WELSPUN PIPES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2019 AND 2018

WITH

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

CONTENTS

Hudson Cisne & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Stockholders
Welspun Pipes, Inc. and Subsidiaries
Little Rock, Arkansas

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Welspun Pipes, Inc. and Subsidiaries, which are comprised of the consolidated balance sheets as of March 31, 2019 and 2018, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence supporting the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles 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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Welspun Pipes, Inc. and Subsidiaries as of March 31, 2019 and 2018, 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.

Hudson, Cisne & Co. LLP

Little Rock, Arkansas
May 7, 2019

WELSPUN PIPES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2019 AND 2018

ASSETS

	2019	2018
Current assets:		
Cash and cash equivalents	$ 69,096,940	$ 57,284,714
Certificate of deposit - restricted	2,610,587	1,179,490
Accounts receivable - trade, net of allowance	53,240,931	25,242,375
- related party	-	3,717,126
Income taxes refundable	-	3,128,334
Inventories	277,738,721	69,883,133
Prepaid expenses, advances and other	7,640,822	5,554,212
Other governmental receivable	1,199,051	-
Advances - related party	9,307,595	9,236,353
Total current assets	420,834,647	175,225,737
Note receivable - related party	15,000,000	15,000,000
Other assets	297,371	-
Net property, plant and equipment	108,846,769	121,957,914
	$ 544,978,787	$ 312,183,651

LIABILITIES AND STOCKHOLDERS' EQUITY

	2019	2018
Current liabilities:		
Current portion of long-term debt	$ 1,730,103	$ 1,670,625
Current portion of capital leases	497,502	-
Line of credit	-	1,808,720
Accounts payable - trade	79,862,849	46,342,969
- related party	-	383,333
Income taxes payable	3,005,572	2,104,395
Accrued interest payable	1,614,578	2
Accrued expenses	2,569,289	2,765,309
Deferred revenue	197,636,720	8,413
Total current liabilities	286,916,613	55,083,766
Deferred income taxes	15,205,987	15,771,079
Long-term debt, net of bond issuance costs, less current maturities	76,240,880	102,321,892
Capital leases, less current maturities	1,939,814	-
Stockholders' equity:		
Preferred stock - $.0001 par value, 0 and 47 shares authorized, issued and outstanding in 2019 and 2018	-	1
Common stock - $.0001 par value, 5,000 shares authorized, 1,000 shares issued and outstanding in 2019 and 2018	1	1
Additional paid in capital - preferred stock	-	8,570,265
Additional paid in capital - common stock	10,000	10,000
Retained earnings	164,665,492	130,426,647
Total stockholders' equity	164,675,493	139,006,914
	$ 544,978,787	$ 312,183,651

See accompanying notes.

WELSPUN PIPES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED MARCH 31, 2019 AND 2018

	2019	2018
Sales	$ 675,907,186	$ 511,128,297
Other revenue	2,227,529	-
Total operating revenue	678,134,715	511,128,297
Cost of goods sold	545,799,891	464,121,203
Gross profit	132,334,824	47,007,094
Selling, general and administrative expenses	71,529,742	48,995,961
Income (loss) from operations	60,805,082	(1,988,867)
Other income (expense):		
Interest income	844,930	762,246
Interest expense	(7,799,931)	(5,393,094)
Commission income	4,229	1,494,183
Government grant income	3,541,549	1,140,796
Other income	2,756,261	338,388
Total other income (expense)	(652,962)	(1,657,481)
Income (loss) before income taxes	60,152,120	(3,646,348)
Income tax expense (benefit)	14,483,541	(10,962,767)
Net income	$ 45,668,579	$ 7,316,419

See accompanying notes.

WELSPUN PIPES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED MARCH 31, 2019 AND 2018

	Preferred Stock	Common Stock	Additional Paid-in Capital Preferred Stock
Balance at April 1, 2017	$ 1	$ 1	$ 17,322,876
Redemption of preferred stock - 48 shares	-	-	(8,752,611)
Net income	-	-	-
Balance at March 31, 2018	1	1	8,570,265
Redemption of preferred stock - 47 shares	(1)	-	(8,570,265)
Net income	-	-	-
Balance at March 31, 2019	$ -	$ 1	$ -

See accompanying notes.

