WELSPUN PIPES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2017 AND 2016

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, 2017 and 2016, and the related consolidated statements of operations, 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, 2017 and 2016, and the results of their operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Hudson, Cisne & Co. LLP

April 21, 2017

WELSPUN PIPES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2017 AND 2016

ASSETS

	2017	2016
Current assets:		
Cash and cash equivalents	$ 21,262,380	$ 25,181,731
Restricted cash	-	539,652
Certificate of deposit - restricted	2,192,751	-
Accounts receivable - trade	109,187,022	94,568,978
- related party	3,599,410	9,949
Income taxes refundable	-	3,763,962
Inventories	71,873,661	77,881,457
Prepaid expenses, advances and other	1,769,024	2,973,615
Total current assets	209,884,248	204,919,344
Net property, plant and equipment	142,151,933	161,130,204
	$ 352,036,181	$ 366,049,548

LIABILITIES AND STOCKHOLDERS' EQUITY

	2017	2016
Current liabilities:		
Current portion of long-term debt	$ 1,604,997	$ 20,490,981
Line of credit	1,036,106	29,422,138
Accounts payable - trade	28,832,730	25,406,489
- related party	84,573,258	35,245,463
Note payable - related party	-	14,000,000
Accrued interest payable	116,461	190,169
Accrued expenses	2,960,694	1,688,096
Income taxes payable	-	856,043
Deferred revenue	8,413	2,793,607
Total current liabilities	119,132,659	130,092,986
Deferred income taxes	25,496,881	31,809,040
Long-term debt, net of bond issuance costs, less current maturities	53,809,146	38,432,263
Stockholders' equity:		
Preferred stock - $.0001 par value, 95 shares authorized, issued and outstanding	1	1
Common stock - $.0001 par value, 5,000 shares authorized, 1,000 shares issued and outstanding	1	1
Additional paid in capital - preferred stock	17,322,876	17,322,876
Additional paid in capital - common stock	10,000	10,000
Retained earnings	136,264,617	148,382,381
Total stockholders' equity	153,597,495	165,715,259
	$ 352,036,181	$ 366,049,548

See accompanying notes.

WELSPUN PIPES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED MARCH 31, 2017 AND 2016

	2017	2016
Sales	$ 315,471,328	$ 567,868,606
Cost of goods sold	298,574,761	426,819,197
Gross profit	16,896,567	141,049,409
Selling, general and administrative expenses	38,081,646	88,086,009
(Loss) income from operations	(21,185,079)	52,963,400
Other (expense) income:		
Interest income	735,676	753,190
Interest expense	(2,955,439)	(4,225,670)
Commission income	2,526,687	-
Other income	2,422,225	3,761,341
Total other income	2,729,149	288,861
(Loss) income before income taxes	(18,455,930)	53,252,261
Income (benefit) tax expense	(6,338,166)	18,280,130
Net (loss) income	$ (12,117,764)	$ 34,972,131

See accompanying notes.

WELSPUN PIPES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED MARCH 31, 2017 AND 2016

	Preferred Stock	Common Stock	Additional Paid-in Capital Preferred Stock
Balance at April 1, 2015	$ 1	$ 1	$ 17,322,876
Net income	-	-	-
Balance at March 31, 2016	1	1	17,322,876
Net loss	-	-	-
Balance at March 31, 2017	$ 1	$ 1	$ 17,322,876

See accompanying notes.

Additional Paid-in Capital Common Stock	Retained Earnings	Total
$ 10,000	$ 113,410,250	$ 130,743,128
-	34,972,131	34,972,131
10,000	148,382,381	165,715,259
-	(12,117,764)	(12,117,764)
$ 10,000	$ 136,264,617	$ 153,597,495

