<u>14,795,681</u>
Less: Accumulated depreciation	<u>(5,977,317)</u>	<u>(5,111,944)</u>
	<u>\$ 16,292,415</u>	<u>\$ 9,683,737</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$1,982,807 and \$1,333,865, respectively.

7. Intangible Assets, Net

Intangible assets, net, consist of the following as of December 31, 2016 and 2015:

	2016	2015
Amortizable intangible assets:		
Contract backlog	\$ 25,535,457	\$ 21,235,458
Customer relationships	43,510,425	34,210,425
Trade name	4,288,000	1,388,000
Non-compete agreements	1,504,000	1,504,000
Engineering libraries	1,143,000	1,143,000
Developed technology	6,100,000	-
	<u>82,080,882</u>	<u>59,480,883</u>
Less: Accumulated amortization	<u>(48,706,914)</u>	<u>(39,439,948)</u>
	<u>33,373,968</u>	<u>20,040,935</u>
Indefinite-lived intangible assets:		
Trade name	6,843,000	6,843,000
	<u>\$ 40,216,968</u>	<u>\$ 26,883,935</u>

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Amortization expense on intangible assets was \$9,266,966 and \$10,491,495, respectively, for the years ended December 31, 2016 and 2015. Amortization of intangible assets for years subsequent to December 31, 2016 is as follows:

2017	\$ 7,091,552
2018	6,257,797
2019	5,386,792
2020	1,746,614
2021	1,554,414
Thereafter	11,336,799
	<u>\$ 33,373,968</u>

8. Goodwill, Net

The changes in the carrying amounts of goodwill are as follows for the years ended December 31, 2016 and 2015:

	Gross Cost	Accumulated Amortization	Accumulated Impairment	Net Goodwill
Balances at December 31, 2014	\$ 48,162,895	\$ (7,811,989)	\$ (4,864,618)	\$ 35,486,288
Decrease in goodwill related to amortization	-	(4,316,097)	-	(4,316,097)
Balances at December 31, 2015	48,162,895	(12,128,086)	(4,864,618)	31,170,191
Increases in goodwill related to acquisitions, net of taxes	13,068,959	-	-	13,068,959
Decrease in goodwill related to amortization	-	(4,644,093)	-	(4,644,093)
Balances at December 31, 2016	<u>\$ 61,231,854</u>	<u>\$ (16,772,179)</u>	<u>\$ (4,864,618)</u>	<u>\$ 39,595,057</u>

Amortization expense on goodwill was \$4,644,093 and \$4,316,097, respectively, for the years ended December 31, 2016 and 2015. Amortization of goodwill for years subsequent to December 31, 2016 is as follows:

2017	\$ 5,623,025
2018	5,623,025
2019	5,623,025
2020	5,623,025
2021	5,623,025
Thereafter	11,479,932
	<u>\$ 39,595,057</u>

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9. Accrued Expenses

Accrued expenses consist of the following at December 31, 2016 and 2015:

	2016	2015
Accrued payroll and benefits	\$ 10,710,815	\$ 9,261,706
Contingent consideration for seller earnout agreement	6,230,000	-
Warranty claims	3,507,154	-
Accrued professional fees	324,795	-
Accrued accounts payable and other liabilities	16,559,991	2,474,235
	<u>\$ 37,332,755</u>	<u>\$ 11,735,941</u>

10. Long-term Debt

Long-term debt consists of the following at December 31, 2016 and 2015:

	2016	2015
Term loan	\$ 99,552,516	\$ 85,935,318
Revolving line of credit	-	-
Note payable	2,285,175	2,476,425
	<u>101,837,691</u>	<u>88,411,743</u>
Less: Current maturities	(3,444,669)	(5,858,215)
Long-term debt, net of current maturities	<u>\$ 98,393,022</u>	<u>\$ 82,553,528</u>