Additional Paid-in Capital Common Stock	Retained Earnings	Total
$ 10,000	$ 136,264,617	$ 153,597,495
	(13,154,389)	(21,907,000)
-	7,316,419	7,316,419
10,000	130,426,647	139,006,914
-	(11,429,734)	(20,000,000)
-	45,668,579	45,668,579
$ 10,000	$ 164,665,492	$ 164,675,493

WELSPUN PIPES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Net income	$ 45,668,579	$ 7,316,419
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	19,564,949	20,569,312
Amortization of bond issuance costs	649,090	391,789
(Gain) loss on sale of property and equipment	(8,113)	8,885
Changes in assets and liabilities:		
Accounts receivable - trade	(27,998,556)	83,944,647
- related party	3,717,126	(117,716)
Income taxes refundable	3,128,334	(3,128,334)
Inventories	(207,855,588)	1,990,528
Other governmental receivable	(1,199,051)	-
Prepaid expenses, advances and other	(2,086,610)	(5,272,924)
Advances - related party	(71,242)	(9,236,353)
Other assets	(297,371)	-
Accounts payable - trade	33,519,880	17,510,239
- related party	(383,333)	(84,189,928)
Income taxes payable	901,177	2,104,395
Accrued interest payable	1,614,576	(116,459)
Accrued expenses	(196,020)	(195,385)
Deferred revenue	197,628,307	-
Deferred income taxes	(565,092)	(9,725,802)
Net cash provided by operating activities	65,731,042	21,853,313
Cash flows from investing activities:		
Proceeds from the sale of equipment	113,891	281,830
(Purchases) proceeds of certificate of deposit	(1,431,097)	1,013,261
Purchases of property, plant and equipment	(3,941,676)	(620,215)
Net cash (used in) provided by investing activities	(5,258,882)	674,876
Cash flows from financing activities:		
Redemption of preferred stock - 47 shares in 2019, 48 shares in 2018	(20,000,000)	(21,907,000)
Net (repayments) borrowings on line of credit	(1,808,720)	2,260,350
Net repayments on capital leases	(180,590)	-
Long-term borrowings	-	49,750,000
Repayments of long-term borrowings	(26,670,624)	(1,609,205)
Net cash (used in) provided by financing activities	(48,659,934)	28,494,145
Net change in cash and restricted cash	11,812,226	51,022,334
Cash - beginning of year	57,284,714	6,262,380
Cash - end of year	$ 69,096,940	$ 57,284,714

See accompanying notes.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of significant accounting policies

Nature of operations

Welspun Pipes, Inc. ("WPI") and its wholly-owned subsidiaries (collectively, the "Company"), are organized and incorporated under the laws of the State of Delaware. WPI is a subsidiary of Welspun Corp Limited ("WCL" or the "Parent"), a limited liability company registered in India and listed on Indian Stock Exchanges, BSE and NSE. WPI was formed as a holding company and then formed two wholly-owned subsidiary companies, Welspun Tubular, LLC and Welspun Global Trade, LLC.

Welspun Tubular, LLC ("WTL") was formed to build a pipe manufacturing plant in Little Rock, Arkansas. The plant has a manufacturing capacity of 350,000 MT of pipes sized 24 - 60 inches in diameter and up to 1 inch in wall thickness. In addition to the pipe manufacturing plant, WTL also constructed a coating facility. The project was funded with $180 million of revenue bonds issued by the City of Little Rock, Arkansas and by financing from the Parent. In 2012, the Company constructed a small diameter, high frequency induction welded (HFIW) pipe plant in close proximity to the existing large diameter spiral plant. The HFIW plant began full commercial production by the end of March 2013. It has an annual capacity of 175,000 MT of pipes sized 6-20 inches in diameter and up to 0.6 inches in wall thickness.

Welspun Global Trade, LLC ("WGT") was formed to establish a marketing and sales presence in the United States. WGT is located in Houston, Texas.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates include (1) the lives and methods used in computing depreciation expense and amortization of bond issuance costs, (2) the valuation of deferred tax assets and liabilities which are based on temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and their tax bases and (3) allowance for uncollectible accounts receivable. It is at least reasonably possible that a change in these estimates will occur in the near future.

