WELSPUN PIPES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2015 AND 2014

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, 2015 and 2014, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended, along with 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 of material misstatement.

An audit includes examining, on a test basis, 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.

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, 2015 and 2014, 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 23, 2015

audit
consulting
tax

WELSPUN PIPES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2015 AND 2014

ASSETS

	2015	2014
Current assets:		
Cash and cash equivalents	$ 16,563,134	$ 918,456
Restricted cash	525,146	514,590
Accounts receivable - trade	43,173,719	26,414,682
- related party	241,789	5,244,030
- other	708,400	-
Accrued interest receivable - related party	148,438	-
Income taxes refundable	3,912,326	-
Inventories	160,843,054	110,774,472
Deferred income taxes	3,119,898	-
Prepaid expenses, advances and other	3,126,349	3,234,396
Total current assets	232,362,253	147,100,626
Long-term note receivable - related party	15,000,000	-
Net property, plant and equipment	172,202,321	184,656,723
Other assets	708,163	910,497
	$ 420,272,737	$ 332,667,846

LIABILITIES AND STOCKHOLDERS' EQUITY

	2015	2014
Current liabilities:		
Current portion of long-term debt	$ 19,131,470	$ 9,938,086
Line of credit	36,615	2,601,214
Accounts payable - trade	11,201,486	27,031,917
- related party	158,096,471	9,705,251
Notes payable - related party	-	5,000,000
Accrued interest payable	237,976	990,004
Income taxes payable	-	616,887
Accrued expenses	1,767,182	3,641,427
Deferred income taxes	-	21,827
Current portion of deferred revenue	5,328,607	20,498,058
Total current liabilities	195,799,807	80,044,671
Deferred income taxes	33,974,614	32,980,351
Deferred revenue	325,000	3,168,333
Long-term debt	59,430,188	78,562,632
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	113,410,250	120,578,981
Total stockholders' equity	130,743,128	137,911,859
	$ 420,272,737	$ 332,667,846

See accompanying notes.

WELSPUN PIPES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED MARCH 31, 2015 AND 2014

	2015	2014
Sales	$ 335,859,203	$ 356,842,806
Cost of goods sold	307,071,047	285,879,907
Gross profit	28,788,156	70,962,899
Selling, general and administrative expenses	46,043,915	54,251,623
(Loss) income from operations	(17,255,759)	16,711,276
Other (expense) income:		
Interest income	150,654	9,821
Interest expense	(4,583,059)	(4,736,306)
Other income	8,436,479	4,543,877
Total other income (expense)	4,004,074	(182,608)
(Loss) income before income taxes	(13,251,685)	16,528,668
Income tax (benefit) expense	(6,082,954)	6,590,457
Net (loss) income	$ (7,168,731)	$ 9,938,211

See accompanying notes.

WELSPUN PIPES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED MARCH 31, 2015 AND 2014

	Preferred Stock	Additional Paid-in Capital Preferred Stock	Retained Earnings
Balance at April 1, 2013	$ -	$ -	$ 110,640,770
Issuance of preferred stock	1	17,322,876	-
Net income	-	-	9,938,211
Balance at March 31, 2014	1	17,322,876	120,578,981
Net loss	-	-	(7,168,731)
Balance at March 31, 2015	$ 1	$ 17,322,876	$ 113,410,250

See accompanying notes.

WELSPUN PIPES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2015 AND 2014

	2015	2014
Cash flows from operating activities:		
Net (loss) income	$ (7,168,731)	$ 9,938,211
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	19,706,837	18,977,075
Changes in assets and liabilities:		
Accounts receivable - trade	(16,759,037)	26,057,756
- related party	5,002,241	2,592,131
- other	(708,400)	-
Income taxes refundable	(3,912,326)	4,625,443
Prepaid expenses, advances and other	108,047	15,359,720
Inventories	(50,068,582)	(23,321,568)
Accounts payable - trade	(15,830,431)	4,728,761
- related party	148,391,220	(2,510,059)
Accrued interest receivable - related party	(148,438)	-
Accrued interest payable	(752,028)	(158,375)
Income taxes payable	(616,887)	616,887
Accrued expenses	(1,874,245)	291,144
Deferred income taxes	(2,147,462)	1,959,266
Deferred revenue	(18,012,784)	(78,920,108)
Net cash provided by (used in) operating activities	55,208,994	(19,763,716)
Cash flows from investing activities:		
Proceeds from the sale of equipment	-	120,000
Increase in note receivable - related party	(15,000,000)	-
Purchases of property, plant and equipment	(7,050,101)	(6,597,944)
Net cash used in investing activities	(22,050,101)	(6,477,944)
Cash flows from financing activities:		
Proceeds from issuing preferred stock	-	17,322,877
Accrued dividends paid on preferred stock	-	(4,059,616)
Repayments to related party	(5,000,000)	-
Net (repayments) borrowings on line of credit	(2,564,599)	2,601,214
Repayments of long-term borrowings	(9,939,060)	(9,179,719)
Net cash (used in) provided by financing activities	(17,503,659)	6,684,756
Net change in cash and restricted cash	15,655,234	(19,556,904)
Cash and restricted cash - beginning of year	1,433,046	20,989,950
Cash and restricted cash - end of year	$ 17,088,280	$ 1,433,046
Reconciliation of cash and restricted cash to the consolidated balance sheets:		
Cash	$ 16,563,134	$ 918,456
Restricted cash	525,146	514,590
	$ 17,088,280	$ 1,433,046

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 (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, 2015 and 2014. Accounts receivable - other at March 31, 2015 represents research and development tax credits expected to be received during the next fiscal year.

