DEEP Industries Limited
Oil & Gas Exploration Production & Services

Report of the Audit Committee of Deep Industries Limited recommending the draft Scheme of Arrangement between Deep Industries Limited and Deep CH4 Private Limited and their respective shareholders and creditors in accordance with the provisions of section 230 to 232 read with section 66 and other applicable provisions of the Companies Act, 2013.

Members Present in Meeting Held on 26 May 2018:

Mr.Kirit Joshi	Chairman
Mr.Paras Savla	Member
Mr. Arun Mandke	Member

1. We have been informed that the Board of Directors of Deep Industries Limited ('the Company') is proposing to consider a Scheme of Arrangement in accordance with the provisions of section 230 to 232 read with section 66 and other applicable provisions of the Companies Act, 2013 and the rules and regulations made thereunder between Deep Industries Limited (referred to as "Deep" or "Demerged Company") and Deep CH4 Private Limited ("Deep CH4" or "Resulting Company") and their respective shareholders and creditors ('the Scheme'). The draft Scheme of Arrangement has been placed before the Audit Committee by the management for it to consider and recommend the said draft of the Scheme to the Board of Directors.

2. The Scheme inter-alia provides for the following:
   (i) Transfer and vesting of the Oil and Gas Services Undertaking from the Demerged Company into the Resulting Company and;
   (ii) Reduction and cancellation of the existing equity share capital of the Resulting Company

   The equity shares of the Company are listed on Bombay Stock Exchange ("BSE") and National Stock Exchange ("NSE"). In accordance with Regulation 37 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Company will be filing the Scheme along with other necessary information / documents with both the mentioned exchanges.

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3. The report of the Audit Committee is made in order to comply with the requirements of the circular CFD/DIL3/CIR/2017/21 dated 10th March, 2017, circular CFD/DIL3/CIR/2017/105 dated 21st September, 2017 and circular CFD/DIL3/CIR/2018/2 dated 3rd January, 2018 and any amendments thereof as issued by the Securities and Exchange Board of India.

4. A meeting of the Audit Committee of the Company was held on 26 May 2018 to consider and recommend to the Board of Directors of the Company the draft Scheme of Arrangement to be entered into between Deep Industries Limited and Deep CH4 Private Limited and their respective shareholders and creditors.

5. The Audit Committee has considered the following documents:

   (a) Draft Scheme of Arrangement between Deep Industries Limited and Deep CH4 Private Limited and their respective shareholders and creditors in accordance with the provisions of section 230 to 232 read with section 66 of the Companies Act, 2013
   (b) Certification obtained from the Statutory Auditors of the Demerged Company and of the Resulting Company confirming that accounting treatment in the Scheme is in confirmity with the applicable accounting treatment prescribed under section 133 of the Companies Act, 2013, and other generally accepted accounting principles in India,
   (c) Audited financial statements of the Demerged Company and the Resulting Company for the last 3 years.

6. Rationale of the Scheme

   i. Deep primarily operates in two business segments: (i) Oil and Gas Services Business comprising of air and natural gas compression services, gas dehydration, work over and drilling rig services; and (ii) oil and gas exploration and production. Each of the businesses carried on by Deep by itself and along with its subsidiaries including Oil and Gas Services Business have significant potential for growth and profitability. The nature of risk, competition, challenges, opportunities and business methods for Oil and Gas Services Business is separate and distinct oil and gas exploration and production business. The Oil and Gas Services Business and oil and gas exploration and production business of Deep are capable of attracting a different set of investors, strategic partners, lenders and other stakeholders. There are also differences in the manner in which Oil and Gas Services Business and oil and gas exploration and production business of Deep are required to be handled and managed. In order to lend greater/enhanced focus to the operation of the said businesses, it is proposed to re-organize the Oil and Gas Services Undertaking by way of demerger and transfer of the

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same from Deep to Deep CH4. The proposed demerger would result in segregation of Oil and Gas Services Undertaking into Resulting Company and housing of active exploration and production assets relating to oil and gas exploration and production business into Demerged Company.

ii. The proposed segregation would enable greater/enhanced focus of the management in the Oil and Gas Services business and Oil and Gas Exploration and Production business whereby facilitating the management to efficiently exploit opportunities for each of the said businesses.

iii. The management believes that the proposed demerger will result in unlocking the true value of Oil and Gas services business thereby creating enhanced value for shareholders and will also allow a focused strategy and specialization for sustained growth, which would be in the best interest of all the stakeholders connected with Deep.

iv. The proposed demerger will also provide scope for independent collaboration and expansion for each of the businesses as well as enable attracting investors and provide better flexibility in accessing capital for each of the businesses carried on by Deep.

In view of the aforesaid, the Board of Directors of both the Companies have considered and proposed the Scheme of Arrangement under the provisions of 230 to 232 read with section 66 of the Companies Act, 2013 and other applicable provisons of the Act.

7. Consideration of the Scheme

Purusant to the Scheme coming to effect and in consideration of the transfer and vesting of the Oil and Gas Services Undertaking into the Resulting Company, pursuant to the provisions of this Scheme, Resulting Company shall, without any further application, act, deed, consent, acts, instrument or deed, issue and allot, on a proportionate basis to each shareholder of Demerged Company, 1 (One) fully paid up equity share of face value of INR 10 (Indian Rupees Ten) each of Resulting Company for every 1 (One) equity share of the Demerged Company held by such shareholder whose name is recorded in the register of members and records of the depository as members of the Demerged Company as on the Record Date.

8. Further, the proposed Appointed Date is 1st April, 2017. Upon the Scheme becoming effective, the equity shares issued by the Resulting Company to the shareholders of the Demerged Company shall be listed on BSE and NSE (subject to trading permission being granted by the stock exchanges). Considering that the existing share capital of the Resulting Company amounting to Rs.6,60,000 shall be cancelled upon the Scheme becoming effective,

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post issuance of shares by the resulting Company to the shatreholders of the Demerged Company in the manner specified in paragraph 7 above, the Resulting Company shall have mirror shareholding pattern as that of the Demerged Company.

9. In light of the foregoing, the Audit Committee after due consideration of all the terms of the draft Scheme and the specific points mentioned above, recommends the draft Scheme of Arrangement for favourable consideration by the Board of Directors of the Company.

Date: 26 May 2018

Place: Ahmedabad

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Chairman