Principles of consolidation

The consolidated financial statements include the accounts of WPI and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

Accounts receivable

Accounts receivable are reported at the amount management expects to collect from outstanding balances. Management provides for uncollectible amounts through the establishment of a valuation allowance based on its assessments of individual accounts. Uncollectible accounts are written off through the valuation allowance. The Company's valuation allowance as of March 31, 2019 was $62,994. There was no valuation allowance as of March 31, 2018.

Accounts receivable from a variety of customers potentially subjects the Company to concentrations of credit risk since the Company generally does not require collateral from its customers. Such credit risk is considered by management to be limited due to the Company's customer base and its customers' financial resources. At March 31, 2019, approximately 88% of accounts receivable was due from two customers and at March 31, 2018 approximately 92% of accounts receivable was due from four customers.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of significant accounting policies (continued)

Inventories

Inventories consist of stores and spares, raw materials, work-in-process, and finished goods. Inventories are stated at the lower of cost (weighted average method) and net realizable value. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-down of inventories in the period in which such estimates have been changed.

Depreciation

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method. Estimated useful lives by major asset classification are as follows:

Description	Estimated useful life
Buildings and land improvements	15 - 39 years
Machinery and equipment	10 years
Furniture and fixtures	5 - 7 years
Vehicles	5 years
Computers and software	1 - 3 years
Yard equipment	10 years

Depreciation expense totaled $19,564,949 for 2019 and $20,569,312 for 2018.

Convertible Preferred Stock

On December 18, 2013 (the "Date of Issuance"), the Company issued 95 shares of Series A Convertible Preferred Stock, ("Convertible Shares") for $17,322,877. Upon conversion, the number of common shares received by the holders of the Convertible Shares depends on the length of time they held the Convertible Shares. If conversion took place prior to the first anniversary of the Date of Issuance, the conversion rate is 1.00, resulting in the issuance of 95 common shares. If conversion took place on or after the first anniversary but prior to the second anniversary, the conversion rate was 1.08421053, resulting in the issuance of 103 common shares. If conversion takes place on or after the second anniversary, the conversion rate is 1.16842105, resulting in the issuance of 111 common shares. The Company is required to reserve a minimum of 111 of its authorized but unissued common shares to satisfy the future conversion of these Convertible Shares.

Holders of the Convertible Shares are entitled to voting rights as if they were common shareholders, equal to number of common shares into which their shares are convertible based on the schedule above. Additionally, if the Company declares a dividend on its common shares, the Company must also simultaneously declare and pay a dividend on the Convertible Shares on a pro-rata basis with the common shares determined on an as-converted basis assuming all shares had been converted as of the date that is two years from the Date of Issuance. Therefore, for purposes of dividend participation rights, the convertible shares shall be deemed to equal ten percent (9.99%) of the fully diluted equity of the Company.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of significant accounting policies (continued)

Convertible Preferred Stock (continued)

In the event of any voluntary or involuntary dissolution or winding up of the Company (a "Liquidation"), the holders of the Convertible Shares shall be entitled to be paid out of the assets of the Company available for distribution to its stockholders, an amount in cash equal to the greater of (1) the Liquidation Value of all shares held by such stockholders or (2) 9.99% of the proceeds payable to the stockholders of the Corporation in such Liquidation. Liquidation Value with respect to each share of Convertible Stock, is the sum of (1) $331,578.95 plus (2) an internal rate of return of 5% calculated from December 18, 2013, through the date of determination, as adjusted for and taking into account any previous distributions on such Convertible Shares and stock splits, stock dividends, recapitalizations or similar transactions with respect to the Convertible Shares.

On December 22, 2016, the Company issued a Call Option Tranche 1 letter requiring the holders to sell the Company 48 Series A Convertible Preferred Stock held by the holders ("Call Shares Tranche 1"), on or prior to, May 5, 2017 ("Call Option Tranche 1 Date"), at an aggregate price of $21,240,000 including call option premium ("Call Option Tranche 1 Price"). The Call Option Tranche 1 was exercised and paid by the Company on May 12, 2017. The payment consisted of the $21,240,000 Call Option Tranche 1 Price, plus a mutually agreed upon additional premium of $667,000 for an extension of time from the original execution date of May 5, 2017 to May 12, 2017.

