

Consolidated Financial Statements and Report of Independent Certified Public Accountants

KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES

March 31, 2018 and 2017

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Karnavati Holdings, Inc. and subsidiaries

We have audited the accompanying consolidated financial statements of Karnavati Holdings, Inc. (a Delaware corporation) and subsidiaries, which comprise the consolidated balance sheets as of March 31, 2018 and 2017, and the related consolidated statements of income, stockholder's 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on 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 policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Karnavati Holdings, Inc. and subsidiaries as of March 31, 2018 and 2017, 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.

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet and consolidating statement of income are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

GRANT THORNTON LLP

Kansas City, Missouri
May 22, 2018

CONSOLIDATED FINANCIAL STATEMENTS

Karnavati Holdings, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
March 31,
(in thousands, except per share amounts)

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 27,588	\$ 93,956
Certificates of deposit	80,000	-
Accounts receivable, net	53,815	56,428
Other receivables	1,715	639
Inventories, net	58,569	56,596
Other current assets	472	463
Deferred tax asset	1,524	1,695
Total current assets	223,683	209,777
Property, plant, and equipment, net	205,561	191,436
Investment in joint venture	347	375
Intangible assets, net	400	670
Total assets	\$ 429,991	\$ 402,258
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Current maturities of long-term debt	\$ 33,403	\$ -
Accounts payable	42,991	42,027
Accrued salaries and wages	9,832	8,893
Other accrued liabilities	4,381	2,072
Total current liabilities	90,607	52,992
Other noncurrent liabilities	9,634	10,826
Long-term debt	-	20,105
Deferred tax liability	30,812	56,246
Total liabilities	131,053	140,169
Stockholder's equity		
Common stock, \$0.10 par value per share; authorized, 300 shares; issued and outstanding, 100 shares	10	10
Additional paid-in capital	124,991	124,991
Retained earnings	173,937	137,088
Total stockholder's equity	298,938	262,089
Total liabilities and stockholder's equity	\$ 429,991	\$ 402,258

The accompanying notes are an integral part of these statements.

Karnavati Holdings, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
Years ended March 31,
(in thousands)

	2018	2017
Net sales	\$ 374,055	\$ 378,382
Cost of goods sold - shipping and handling	95,000	92,050
Cost of goods sold - products	247,001	248,594
Gross profit	<u>32,054</u>	<u>37,738</u>
Selling, general, and administrative expenses	16,493	11,064
Income from operations	<u>15,561</u>	<u>26,674</u>
Interest expense	943	522
Income before income taxes	<u>14,618</u>	<u>26,152</u>
Income taxes (benefit) expense	(22,231)	205
Net income	<u>\$ 36,849</u>	<u>\$ 25,947</u>

The accompanying notes are an integral part of these statements.

Karnavati Holdings, Inc. and Subsidiaries
CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY
Years ended March 31, 2018 and 2017
(in thousands)

	Common stock	Additional paid-in capital	Retained earnings	Total stockholder's equity
Balance, March 31, 2016	\$ 10	\$ 124,991	\$ 111,141	\$ 236,142
Net income	-	-	25,947	25,947
Balance, March 31, 2017	10	124,991	137,088	262,089
Net income	-	-	36,849	36,849
Balance, March 31, 2018	<u>\$ 10</u>	<u>\$ 124,991</u>	<u>\$ 173,937</u>	<u>\$ 298,938</u>

The accompanying notes are an integral part of this statement.