WELSPUN PIPES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Net (loss) income	$ (12,117,764)	$ 34,972,131
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	20,933,423	19,715,791
Changes in assets and liabilities:		
Accounts receivable - trade	(14,618,044)	(51,395,259)
- related party	(3,589,461)	231,840
- other	-	708,400
Income taxes refundable	3,763,962	148,364
Prepaid expenses, advances and other	1,204,591	152,734
Inventories	6,007,796	82,961,597
Accounts payable - trade	3,426,241	14,205,003
- related party	49,327,795	(122,851,008)
Accrued interest receivable - related party	-	148,438
Accrued interest payable	(73,708)	(47,807)
Income taxes payable	(856,043)	856,043
Accrued expenses	1,272,598	(79,086)
Deferred income taxes	(6,312,159)	954,324
Deferred revenue	(2,785,194)	(2,860,000)
Net cash provided by (used in) operating activities	45,584,033	(22,178,495)
Cash flows from investing activities:		
Proceeds from note receivable - related party	-	15,000,000
Purchase of certificate of deposit	(2,192,751)	-
Purchases of property, plant and equipment	(1,449,322)	(8,441,341)
Net cash (used in) provided by investing activities	(3,642,073)	6,558,659
Cash flows from financing activities:		
(Repayments) borrowings to related party	(14,000,000)	14,000,000
Net (repayments) borrowings on line of credit	(28,386,032)	29,385,523
Long-term borrowings	56,709,452	-
Repayments of long-term borrowings	(60,724,383)	(19,132,584)
Net cash (used in) provided by financing activities	(46,400,963)	24,252,939
Net change in cash and restricted cash	(4,459,003)	8,633,103
Cash and restricted cash - beginning of year	25,721,383	17,088,280
Cash and restricted cash - end of year	$ 21,262,380	$ 25,721,383
Reconciliation of cash and restricted cash to the consolidated balance sheets:		
Cash	$ 21,262,380	$ 25,181,731
Restricted cash	-	539,652
	$ 21,262,380	$ 25,721,383

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 intangibles (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) the estimated fair value of the interest rate swap with Standard Chartered Bank, which is based on third party quotes. 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. There was no valuation allowance as of March 31, 2017 and 2016. The 2016 research and development tax credits expected to be received were recorded in income taxes refundable on the balance sheet at March 31, 2016 and were received in 2017.

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 or market using the weighted average cost method. 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

Depreciation expense totaled $20,427,593 for 2017 and $19,513,458 for 2016.

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 takes 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 takes place on or after the first anniversary but prior to the second anniversary, the conversion rate is 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. As of March 31, 2017 the preferred stock has not been converted to common stock.

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 may be exercised by the Company by issuing a written notice to the holders by April 30, 2017 ("Call Option Tranche 1 Notice"). The Parties agree that the Call Option Tranche 1 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 1 Date (i) obtain all corporate, regulatory and third party approvals, if any, required by it to buyback the Call Shares Tranche 1, 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 1 Date.

On December 22, 2016, the Company issued a Call Option Tranche 2 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, 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.

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'

Deferred revenue primarily represents amounts received from customers in advance for unshipped orders. In 2012 and 2011, the Company also received approximately $9 million and $6.6 million, respectively, from a customer for the exclusive right to store that customer's inventory and use certain land improvements of the Company for five years. These payments are included in other income equally over the five year periods associated with the agreements, and totaled $310,000 and $2,860,000 in 2017 and 2016, 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 $17,136,248 for 2017 and $57,292,275 for 2016.

Advertising costs

Advertising costs are expensed when incurred and totaled $63,051 for 2017 and $220,062 for 2016.

Cash deposits in excess of insured limits

At various times during the year and at year end, the Company's deposits in Arkansas banks and international financial institutions exceeded federally insured limits. At March 31, 2017, the Company's uninsured cash balances totaled $5,835,415. 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 taxes are recorded to reflect the tax consequences on future years of temporary differences between the financial and income tax bases of assets and liabilities. 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 $3,029,147 in 2017 and $4,273,477 in 2016. Cash payments for income taxes totaled $0 in 2017 and $15,613,000 in 2016.

There is no restricted cash at March 31, 2017. At March 31, 2016, restricted cash consists of amounts required to be deposited in a debt service fund, whose purpose is funding future principal and interest payments on the City of Little Rock, Arkansas, Series 2007-A Revenue Bonds. See Note 6.

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.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of significant accounting policies (continued)

Derivative instruments

The Company holds and issues derivative financial instruments for the purpose of hedging the risks of certain identifiable and anticipated transactions. In general, the types of risks hedged are those relating to the variability of future earnings and cash flows caused by changes in interest rates. The Company documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. In hedging the transactions, the Company, in the normal course of business, holds interest rate swaps. The purpose of this derivative is to hedge the fair value of fixed-rate debt and cash flows of variable-rate financial assets.

The Company holds and issues such derivatives only for the purpose of hedging such risks, not for speculation. Generally, the Company enters into hedging relationships such that changes in the fair values or cash flows of items and transactions being hedged are expected to be offset by corresponding changes in the values of the derivatives. At March 31, 2017, there are no hedging relationships for converting floating rate long-term debt to fixed rate debt. At March 31, 2016, hedging relationships exist for converting floating rate long-term debt to fixed rate debt.