On December 22, 2016, the Company issued a Call Option Tranche 2 letter requiring the Holders to sell the Company 47 Series A Convertible Preferred Stock held by the Holders ("Call Shares Tranche 2"), on or prior to, May 5, 2018 ("Call Option Tranche 2 Date"), at an aggregate price of $20,000,000 including call option premium ("Call Option Tranche 2 Price"). The Call Option Tranche 2 may be exercised by the Company by issuing a written notice to the holders by April 30, 2018 ("Call Option Tranche 1 Notice"). The Parties agree that the Call Option Tranche 2 Notice once issued by the Company shall be irrevocable and binding on the Parties and the Company shall, on or prior to the Call Option Tranche 2 Date (i) obtain all corporate, regulatory and third party approvals, if any, required by it to buyback the Call Shares Tranche 2, and (ii) make payment of the Call Option Tranche Price, to the Investor Group, by cash payment of immediately available funds to the accounts notified by the holders to the Company, in writing, prior to the Call Option Tranche 2 Date.

On December 22, 2016, the Company issued a Call Option Tranche 2 letter requiring the Holders to sell the Company 47 Series A Convertible Preferred Stock held by the Holders ("Call Shares Tranche 2"), on or prior to, May 5, 2018 ("Call Option Tranche 2 Date"), at an aggregate price of $20,000,000 including call option premium ("Call Option Tranche 2 Price"). The Call Option Tranche 2 was exercised by the Company on May 4, 2018. Payment of the Call Option Tranche 2 Price was paid by the Company on May 4, 2018. The payment consisted of the $20,000,000 Call Option Tranche 2 Price. As of March 31, 2019, the Company has no outstanding Preferred Stock issued and outstanding.

Revenue recognition

Revenue from the sale of the Company's products is generally recognized as products are shipped or as title has passed to customers. The Company enters into multiple-element revenue arrangements, which may include a combination of goods and services. The Company generates revenue principally through the sale of pipes under contractual arrangements. Generally, the Company recognizes revenue when (1) it has a firm contract, (2) the product has been shipped to and accepted by the customer, (3) the sales price is fixed or determinable and (4) amounts are reasonably assured of collection. Revenue is recognized at the time of delivery of pipes based on the commercial terms. A sales return is accepted only when the pipe is defective and does not meet Customer's expectations.

Deferred revenue primarily represents amounts received from customers in advance for unshipped orders. Deferred revenue totaled $197,636,720 and $8,413 at March 31, 2019 and 2018, respectively.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of significant accounting policies (continued)

Pre-operation expenses

U.S. GAAP requires all expenses incurred prior to the start of operations to be expensed as incurred. However, interest costs incurred during a construction period is an example of an item that should be capitalized under existing U.S. GAAP. Accordingly, the Company expensed all other pre-operation expenses when incurred.

Sales taxes

Sales are reported net of taxes assessed by governmental authorities on revenue-producing transactions.

Shipping and handling costs

The Company's shipping and handling costs are included in selling, general and administrative expenses and totaled $44,973,041 for 2019 and $27,110,042 for 2018.

Advertising costs

Advertising costs are expensed when incurred and totaled $103,157 for 2019 and $29,646 for 2018.

Cash deposits in excess of insured limits

At various times during the years and at years end, the Company's deposits in Arkansas banks and international financial institutions exceeded federally insured limits. At March 31, 2019, the Company's uninsured cash balances totaled $68,787,004. However, the Company does not believe that it is subject to any unusual credit risk beyond the normal risk associated with commercial banking relationships.

Income taxes

The Company accounts for income taxes using an asset and liability approach. Deferred income tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial and income tax basis of assets and liabilities based on the tax law in effect at March 31, 2019 and 2018. The Company recognizes accrued interest and penalties associated with uncertain tax positions, if any, as part of their income tax provision. The previous three years of federal and state income tax returns are subject to potential examination by taxing authorities.

Statement of cash flows

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Cash payments for interest totaled $6,304,980 in 2019 and $5,151,448 in 2018. Cash payments for income tax totaled $11,997,886 in 2019. There were no cash payments for income taxes in 2018.

Certificates of deposit – restricted consists of amounts required to be deposited in a certificate of deposit, whose purpose is to serve as collateral for letters of credit issued with a financial institution. The certificates of deposits have maturity dates between six and twelve months.

Non-cash investing and financing transactions included financing of fixed asset equipment additions through capital lease obligations totaling $2,617,906 for 2019.