Karnavati Holdings, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31,
(in thousands)

	2018	2017
Cash flows from operating activities		
Net income	\$ 36,849	\$ 25,947
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and depletion	26,763	29,314
Amortization	270	360
Deferred taxes	(25,263)	(1,715)
Loss on investment in joint venture	253	269
Changes in operating assets and liabilities		
Accounts receivable	2,613	9,965
Other receivables	(1,076)	128
Inventories	(1,973)	(1,924)
Other current assets	(9)	(62)
Accounts payable, accrued salaries and wages, and other accrued liabilities	(506)	1,163
Other noncurrent liabilities	(1,192)	654
Net cash provided by operating activities	36,729	64,099
Cash flows from investing activities		
Purchases of property, plant, and equipment	(36,170)	(23,573)
Investments in certificates of deposit	(80,000)	-
Investment in joint venture	(225)	(186)
Net cash used in investing activities	(116,395)	(23,759)
Cash flows from financing activities		
Proceeds from revolving credit facility	152,158	130,497
Repayments of revolving credit facility	(138,860)	(140,341)
Net cash provided by (used in) financing activities	13,298	(9,844)
Change in cash and cash equivalents	(66,368)	30,496
Cash and cash equivalents, beginning of year	93,956	63,460
Cash and cash equivalents, end of year	\$ 27,588	\$ 93,956
Supplemental disclosure of cash flow information		
Cash paid during the year for		
Interest	\$ 1,104	\$ 744
Taxes	648	4,666
Noncash investing activity		
Purchases of property, plant, and equipment in accounts payable	\$ 5,904	\$ 1,186

The accompanying notes are an integral part of these statements.

KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018 and 2017

(in thousands)

NOTE A - BASIS OF CONSOLIDATION AND NATURE OF BUSINESS

The consolidated financial statements include the accounts of Karnavati Holdings, Inc. and its wholly owned subsidiaries and affiliates, companies that it controls and those in which it holds a majority voting interest. These companies include Searles Valley Minerals Inc. (SVM) and subsidiaries (Searles Domestic Water Company LLC, Trona Railway Company LLC, and Searles Valley Minerals Europe S.A.S.) Karnavati Holdings, Inc. (Karnavati) and its direct and indirect subsidiaries are collectively referred to as the “Company.” Karnavati was incorporated on November 20, 2007 and is a wholly owned subsidiary of Nirma Ltd. (Nirma or Parent). All intercompany balances have been eliminated in consolidation.

The Company is a producer and marketer of inorganic chemicals with mining and manufacturing sites in Trona, California. The Company’s headquarters is located in Overland Park, Kansas. Its principal products are soda ash, sodium sulfate, and various boron based chemicals. These products serve a variety of markets, including agriculture, the chemical process industry, and glass manufacturing.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. *Cash and Cash Equivalents*

Cash and cash equivalents include cash, cash investments, and any highly liquid investments with original maturities of three months or less. The Company has cash balances with financial institutions that periodically exceed the limits of coverage provided by the Federal Deposit Insurance Corporation.

2. *Certificates of Deposit*

Certificates of deposit held for investment that are not debt securities with original maturities greater than three months and remaining maturities less than one year are classified as current assets. Certificates of deposit with remaining maturities greater than one year are classified as long-term assets.

KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
March 31, 2018 and 2017
(in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. *Revenue Recognition and Accounts Receivable*

Revenue is recognized by the Company based on the delivery terms of the sale, which coincides with the transfer of title and risk of ownership to the customer. Sales represent billings to customers net of sales tax charges for the sale of the product. Sales include shipping and handling costs billed to customers, the costs of which are expensed to cost of goods sold when the related product is sold.

Periodically, management reviews accounts receivable and records an allowance for specific customers based on the Company's historical losses, specific customer circumstances, and general economic conditions. The Company had no allowance for doubtful accounts as of March 31, 2018 and 2017.

4. *Inventories*

Raw materials and supply costs are carried at the lower of cost (first-in, first-out (FIFO) at the average cost method). Raw materials and supplies primarily consist of raw materials purchased for use in the production of inorganic chemicals, spare parts, maintenance materials, and packaging materials. Finished goods costs are determined by FIFO. Finished goods comprise inorganic chemicals and salt. All costs associated with the production of inorganic chemicals and salt are included in finished goods inventory. Finished goods also include logistics costs, which represent the Company's costs incurred to ship and store inventory at warehousing locations until the product is ultimately sold to the customer.