On October 3, 2016, US Joiner Holding, IMECO Holding and RAACI Holding Company (the "Borrowers") entered into an amended credit agreement ("Credit Agreement") with a syndicate of lenders with BNP Paribas as the issuing bank. Trident is the subsidiary guarantor. The amended Credit Agreement was used to fund the purchase of Callenberg Group AB. The amended Credit Agreement includes an additional term loan in the amount of \$16,800,000 to be added to the remaining balance on the original term loan of \$90,000,000, an increase to the revolving line of credit resulting in an increase of capacity to \$45,000,000, and allows letters of credit up to \$30,000,000. The revolving line of credit capacity is reduced by the letters of credit. The revolving line of credit and term loan mature on April 16, 2019 and 2020, respectively, and are collateralized by substantially all assets of the Borrowers. The interest rate on both the revolving line of credit and term loan is calculated as an alternate base rate, as defined in the Credit Agreement plus 5%, or the LIBOR rate plus 6%. Principal payments on the term loan are scheduled to be made quarterly in the amounts of \$254,840 with the remainder due on the maturity date. The Credit Agreement includes certain restrictive financial covenants including a net leverage ratio, interest coverage ratio, and limitations on capital expenditures.

The Credit Agreement also permits additional loans in the form of incremental term loans and incremental revolving commitments ("Incremental Loans") which allow additional loans up to an aggregate of \$15,000,000. The Incremental Loans would have the same maturity dates as the term loan and revolving line of credit outlined in the Credit Agreement and would be governed by the same rules as the Credit Agreement. To be able to draw the Incremental Loans, the Borrowers

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would be required to have a consolidated net leverage ratio, as defined in the Credit Agreement, of not greater than the lesser of 3.50 to 1 or the applicable consolidated net leverage ratio in accordance with current debt covenant requirements outlined in the Credit Agreement.

The Credit Agreement requires an unused revolver fee of 0.5% on the average unused portion calculated quarterly and paid in arrears and a letter of credit fee of 0.25% on the average unused capacity.

The term loan outstanding balance on the credit facility with BNP Paribas bank was \$99,552,517 and \$85,935,318 as of December 31, 2016 and 2015, respectively, net of unamortized discount of \$0 and \$2,489,682, respectively. There were no borrowings on the BNP revolving line of credit as of December 31, 2016 and 2015. The maximum capacity of the revolving line of credit was reduced by letters of credit of \$8,013,542 and \$441,267 as of December 31, 2016 and 2015. As of December 31, 2016 and 2015, the applicable margin was 6.00%, and the interest rate was 8.90%. The Company is in compliance with all financial covenants as of December 31, 2016 and 2015.

In conjunction with the acquisition of US Joiner and Turnbull on June 27, 2011, the Company assumed a note payable to a bank totaling \$3,330,938. The note payable obligation is ultimately to the Mississippi Business Finance Corporation and the trustee is Regions Bank. The terms of the note provide that the interest rate is set at the one month LIBOR rate plus 1.5% and the monthly payment is \$15,938. The note payable terminates in November 2028. The note payable is collateralized by land and a building in Pascagoula, Mississippi. As of December 31, 2016 and 2015, \$2,285,175 and \$2,476,425, respectively, were outstanding on the term loan. The interest rate was 1.7% at December 31, 2016 and 2015.

Aggregate maturities of debt for years subsequent to December 31, 2016 are as follows:

2017	\$ 3,444,669
2018	1,210,608
2019	1,210,608
2020	94,451,632
2021	191,250
Thereafter	1,328,924
	<u>101,837,691</u>
Less unamortized debt discount	-
	<u>\$ 101,837,691</u>

11. Income Taxes

The liability method under ASC 740, *Income Taxes*, is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates that will be in effect when the differences are expected to reverse.

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The components of the Company's deferred tax assets and liabilities as of December 31, 2016 and 2015 are as follows:

	2016	2015
Deferred tax assets		
Accounts receivable	\$ 36,964	\$ 253,234
Inventory	30,110	-
Accrued liabilities	244,548	532,833
Acquisition expenses	338,994	537,401
Goodwill	919,960	470,749
Amortization	9,350,101	9,353,224
Net operating losses	8,363,777	2,328,033
Foreign currency translation	48,945	-
Other	188,945	109,108
	<u>19,522,344</u>	<u>13,584,582</u>
Less: Valuation allowance	<u>(9,579,483)</u>	<u>(3,723,038)</u>
Total deferred tax assets	<u>9,942,861</u>	<u>9,861,544</u>
Deferred tax liabilities		
Depreciation	(1,278,070)	(902,974)
Inventory	-	(10,957)
Prepaid expenses	-	(92,950)
Goodwill	-	-
Total deferred tax liabilities	<u>(1,278,070)</u>	<u>(1,006,881)</u>
Net deferred tax assets	<u>\$ 8,664,791</u>	<u>\$ 8,854,663</u>