Non-cash investing and financing transactions included margin money designated for the letters of credit and vehicle financing totaling $1,533,529 for 2018.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of significant accounting policies (continued)

Reclassifications

Certain reclassifications have been made to the 2018 financial statements in order for them to conform with the 2019 presentation.

Subsequent events

Accounting standards establish general guidelines of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company has evaluated all subsequent events for potential recognition and disclosure through May 7, 2019, the date these financial statements were available to be issued.

Note 2: Inventories

Inventories are composed of the following at March 31:

	2019	2018
Raw materials	$ 85,631,081	$ 5,883,196
Work-in-process	3,198,025	163,139
Traded goods	-	4,004,866
Finished goods	47,008,320	10,644,628
Raw materials in transit	127,057,676	34,728,687
Stores and spares	14,843,619	14,458,617
	$ 277,738,721	$ 69,883,133

Note 3: Other governmental receivable

The Company currently has a financial incentive agreement in place with the Arkansas Economic Development Commission ("AEDC"). The agreement is a ten year agreement dated January 5, 2012 which was initiated in conjunction with the Company's expansion and building of their small diameter pipe manufacturing plant. The AEDC provides the Company with a cash incentive based on the amount of new full-time permanent employees. The grant is specifically for capital expansion. The amount listed as "Other governmental receivable" on the consolidated balance sheet represents the Company's accrual for AEDC incentive benefits related to fiscal year ended March 31, 2019. These benefits are expected to be received within the next fiscal year.

Note 4: Property, plant and equipment

The costs by major category of property, plant and equipment are as follows at March 31:

	2019	2018
Land	$ 4,781,981	$ 4,781,981
Land improvements	27,659,288	27,659,288
Buildings and improvements	63,528,556	62,866,137
Machinery and equipment	158,017,765	157,796,277
Furniture and fixtures	2,414,948	2,139,013
Vehicles	334,728	352,003
Capital work in process	946,830	350,972
Computers and software	705,323	695,037
Yard equipment	12,785,219	9,278,195
	271,174,638	265,918,903
Accumulated depreciation	(162,327,869)	(143,960,989)
Net property, plant and equipment	$ 108,846,769	$ 121,957,914

Note 5: Operating leases

During 2019, the Company had eleven operating leases for various equipment, copiers, and office space. The operating leases require monthly payments ranging from $212 to $18,086, maturing from March 2019 through June 2025.

Future minimum lease payments at March 31, 2019 are:

2020	$ 737,750
2021	183,201
2022	56,210
2023	57,699
2024	59,188
Thereafter	50,502
	$ 1,144,550

Rent expense totaled $2,991,513 for 2019 and $2,030,560 for 2018 and includes rent payments under operating leases, as well as other month to month equipment rentals.

Note 6: Available line of credit

The Company has a $50,000,000 line of credit agreement which allows for $50,000,000 in cash borrowings with an interest rate at 3.75% over the six month LIBOR rate (6.44% and 5.97% as of March 31, 2019 and 2018, respectively). The $50,000,000 line of credit includes $45,000,000 in letters of credit issuances and $5,000,000 in guarantees or standby letters of credit as sub-limits. The line of credit is subject to the borrowing base as defined in the borrowing agreement, matures in August 2019 and is secured by inventory and accounts receivable. At March 31, 2019 and 2018, the outstanding line of credit balance is $0 and $1,808,720, respectively.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Long-term debt – bonds payable

Long-term debt, excluding capital leases, consists of the following at March 31:

	2019	2018
EXIM Import Bank of India long-term working capital loan (A)	$ 28,135,000	$ 53,135,000
EXIM Import Bank of India loan, 2017 - ERW (B)	14,375,000	14,375,000
EXIM Import Bank of India loan, 2017 - HSAW (C)	11,250,000	11,250,000
City of Little Rock, Arkansas, Series 2015, revenue bonds (D)	3,806,780	5,468,864
EXIM Import Bank of India long-term preferred stock (E)	21,240,000	21,240,000
One Banc loan (F)	33,112	41,652
	78,839,892	105,510,516
Current maturities	(1,730,103)	(1,670,625)
Unamortized bond issuance costs	(868,909)	(1,517,999)
Long-term debt, net of bond issuance costs, less current maturities, excluding capital leases	$ 76,240,880	$ 102,321,892

(A) Note maturing on February 23, 2022. Interest accrues at 3.25% over the three-month LIBOR rate (5.87% and 5.27% as of March 31, 2019 and 2018), payable in four equal installments of $7,033,750, due every six months beginning August 31, 2020, secured by the Company's property, plant and equipment. The Company made a $25,000,000 prepayment on the working capital loan in the year ending March 31, 2019.