Recently adopted accounting standards

In April 2015, the FASB issued ASU 2015-03, *Interest-Imputation Subtopic 835-30: Simplifying the Presentation of Debt Issuance Costs.* Subtopic 835-30 requires a reporting entity to present debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the related debt liability. The ASU is effective for fiscal years beginning after December 15, 2015.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes 740: Simplifying the Balance Sheet Presentation of Deferred Income Taxes.* ASU 2015-17 requires that deferred income taxes presented in the balance sheet be presented as noncurrent. The ASU is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. Management has elected to adopt ASU 2015-17 early.

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 April 21, 2017, the date these financial statements were available to be issued.

Note 2: Inventories

Inventories are composed of the following at March 31:

	2017	2016
Raw materials	$ 9,432,234	$ 35,224,426
Work-in-process	918,768	6,010,927
Finished goods	46,426,770	16,401,390
Raw materials in transit	-	4,705,805
Stores and spares	15,095,889	15,538,909
	$ 71,873,661	$ 77,881,457

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Property, plant and equipment

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

	2017	2016
Land	$ 4,781,981	$ 4,781,981
Land improvements	27,592,316	27,592,316
Buildings and improvements	62,757,362	62,516,200
Machinery and equipment	158,208,946	157,093,951
Furniture and fixtures	2,139,013	1,975,618
Vehicles	306,210	312,710
Capital work in process	100,832	1,355,851
Computers and software	670,038	945,590
Yard equipment	9,582,992	9,683,141
	266,139,690	266,257,358
Accumulated depreciation	(123,987,757)	(105,127,154)
Net property, plant and equipment	$ 142,151,933	$ 161,130,204

Note 4: Operating leases

During 2016, the Company had thirteen operating leases for various equipment, copies, and office space. The operating leases require monthly payments ranging from $211 to $18,086, maturing from May 2017 through July 2021.

Future minimum lease payments at March 31, 2017 are:

2018	$ 815,821
2019	785,979
2020	665,199
2021	128,480
	$ 2,395,479

Rent expense totaled $798,589 for 2017 and $3,292,668 for 2016 and includes rent payments under operating leases, as well as other month to month equipment rentals.

Note 5: Available line of credit

During 2017, the Company renewed 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 (5.17% and 4.64% as of March 31, 2017 and 2016, 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 matures in February 2018 and is secured by inventory and accounts receivable. At March 31, 2017 and 2016, the outstanding line of credit balance is $1,036,106 and $29,422,138, respectively.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Long-term debt

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

	2017	2016
EXIM Import Bank of India long-term working capital loan (A)	$ 24,375,000	$ -
EXIM Import Bank of India loan, 2017 - ERW (B)	14,375,000	-
EXIM Import Bank of India loan, 2017 - HSAW (C)	11,250,000	-
City of Little Rock, Arkansas, Series 2015, revenue bonds (D)	7,073,858	-
City of Little Rock, Arkansas, Series 2007 - A, revenue bonds (E)	-	7,981,666
Standard Chartered Bank loan, 2012 - C (F)	-	20,535,714
Standard Chartered Bank loan, 2012 - D (G)	-	17,678,570
Bank of Baroda loan, 2012-A (H)	-	13,125,000
	57,073,858	59,320,950
Current maturities	(1,604,997)	(20,382,857)
Unamortized bond issuance costs	(1,659,715)	(505,830)
Long-term debt, net of bond issuance costs, less current maturities, excluding capital leases	$ 53,809,146	$ 38,432,263

(A) Note maturing on February 23, 2022. Interest accrues at 3.25% over the three-month LIBOR rate (4.40% as of March 31, 2017), payable in four equal installments of $6,093,750, due every six months beginning August 31, 2020, secured by the Company’s property, plant and equipment.

(B) Note maturing on February 23, 2022. Interest accrues at 3.25% over the three-month LIBOR rate (4.40% as of March 31, 2017), 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 (4.40% as of March 31, 2017), 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.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Long-term debt (continued)

(E) Bonds guaranteed by the Arkansas Development Finance Authority and the Arkansas Economic Development Commission are due through August 2027; payable $82,153 monthly, including interest, at 5.75%, secured by the Company's property, plant and equipment. These bonds were refinanced with the Series 2015 revenue bonds on June 28, 2016. The unamortized debt issuance costs became fully amortized due to the advanced redemption.