The components of the income tax (expense) benefit as of December 31, 2016 and 2015 are as follows:

	2016	2015
Total domestic current tax expense	\$ 1,919,699	\$ 2,989,616
Total foreign tax expense	2,119,771	-
Total domestic deferred tax benefit	<u>(998,747)</u>	<u>(1,094,793)</u>
Tax expense	<u>\$ 3,040,723</u>	<u>\$ 1,894,823</u>

The Company's effective tax rate differs from the US statutory federal income tax rate due to foreign rate differential for the Company's foreign operations, US state income taxes, permanent differences between financial and income tax reporting primarily relating to nondeductible expenses and intangibles, and the establishment and maintenance of valuation allowances for certain jurisdictions in which the Company files income tax returns.

The Company files income tax returns in multiple jurisdictions for its domestic and foreign operations. The Company has separate US tax return filings for RAACI Holding Company & Subsidiary, US Joiner Holding Company & Subsidiary, Baltec Holding Company, and IMECO Holding Company & Subsidiary, with numerous US state returns filed by these entities. The foreign subsidiaries of US Joiner Holding and Baltec Holding also file income tax returns in various foreign jurisdictions. Trident Callenberg Holdco UK Limited and its subsidiaries file income tax returns in

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multiple foreign jurisdictions. The wholly owned US Subsidiary of Callenberg Group AB, Callenberg, Inc., files a separate US and state income tax return.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment for each jurisdiction. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of the valuation allowances recorded. At December 31, 2016 and 2015, a valuation allowance of \$9,579,483 and \$3,723,038, respectively, was recorded.

The Company follows the provisions of ASC 740-10, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* ("ASC 740-10"). The Company is subject to examination by US federal, US state, and foreign tax authorities. The Company regularly assesses the outcomes of both ongoing and future examinations for the current or prior years to ensure the Company's provision for income taxes is sufficient. The Company recognizes liabilities based on estimates of whether additional taxes will be due and believes its reserves are adequate in relation to any potential assessments. The outcome of any one examination, some of which may conclude during the next 12 months, is not expected to have a material impact on the Company's financial position or results of operations. As of December 31, 2016 and 2015, the Company has no gross unrecognized tax benefits or associated accrued interest or penalties.

The Company has US federal, US state, and foreign net operating loss carryforwards of \$17,375,686, \$18,258,127, and \$6,687,313, respectively, at December 31, 2016, and \$3,503,506, \$3,425,376, and \$1,005,820, respectively, at December 31, 2015. The net operating loss carryforwards will begin to expire in 2030 for US Federal losses, 2028 for US state losses, and 2035 for foreign losses. The statute of limitations remains open for US federal income tax examinations for the 2010 - 2016 tax years, US state income tax examinations for the 2010-2016 tax years, and foreign examinations for various tax years depending upon the jurisdiction.

As of December 31, 2016 and December 31, 2015, the cumulative amount of undistributed earnings from the Company's foreign subsidiaries was approximately \$2,237,425 and \$1,104,800, respectively, of which \$659,136 and \$473,515, respectively, of cash and cash equivalents was held by foreign subsidiaries whose undistributed earnings are considered indefinitely reinvested. Our intention is to reinvest the cash and cash equivalents of the US Joiner Holding and Baltec Holding subsidiaries whose undistributed foreign earnings we have previously asserted as being indefinitely reinvested. We reassess our reinvestment assertions each reporting period and currently believe that we have sufficient other sources of liquidity to support our assertion that such undistributed earnings held by these foreign subsidiaries may be considered to be reinvested indefinitely. At December 31, 2016 and December 31, 2015, applicable U.S. federal income taxes and foreign withholding taxes have not been provided on the accumulated earnings of foreign subsidiaries of US Joiner Holding and Baltec Holding that are expected to be indefinitely reinvested. If these earnings had not been indefinitely reinvested, deferred taxes of approximately \$760,725 at December 31, 2016 and \$375,632 at December 31, 2015 would have been recognized in the Consolidated Financial Statements.