(B) Note maturing on February 23, 2022. Interest accrues at 3.25% over the three-month LIBOR rate (5.87% and 5.27% as of March 31, 2019 and 2018), payable in four equal installments of $3,593,750, due every six months beginning August 31, 2020, secured by the Company's property, plant and equipment.

(C) Note maturing on February 23, 2022. Interest accrues at 3.25% over the three-month LIBOR rate (5.87% and 5.27% as of March 31, 2019 and 2018), payable in four equal installments of $2,812,500, due every six months beginning August 31, 2020, secured by the Company's property, plant and equipment.

(D) City of Little Rock, Arkansas Taxable Industrial Development Refunding Revenue Bond, Series 2015, due through May 2021; payable $152,250 monthly, including interest, at 3.50%, secured by the Company's property, plant and equipment.

(E) Note maturing on February 23, 2022. Interest accrues at 3.25% over the three-month LIBOR rate (5.87% and 5.27% as of March 31, 2019 and 2018), payable in four equal installments of $5,310,000, due every six months beginning August 31, 2020, secured by the Company's property, plant and equipment.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Long-term debt (continued)

(F) 4.50% note payable to One Banc, secured by vehicle, $854 of principal and interest due monthly plus final payment equal to all unpaid principal and accrued interest on September 25, 2022.

Maturities of long-term debt, excluding capital leases, at March 31, 2019 are:

For the years ending in:	
2020	$ 1,730,103
2021	39,291,760
2022	37,812,974
2023	5,054
Unamortized bond issuance costs	(868,909)
	$ 77,970,982

The bank notes contain restrictive covenants including a minimum net worth requirement and a net earnings requirement. These covenants also include restrictions on borrowings from others and a restriction on prepayment of the subordinated debt. Under the note agreements, the Company has ninety days to recover from any noncompliance with covenants or restrictions that are not met.

The EXIM Import Bank of India long-term working capital loan, EXIM Import Bank of India loan, 2017 – ERW, the EXIM Import Bank of India loan, 2017 – HSAW, and the EXIM Import Bank of India loan long-term preferred stock are part of a loan agreement dated February 23, 2017 for $100,000,000 with the EXIM Import Bank of India. The issuance of this loan is in two different $50,000,000 issuances. On February 23, 2017, EXIM Bank of India issued the first issuance of $50,000,000 to the Company. On May 5, 2017, EXIM Bank of India issued the second issuance of $50,000,000 to the Company. As of March 31, 2019, $75,000,000 is outstanding related to this loan.

The long-term debt deferred issuance costs incurred in connection with the City of Little Rock, Arkansas Taxable Industrial Development Revenue Bonds (Welspun Tubular, LLC Project), Series 2015 totaled $162,861. The deferred long-term debt issuance costs are being amortized over five years to match the life of the related bonds in a method not materially different from the effective interest method. Amortization expense related to the Series 2015 bonds totaled $28,783 and $33,054 for the years ended March 31, 2019 and 2018, respectively. The gross carrying value of the long-term debt issuance costs related to these loans was $162,861 as of March 31, 2019 and 2018. The accumulated amortization related to these bonds with issuance costs was $78,677 and $49,894 as of March 31, 2019 and 2018, respectively.

The long-term debt issuance costs incurred in connection with the EXIM Bank of India long-term working capital loan, 2017 ERW loan, 2017 HSAW loan, and the Preferred Stock loan totaled $1,789,421 at March 31, 2019 and 2018. The deferred long-term debt issuance costs are being amortized over five years to match the life of the related bonds in a method not materially different from the effective interest method. Amortization expense related to these bond issuance costs totaled $620,307 and $358,732 as of March 31, 2019 and 2018, respectively. Included in amortization expense at March 31, 2019 is $261,575 of accelerated amortization expense related to the $25,000,000 prepayment of the EXIM Bank of India long-term working capital loan. The accumulated amortization related to these bond issuance costs was $1,004,696 and $384,389 as of March 31, 2019 and 2018, respectively.