(F) Note maturing on August 24, 2018. Interest accrues at a fixed 4.61% and is subject to an interest rate swap agreement (See Note 7), payable in quarterly principal installments of $2,053,571, beginning May 2015. The note is secured by the Company's property, plant and equipment. This note was refinanced with the EXIM Import Bank of India long-term working capital loan and Series 2017 bonds. The unamortized debt issuance costs became fully amortized due to the advanced redemption.

(G) Note maturing on October 31, 2018. Interest accrues at 3.07% over the three-month LIBOR rate (3.70% as of March 31, 2016), payable in quarterly principal installments of $1,607,143, beginning July 2015. The note is secured by the Company's property, plant and equipment. This note was refinanced with the EXIM Import Bank of India long-term working capital loan and Series 2017 bonds. The unamortized debt issuance costs became fully amortized due to the advanced redemption.

(H) Note maturing on May 31, 2018. Interest accrues at 4.00% over the six month LIBOR rate (5.14% as of March 31, 2016), payable in semi-annual principal installments of $2,625,000. The note is secured by the property, plant and equipment of Welspun Tubular, LLC. This note was refinanced with the EXIM Import Bank of India long-term working capital loan and Series 2017 bonds. The unamortized debt issuance costs became fully amortized due to the advanced redemption.

Maturities of long-term debt, excluding capital leases, at March 31, 2017 are:

For the years ending in:	
2018	$ 1,604,997
2019	1,662,081
2020	1,721,197
2021	26,782,413
2022	25,303,170
Unamortized bond issuance costs	(1,659,715)
	$ 55,414,143

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.

In 2017, the Company retroactively adopted the requirement in FASB ASC 835-30 to present debt issuance costs as a reduction of the carrying amount of the debt rather than as an asset. Long-term debt as of March 31, 2016, was previously reported on the balance sheet as $59,429,074, with the associated $505,830 unamortized bond issuance costs included in other assets.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Long-term debt (continued)

The EXIM Import Bank of India long-term working capital loan, EXIM Import Bank of India loan, 2017 – ERW, and the EXIM Import Bank of India loan, 2017 – HSAW 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, the EXIM Bank of India issued $50,000,000 to the Company. As of March 31, 2017, $50,000,000 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 $162,791. 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 $16,840 for the year ended March 31, 2017. The gross carrying value of the long-term debt issuance costs related to these loans was $162,791 as of March 31, 2017. The accumulated amortization related to these bonds issuance costs was $16,840 as of March 31, 2017.

The long-term debt deferred issuance costs incurred in connection with the EXIM Bank of India long-term working capital loan, 2017-ERW loan, and the 2017-HSAW totaled $1,539,421. 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 $25,657 as of March 31, 2017. The gross carrying value of the long-term debt issuance costs related to these loans was $1,539,421 as of March 31, 2017. The accumulated amortization related to these bonds issuance costs was $25,657 as of March 31, 2017.

Amortization expense related to the Series 2007-A, the Standard Chartered Bank loan, 2012-C, and 2012-D was $505,830 for the year end March 31, 2017. The gross carrying value of the bond issuance costs related to these bonds was $0 and $1,213,996 as of March 31, 2017 and 2016, respectively. The accumulated amortization of the bond issuance costs related to these loans was $1,213,996 and $708,164 as of March 31, 2017 and 2016, respectively.

Future amortization expenses are as follows at March 31, 2017:

2018	$ 341,565
2019	341,565
2020	341,565
2021	341,565
2022	293,455
	$ 1,659,715

Note 7: Interest rate swap agreement

The Company has entered into an interest rate swap agreement with Standard Chartered Bank related to the $28,750,000 note agreement with the bank. The interest rate swap agreement is effective August 24, 2013 and will terminate on August 24, 2018. Based on the swap agreement, the Company pays a fixed rate of 4.61% and receives a floating rate based on LIBOR. The Company pays or receives the net interest amount quarterly, which is recorded in other income on the consolidated statements of operations. The $28,750,000 note agreement with standard Chartered Bank, in which the interest rate swap was associated with, was refinanced on February 23, 2017 and terminated (See Note 6).

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8: Capital lease obligations

The Company leases certain equipment under several capital lease agreements which have been included in long-term debt on the consolidated balance sheets. Interest rates contained in the leases range from 4.67% to 4.81%. The capital lease obligations matured during 2017.