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.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of significant accounting policies (continued)

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 $19,504,503 for 2015 and $18,774,742 for 2014.

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.

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.

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.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of significant accounting policies (continued)

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.

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 $3,150,000 in 2015 and 2014.

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 and bond issuance costs are two examples of items 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 $20,940,394 for 2015 and $27,080,627 for 2014.

Advertising costs

Advertising costs are expensed when incurred and totaled $223,895 for 2015 and $68,986 for 2014.

Concentration of credit risk

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, 2015, the Company's uninsured cash balances totaled $11,461,459. 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 Company's 2013 federal income tax return is currently under examination. At March 31, 2015, the 2014 and 2012 federal and state income tax returns are subject to potential examination by taxing authorities.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of significant accounting policies (continued)

Other assets

Other assets are made up of bond issuance costs of $1,213,996 that are being amortized over the lives of the related debt using the straight-line method, which approximates the effective yield method. Accumulated amortization totaled $505,832 at March 31, 2015 and $303,499 at March 31, 2014.

Estimated future annual amortization expense at March 31, 2015 is as follows:

2016	$ 202,332
2017	202,332
2018	202,332
2019	101,168
	$ 708,164

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 $5,335,087 in 2015 and $4,894,681 in 2014. There were no cash payments for income taxes in 2015. Cash payments for income taxes totaled $3,880,000 in 2014.

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.

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, 2015 and 2014, hedging relationships exist for converting floating rate long-term debt to fixed rate debt.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements in order for them to conform with the 2015 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 April 23, 2015, the date these financial statements were available to be issued.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Inventories

Inventories are composed of the following at March 31:

	2015	2014
Raw materials	$ 62,909,449	$ 35,587,999
Work-in-process	16,446,106	15,279,661
Finished goods	11,223,446	30,331,288
Raw materials in transit	56,530,826	17,703,543
Stores and spares	13,733,227	11,871,981
	$ 160,843,054	$ 110,774,472

Note 3: Property, plant and equipment

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

	2015	2014
Land	$ 4,781,981	$ 4,781,981
Land improvements	25,004,412	25,004,412
Buildings and improvements	61,866,757	61,791,710
Machinery and equipment	147,386,378	145,966,836
Furniture and fixtures	1,559,813	1,474,967
Vehicles	263,829	263,829
Capital work in process	6,967,302	2,266,743
Computers and software	901,286	873,517
Yard equipment	9,085,173	8,342,833
	257,816,931	250,766,828
Accumulated depreciation	(85,614,610)	(66,110,105)
Net property, plant and equipment	$ 172,202,321	$ 184,656,723

Note 4: Operating leases

In December 2014, the Company entered into two operating leases for equipment which require monthly payments ranging from $5,146 to $5,805 through December 2019.

In June 2010, the Company entered into an operating lease for office space in Houston, Texas. The lease has a term of seven years and calls for monthly payments starting at $4,715 and increasing every 12 months. The monthly payments range from $4,715 to $5,460 through May 2017.

Future minimum lease payments at March 31, 2015 are:

2016	$ 195,187
2017	196,677
2018	142,328
2019	131,409
2020	131,409
	$ 797,010

Rent expense totaled $1,616,333 for 2015 and $2,905,080 for 2014 and includes rent payments under operating leases, as well as other month to month equipment rentals.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Available line of credit

During 2013, the Company entered into a $50,000,000 line of credit agreement which allows for $35,000,000 in cash borrowings with an interest rate at 4.00% over the six month LIBOR rate (4.38% and 4.33% as of March 31, 2015 and 2014, respectively), $10,000,000 in letters of credit issuances and $5,000,000 in guarantees or standby letters of credit. The line of credit matures in September 2015 and is secured by inventory and accounts receivable. At March 31, 2015 and 2014, the outstanding line of credit balance is $36,615 and $2,601,214, respectively.

Note 6: Long-term debt

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

	2015	2014
City of Little Rock, Arkansas, Series 2007 - A, revenue bonds (A)	$ 8,443,333	$ 8,880,000
Bank of India loan, 2007-C (B)	-	1,885,000
State Bank of India loan, 2007-C (C)	-	2,000,000
Standard Chartered Bank loan, 2012 - C (D)	28,750,000	28,750,000
Standard Chartered Bank loan, 2012 - D (E)	22,500,000	22,500,000
Bank of Baroda loan, 2012-A (F)	18,375,000	23,625,000
	78,068,333	87,640,000
Current maturities	(18,747,382)	(9,571,667)
Long-term debt, excluding capital leases	$ 59,320,951	$ 78,068,333

(A) 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.