Future amortization expenses are as follows at March 31, 2019:

2019	$ 302,730
2020	302,730
2021	263,449
	$ 868,909

Note 8: Capital lease obligations

The Company leases certain equipment under several capital lease agreements which have terms ranging from 24 to 60 monthly installments. Interest rates contained in the capital leases range from 3.77% to 5.91%.

Scheduled maturities of payments on capital lease obligations at March 31, 2019, are as follows:

For the years ending in:	
2020	$ 615,506
2021	609,091
2022	591,116
2023	584,628
2024	347,480
	2,747,821
Amount representing interest	(310,505)
Present value of future minimum lease payments	2,437,316
Current portion	(497,502)
Long-term portion	$ 1,939,814

The cost and related accumulated depreciation of assets under capital leases are included in net property, plant, and equipment at March 31, 2019 as follows:

Equipment	$ 2,617,906
Accumulated depreciation	(125,941)
	$ 2,491,965

Note 9: Income taxes

There are significant items such as depreciation expense and pre-operative costs that are computed differently for financial versus income tax reporting. Deferred income taxes are provided for on these items. The Company also has several income tax credits from the State of Arkansas. These credits are not included in deferred tax assets.

Income tax expense (benefit) consists of the following for the fiscal year ended March 31:

	2019	2018
Current income tax provision	$ 15,048,633	$ 1,891,369
Income tax refundable	-	(3,128,334)
Federal benefit - effect of tax rate change	-	(8,923,084)
Deferred benefit	(565,092)	(802,718)
	$ 14,483,541	$ (10,962,767)

The income tax expense (benefit) varies from the statutory U.S. tax rate primarily due to state income taxes, accelerated depreciation methods, the deduction for domestic production activities, utilization of net operating loss carrybacks and certain non-deductible items. On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was signed into law which lowered the federal corporate income tax rate to 21% starting in 2018. The effect of the rate change on the Company's deferred tax assets and liabilities as of March 31, 2018 was a net increase of the net deferred tax benefit of approximately $8,923,084 as reflected above.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Income taxes (continued)

Total net deferred tax liabilities as of March 31 are as follows:

	2019	2018
Deferred tax asset:		
Pre-Operative costs	$ 1,309,214	$ 1,600,419
Provisions for bad debt	86,073	-
Other benefits	548,061	501,155
Net operating loss	-	759,793
Deferred tax liability:		
Depreciation	(17,149,335)	(18,632,446)
Net deferred income tax liability	$ (15,205,987)	$ (15,771,079)

Note 10: Related party transactions

Accounts receivable - related party as of March 31, 2018 results from a credit note to WCL towards a settlement of a customer claim totaling $1,242,356, sale of machinery and travel reimbursement from WCL totaling $6,136, commissions income from Welspun Tradings Limited ("WTsL") totaling $2,326,334, and services performed for Welspun Global Brands Limited totaling $142,300.

On January 5, 2015, the Company entered into a loan agreement with a related party for an amount not to exceed $20,000,000. The agreement has been amended to be a demand deposit agreement in which the maturity is not later than ninety days from the execution date. The related party has borrowed $15,000,000 and is included as a note receivable – related party as of March 31, 2019 and 2018. Interest is due annually at a rate of 4.75% with the principal and all accrued interest due on demand beginning in July 2019. Interest received totaled $712,500 for 2019 and $720,416 for 2018.

At March 31, 2018, accounts payable - related party results from corporate guarantee of long-term debt. The outstanding payable balance at March 31, 2019 and 2018 was $0 and $383,333, respectively. Total material purchases from WCL were $435,363 during 2019 and $361,728 during 2018. Total raw material purchases from WTsL were $20,225,167 during 2019 and $186,642,129 during 2018.

The Company has remaining capital asset purchase commitments from WCL for $83,271 and $685,800 as of March 31, 2019 and 2018, respectively. The Company has purchase commitments from WTsL for $0 and $4,035,166 as of March 31, 2019 and 2018, respectively.

In 2019, the Company has related party sales of goods and services to WCL totaling $29,285. In 2019, the Company received reimbursements of expenses from WCL totaling $279,204. In 2018, the Company has related party sales of goods and services to WCL totaling $51,000. The Company received reimbursements of expenses from WCL totaling $134,483 during 2018.