Note 9: Income taxes

In 2017, the Company changed its presentation of deferred income taxes in accordance with Accounting Standards Update 2015-17 *Simplifying the Balance Sheet Presentation of Deferred Income Taxes.* ASU 2015-17 requires that deferred income taxes be presented as noncurrent. In accordance with FASB ASC 740, tax liabilities and assets attributable to different tax paying components of the Company or to different tax jurisdictions will not be offset. This change has been applied retrospectively. Current and noncurrent deferred income taxes as of March 31, 2016, were previously reported on the balance sheet as $2,347,096 and $29,461,944, respectively.

There are significant items such as depreciation expense 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 benefit (expense) consists of the following for the fiscal year ended March 31:

	2017	2016
Current (benefit) provision	$ -	$ 17,325,806
Deferred (benefit) provision	(6,338,166)	954,324
	$ (6,338,166)	$ 18,280,130

Income tax expense varies from the statutory U.S. corporate income tax rate primarily due to the deduction for domestic production activities, state income taxes, utilization of net operating loss carrybacks and non-deductible expenses.

Total gross deferred tax assets and gross deferred tax (liabilities) as of March 31are as follows:

	2017	2016
Gross deferred tax assets	$ 7,975,872	$ 5,453,481
Gross deferred tax (liabilities)	(33,472,753)	(37,262,521)
	$ (25,496,881)	$ (31,809,040)

Note 10: Related party transactions

The accounts receivable - related party as of March 31, 2017 and 2016 results from charges for transportation costs and coating of pipes for WCL or its subsidiaries.

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. As of March 31, 2017, the related party has borrowed $15,000,000 and is included in cash and cash equivalents. Interest is due annually at a rate of 4.75% with the principal and all accrued interest due on demand beginning in July 2017. Interest received during 2017 totaled $718,437.

Note 10: Related party transactions (continued)

On October 15, 2015, the Company entered into a short term, unsecured, note payable with a related party for borrowings up to $20,000,000, payable on demand, maturing on October 15, 2016. Interest is due annually at a rate of 4.25% with the principal and all accrued interest due on demand beginning in April 2016. This short term, unsecured, note payable was repaid in June 2016. Interest expense during 2017 totaled $99,750.

Accounts payable - related party results from raw material purchases from WCL and Welspun Tradings Limited (WTsL). The outstanding payable balance resulting from the raw material purchases at March 31, 2017 and 2016 was $84,573,260 and $35,245,464, respectively. Total raw material purchases from WCL were $34,777,765 during 2017 and $85,800,603 during 2016. Total raw material purchases from WTsL were $147,976,186 during 2017. There were no raw material purchases from WTsL during 2016.

The Company had remaining inventory purchase commitments from WCL for $30,343 and $109,350 as of March 31, 2017 and 2016, respectively, and purchase commitments from WTsL for $231,466,071 and $0 as of March 31, 2017 and 2016, respectively.

In 2017, the Company has related party sales of goods and services to WCL totaling $8,171. The Company received reimbursements of expenses from WCL totaling $268,825. The paid reimbursements of expenses to Welspun Global Brands Limited (WGBL) totaled $12,420. The Company purchased machinery from WCL totaling $218,605.

In 2017, WGT received $2,526,687 sales commission income from WTsL in accordance with a sales agreement related to a large diameter pipe contract.

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, 80% of the revenues during 2017 have been generated from four customers, and 83% of the revenues during 2016 were generated from two 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. During the plan year ended December 31, 2016 the Company contributed a 100% match of employee deferrals up to 4% of the participants salary through June 2016. In July 2016 the Plan Agreement was amended to change the employer matching contributions on employee contributions to 0%. During the plan year ended December 31, 2015, the Company contributed a 100% match of employee deferrals up to 4% of the participants salary. These matching contributions vest 100% after one year of service. Total retirement plan contributions by the Company for 2017 and 2016 were $220,138 and $926,539, respectively.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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, 2017 and 2016, certificates of deposit – restricted reflected at its stated value totaled $2,192,751 and $0, respectively. The Company did not have any financial liabilities required to be reported at fair value at March 31, 2017 or 2016.

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, 2017 and 2016, the Company has met the grant's employment thresholds.

In 2017, the Company obtained six 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, 2017, the Company has approximately $2,200,000 in letters of credit outstanding. 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.