(B) Note paid in full on December 31, 2014 with a principal installment of $1,885,000. Interest was 2.00% over the one-year LIBOR rate (2.55% as of March 31, 2014).

(C) Note paid in full June 30, 2014 with a principal installment of $2,000,000. Interest was 2.25% over the six-month LIBOR rate (2.58% as of March 31, 2014).

(D) 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.

(E) Note maturing on October 31, 2018. Interest accrues at 3.07% over the three-month LIBOR rate (3.33% and 3.30% as of March 31, 2015 and 2014, respectively), payable in quarterly principal installments of $1,607,143, beginning July 2015. The note is secured by the Company's property, plant and equipment.

(F) Note maturing on May 31, 2018. Interest accrues at 4.00% over the six month LIBOR rate (4.63% and 4.33% as of March 31, 2015 and 2014, respectively), payable in semi-annual principal installments of $2,625,000. The note is secured by the property, plant and equipment of Welspun Tubular, LLC.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Long-term debt (continued)

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.

Maturities of long-term debt, excluding capital leases, at March 31, 2015 are:

For the years ending in:

2016	$ 18,747,382
2017	20,382,857
2018	20,412,857
2019	12,103,571
2020	583,333
Thereafter	5,838,333
	$ 78,068,333

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.

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%. Required monthly lease payments, including interest, total approximately $30,000 through August of 2016.

Following are the future minimum lease payments under capital lease obligations at March 31, 2015:

For the years ending in:

2016	$ 400,121
2017	109,390
	509,511
Amount representing interest	(16,186)
Present value of future minimum lease payments	493,325
Current portion	(384,088)
Long-term portion	$ 109,237

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8: Capital lease obligations (continued)

The cost and related accumulated depreciation of assets under capital leases are included in net property, plant, and equipment at March 31, 2015 as follows:

Equipment	$ 1,118,770
Accumulated depreciation	(186,768)
	$ 932,002

Note 9: Income taxes

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:

	2015	2014
Current (benefit) provision	$ (3,912,326)	$ 4,631,191
Deferred (benefit) provision	(2,170,628)	1,959,266
	$ (6,082,954)	$ 6,590,457

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 31, 2015 are as follows:

	Current	Noncurrent
Gross deferred tax assets	$ 4,404,372	$ 3,428,962
Gross deferred tax (liabilities)	(1,284,474)	(37,403,576)
	$ 3,119,898	$ (33,974,614)

Total gross deferred tax assets and gross deferred tax (liabilities) as of March 31, 2014 are as follows:

	Current	Noncurrent
Gross deferred tax assets	$ 2,198,857	$ 5,048,400
Gross deferred tax (liabilities)	(2,220,684)	(38,028,751)
	$ (21,827)	$ (32,980,351)

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10: Related party transactions

The accounts receivable - related party as of March 31, 2015 and 2014 results from charges for transportation costs and coating of pipes for WCL or its subsidiaries.

At March 31, 2014 the Company had advance payments to WCL for the purchase of steel that is contained in prepaid expenses, advances and other assets of approximately $2,050,000.

On January 5, 2015, the Company entered into a loan agreement with a related party for an amount not to exceed $20,000,000. As of March 31, 2015, the related party has borrowed $15,000,000. Interest is due annually at a rate of 4.75% with the principal and all accrued interest due on demand beginning in July 2015. On March 26, 2015, the Company also entered into a short term demand deposit loan agreement with a related party for borrowings of up to $20,000,000 and interest of 1% payable quarterly. As of March 31, 2015, included in cash and cash equivalents is $5,000,000 in short term demand deposit advances, maturing June 30, 2015.

Accounts payable - related party results from raw material purchases from WCL. Total raw material purchases from WCL were $162,743,235 during 2015 and $82,193,538 during 2014.

The Company had remaining inventory purchase commitments from WCL for $60,312 and $31,015 as of March 31, 2015 and 2014.

The Company paid $27,312 in 2015 and $108,188 in 2014 to WCL for guarantee fees relating to long-term debt. The amounts were included as interest expense.

On February 15, 2013, the Company borrowed $5,000,000 from WCL with interest at 6%. Principal and interest are payable on demand by WCL or on May 15, 2015. During 2015, the balance due was paid in full.

Since 2007, the City of Little Rock, Arkansas, has issued $277,500,000 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 $266,000,000 of these bonds using proceeds from loans obtained from WCL, EXIM Bank, 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, 50% of the revenues during 2015 have been generated from four customers, and 83% of the revenues during 2014 were generated from three customers.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 years ended December 31, 2015 and 2014, the Company contributed a 100% match of employee deferrals up to 4% of the participant's salary. These matching contributions vest 20% after two years of service and 20% for each additional year of service and are fully vested after six years of service. Total retirement plan contributions by the Company for 2015 and 2014 were $753,075 and $610,652, respectively.

Note 13: 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, 2015 and 2014, the Company has met the grant's employment thresholds.