In 2019, the Company had related party advances for prepayments of pipes for WCL totaling $9,139,140 and amounts due from Welspun USA, Inc. for travel expenses totaling $168,455. In 2018, the Company has related party advances to WCL for material supplies totaling $339,931 and to WTsL for raw materials totaling $8,896,422. The Company made payments for corporate guarantee fees to WCL related to long-term debt, totaling $1,533,332 and $1,416,666, during 2019 and 2018, respectively.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10: Related party transactions (continued)

In 2019, WGT received $4,229 sales commission income from WTsL in accordance with a sales agreement related to a large diameter pipe contract. In 2018, WGT received $1,494,183 sales commission income from WTsL in accordance with a sales agreement related to a large diameter pipe contract.

During 2019 and 2018, the Company conducted transactions with a local supplier whose owner is related to an officer and board member of the company. Payments for supplies to the affiliated entity totaled approximately $353,000 and $433,000 for the years ended March 31, 2019 and 2018, respectively. The Company also received services from a local vendor whose owner is related to an officer and board member of the Company. Payments for these services totaled $15,417 and $30,418 for the years ended March 31, 2019 and 2018, respectively.

Since 2007, the City of Little Rock, Arkansas, has issued $311,494,167 in industrial revenue bonds to fund the construction of the Company's manufacturing facilities. During 2015, the city of Little Rock, Arkansas issued an additional $10,000,000 in industrial revenue bonds and loaned the proceeds to the Company. Welspun Tubular, LLC is the borrower of the bond proceeds. Welspun Pipes, Inc. purchased $299,994,167 of these bonds using proceeds from loans obtained from WCL, EXIM Import Bank of India, Bank of India, State Bank of India, Standard Chartered Bank, and Bank of Baroda. As disclosed in Note 6, these loans are secured by the City of Little Rock bonds and some have been guaranteed by WCL. Substantially all the indebtedness and related investment associated with these bonds are eliminated in consolidation.

Note 11: Concentrations

As disclosed in Note 1, the Company's operations are focused on large projects relating to supplying steel pipes for the transportation of oil and gas. These projects generally span a period of several months, and sometimes several years. While the Company has multiple clients and projects, 71% and 55% of the revenues during 2019 and 2018, respectively, have been generated from three customers.

Note 12: Employee benefit plan

The Company has a 401(k) Retirement Savings Plan that covers substantially all employees after a 90-day service requirement. Participants may defer a portion of their salary and the Company may make discretionary matching contributions. In April 2018 the Plan Agreement was amended to change the employer matching contributions on employee contributions to 100% of employee deferrals up to 4%. These matching contributions vest 100% after one year of service. Total retirement plan contributions by the Company for 2019 and 2018 were $860,995 and $0, respectively.

Note 13: Fair value

Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. They also establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Following are the three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13: Fair value (continued)

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The Company's only financial asset, certificates of deposit – restricted, are measured as a Level 2 input and are reflected at their stated value, which approximates fair value. Fair value is based on amortized cost or original cost plus accrued interest. At March 31, 2019 and 2018, certificates of deposit – restricted reflected at its stated value totaled $2,610,587 and $1,179,490, respectively. The Company did not have any financial liabilities required to be reported at fair value at March 31, 2019 or 2018.

Note 14: Commitments

In 2013, the Company received a $4,500,000 grant from the City of Little Rock (the "City") to help fund the acquisition of new equipment used in the HFIW plant. The ultimate purpose of the grant is to create employment opportunities for Arkansas residents. Under the terms of the grant, the Company will be tested by the City through December 31, 2016 to determine if the job creation required by the grant has taken place. If the Company fails to meet the grant's employment thresholds at any testing date, they will be required to repay the City $22,500 for each unfilled position on that date, with the repayment not to exceed the original $4,500,000 grant received. As of March 31, 2019 and 2018, the Company has met the grant's employment thresholds.

In 2017, the Company obtained letters of credit with Bank of Baroda as collateral for raw material purchases. The letters of credit are approximately 2.5% to 5% of the raw material purchase value. As of March 31, 2019 and 2018, the Company has $0 and approximately $16,700,000 in letters of credit outstanding, respectively. The letters of credit are collateralized with restricted certificates of deposit (See Note 1) and will be refunded to the Company upon the maturity of the certificates of deposit.

Note 15: Subsequent events

On April 30, 2019, the Company made a $25,000,000 prepayment to the EXIM Bank of India long-term for the working capital loan.