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The company intends to repatriate (and not indefinitely reinvest) future earnings from the subsidiaries of Trident Callenberg Holdco UK Limited. As of December 31, 2016, there are not any undistributed earnings for these entities for period following the Company's acquisition on October 3, 2016; accordingly, no deferred tax liabilities for the have been recognized in the Consolidated Financial Statements.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which amends ASC 740, *Income Taxes*. The amendments provide guidance on classification of deferred taxes. The amendment is effective for fiscal years beginning on or after December 15, 2017 and can be applied prospectively or retrospectively. Effective December 31, 2015, the Company early adopted the new standards on a prospective basis, which has been reflected on the balance sheet at December 31, 2015.

12. Leases

The Company leases office space, warehouse space, equipment and vehicles under noncancelable operating lease agreements with terms expiring at various dates through 2021. Rent expense for the years ended December 31, 2016 and 2015 was \$4,622,610 and \$3,584,300, respectively. Future minimum lease payments under operating and capital leases with an initial or remaining term in excess of one year are as follows:

	Lease Commitments
2017	\$ 5,605,710
2018	4,613,842
2019	3,392,023
2020	2,813,702
2021	1,655,159
Thereafter	<u>3,355,959</u>
	<u>\$ 21,436,395</u>

13. Employee Benefit Plan

The Company sponsors a 401(k) defined contribution retirement plan covering substantially all of its employees. The plan provides that eligible employees may contribute between 2% and 100% of their eligible earnings to the plan up to the maximum annual limit established by the Internal Revenue Service. The Company matches 50% of employee contributions up to 6% of compensation. Matching contributions were \$1,001,265 and \$938,766 for the years ended December 31, 2016 and 2015, respectively. The plan also provides for a discretionary profit sharing contribution; there was no profit sharing contribution for the years ended December 31, 2016 and 2015.

14. Concentrations

Approximately 27% and 31% of revenues for the years ended December 31, 2016 and 2015, respectively, were attributable to two customers. Approximately 34% and 30% of net receivables at December 31, 2016 and 2015, respectively, were attributable to these customers.

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15. Related Party Transactions

US Joiner LLC leases corporate office space from a company owned by a shareholder of JFL-USJ Partners, LLC. Rental expense incurred in conjunction with this arrangement totaled \$378,000 for the years ended December 31, 2016 and 2015, respectively. Future rental obligations for the corporate office are disclosed as part of the lease obligations in Note 12.

Tumbull LLC leases corporate office space from a Company owned by a shareholder of JFL-USJ Partners, LLC. Rental expense incurred in conjunction with this arrangement totaled \$195,412 for the years ended December 31, 2016 and 2015. Future rental obligations for the corporate office are disclosed as part of the lease obligations in Note 12.

Infinity Marine Offshore LLC leases corporate office space from a former owner and current member of management. Rental expense incurred in conjunction with this arrangement totaled \$87,223 and \$83,860 for the years ended December 31, 2016 and 2015, respectively. Future rental obligations for the corporate office are disclosed as part of the lease obligations in Note 12.

RAACI Holding Company leases corporate office space from a former owner and current member of management. Rental expense incurred in conjunction with this arrangement totaled \$126,000 for the years ended December 31, 2016 and 2015. Future rental obligations for the corporate office are disclosed as part of the lease obligations in Note 12.

Joiner Systems, Inc. leases corporate office space from former owners and current members of management. Rental expense incurred in conjunction with this arrangement totaled \$135,855 for the years ended December 31, 2016 and 2015. Future rental obligations for the corporate office are disclosed as part of the lease obligations in Note 12.

The Company and J.F. Lehman & Company, Inc. entered into a management agreement on June 27, 2011, where J.F. Lehman & Company, Inc. will provide strategic, organizational, business, technical and financial advisory services to the Company for \$150,000 per quarter. The Company and J.F. Lehman & Company, Inc. entered into a second management agreement on December 31, 2012 requiring the Company to pay J.F. Lehman & Company an additional \$100,000 per quarter. Management fees incurred during the years ended December 31, 2016 and 2015 were \$1,000,000 and are included in selling, general and administrative expenses in the accompanying statements of comprehensive loss.

16. Commitments and Contingencies

The Company is subject to claims arising out of the Company's normal operations. In the opinion of management, the ultimate outcome of such issues will not have a material adverse effect on financial position or results of operations.

17. Subsequent Events

Management has evaluated subsequent events through April 28, 2017, the date which the consolidated financial statements were available to be issued and noted the following event for disclosure:

On March 28, 2017 Trident Maritime Systems, LLC signed a letter of intent to lease as a going concern and subsequently purchase NewSystem S.r.l. located in Bergamo, Italy.