5. *Property, Plant, and Equipment*

Property, plant, and equipment are stated at cost less accumulated depreciation and depletion. The costs of replacements or renewals that improve or extend the life of the existing property are capitalized. Upon retirement or disposition of an asset, any resulting gain or loss is included in the results from operations. Depreciation and depletion are computed by the straight-line method over the estimated useful lives of the respective classes of assets as follows:

Buildings and improvements	10 to 30 years
Machinery and equipment	2 to 25 years
Mineral reserves	200 years

KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
March 31, 2018 and 2017
(in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. *Property, Plant, and Equipment - Continued*

Property, plant, and equipment to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require property, plant, and equipment to be tested for possible impairment, the Company reviews undiscounted cash flows at the lowest level for which identifiable cash flows exist compared to its carrying value. Impairment occurs when the carrying value of the asset exceeds the estimated future undiscounted cash flows generated by the asset. When impairment is indicated, an impairment charge is recorded for the difference between the carrying value of the asset and its fair market value. Depending on the asset, fair market value may be determined either by use of a discounted cash flow model or by reference to estimated selling values of assets in similar condition. There was no impairment for the years ended March 31, 2018 and 2017.

6. *Major Maintenance Activities*

As of April 1, 2017, the Company revised its method of accounting for major maintenance activities. Prior to the change, the costs for major maintenance activities were expensed as incurred. Under the new policy, costs for major maintenance activities that are expected to benefit current and future periods and that extend the useful life of the related assets are separately capitalized in property, plant and equipment and are amortized over the estimated period until the next planned major maintenance activity or in the case of a restoration project, for the updated useful life of the asset. The Company believes the revised policy is preferable to the previous policy in that it will better match revenues and expenses and more accurately reflect its financial results as the costs benefit future periods over an extended useful life of the related assets. In addition, the revised policy results in better consistency with Nirma and with most companies in the Company's industry.

KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
March 31, 2018 and 2017
(in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. *Major Maintenance Activities - Continued*

Under ASC Topic 250, “Accounting Changes and Error Corrections” we are required to report a change in accounting policy by retrospectively applying the new policy to all prior periods presented, unless it is impractical to determine the prior-period effect. Accordingly, we have adjusted our previously reported financial information for all periods presented. The effect of this accounting policy change increased net income by \$3,906 and \$223 for the years ended March 31, 2018 and 2017, respectively. The accounting policy change also directly affected our March 31, 2018 and 2017 consolidated balance sheets in the periods presented by increasing reported inventories, property, plant, and equipment, deferred tax liability and retained earnings. The cumulative effect of this change increased retained earnings as of April 1, 2017 by \$16,606. The table below provides the details of the effect of this accounting policy change.

	2018		
	Prior to Change	Effect of Change	As Adjusted
Consolidated Statements of Operations			
Cost of goods sold – products	\$ 252,657	\$ 5,656	\$ 247,001
Income taxes (benefit) expense	(23,981)	1,750	(22,231)
Net income	32,943	3,906	36,849
Consolidated Statements of Cash Flows			
Net income	\$ 32,943	\$ 3,906	\$ 36,849
Depreciation and depletion	18,776	7,987	26,763
Deferred taxes	(27,013)	1,750	(25,263)
Inventories	(3,005)	1,032	(1,973)
Net cash provided by operating activities	22,054	14,675	36,729
Net cash used in investing activities	(101,720)	(14,675)	(116,395)
Purchases of property, plant, and equipment in accounts payable	(21,495)	(14,675)	(36,170)
Consolidated Balance Sheets			
Inventories, net	\$ 59,463	\$ (894)	\$ 58,569
Property, plant, and equipment, net	171,394	34,167	205,561
Deferred tax liability	18,274	12,538	30,812
Retained earnings	153,202	20,735	173,937

KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
March 31, 2018 and 2017
(in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. *Major Maintenance Activities - Continued*

	2017		
	Prior to Change	Effect of Change	As Adjusted
Consolidated Statements of Operations			
Cost of goods sold – products	\$ 248,299	\$ 295	\$ 248,594
Income taxes (benefit) expense	723	(518)	205
Net income	25,724	223	25,947
Consolidated Statements of Cash Flows			
Net income	\$ 25,724	\$ 223	\$ 25,947
Depreciation and depletion	19,630	9,684	29,314
Deferred taxes	(1,197)	(518)	(1,715)
Inventories	(899)	(1,025)	(1,924)
Net cash provided by operating activities	55,735	8,364	64,099
Net cash used in investing activities	(15,395)	(8,364)	(23,759)
Purchases of property, plant, and equipment in accounts payable	(15,209)	(8,364)	(23,573)
Consolidated Balance Sheets			
Inventories, net	\$ 56,458	\$ 138	\$ 56,596
Property, plant, and equipment, net	163,957	27,479	191,436
Deferred tax liability	45,458	10,788	56,246
Retained earnings	120,259	16,829	137,088

7. *Intangible Assets*

Intangible assets with a finite life, consisting of customer relationships with an estimated life of 10 years, are amortized by the straight-line method over the estimated benefit period. The trademark intangible asset is deemed to have an indefinite life and is not amortized but is reviewed annually for impairment.

KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
March 31, 2018 and 2017
(in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. *Income Taxes*

Income taxes are accounted for using the liability method. Such method results in the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the book carrying amounts and the tax basis of the related assets and liabilities. Deferred tax assets are reduced by a valuation allowance when management believes it is more likely than not that they will not be realized, entirely or in part.

9. *Environmental Costs*

Environmental costs, other than those of a capital nature, are accrued at the time the obligation becomes probable and costs can reasonably be estimated. Costs are accrued based upon management's estimates of all direct costs. The Company does not accrue liabilities for unasserted claims that are not probable of assertion.

10. *Asset Retirement Obligations*

The Company recognizes and measures obligations related to the retirement of tangible long-lived assets. The retirement obligation must be one that results from the acquisition, construction, or normal operation of the long-lived asset. The legal obligation associated with the retirement of a tangible long-lived asset is recognized at fair value as a liability when incurred and the cost is capitalized by increasing the carrying amount of the related long-lived asset.

KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
March 31, 2018 and 2017
(in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

11. *Fair Value of Financial Instruments*

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company uses the following fair value hierarchy, which requires it to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value:

- Level 1 Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2 Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The carrying amounts of accounts receivable and accounts payable approximated fair values at March 31, 2018 and 2017 because of the short maturities of these instruments. The carrying amounts of long-term debt, including current maturities, approximated fair value as of March 31, 2018 and 2017, based upon terms and conditions available to the Company at those dates in comparison to terms and conditions of the outstanding debt.

12. *Concentration of Credit Risk*

The Company's products are sold throughout North America and internationally. No single customer or group of affiliated customers accounts for more than 10% of the Company's sales for the years ended March 31, 2018 or 2017. No single customer accounted for more than 10% of the Company's accounts receivable as of March 31, 2018 or 2017. Sales to customers outside North America aggregated 33% and 32% of total sales for the years ended March 31, 2018 and 2017, respectively. Receivables from customers outside North America aggregated 38% and 33% of total receivables as of March 31, 2018 and 2017, respectively.

KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
March 31, 2018 and 2017
(in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

13. *Joint Venture*

The Company and FRM Refined Fuels LLC (FRM), collectively, the “Investors”, formed FRM Trona Fuels, LLC (FTF) on October 26, 2011 to lease, develop, construct, own, and operate a refined coal facility at the Company’s Trona, California manufacturing site. FTF’s business is to purchase raw coal, apply a treatment to the raw coal to reduce pollutant emissions, and subsequently sell the refined coal. FTF expects to generate tax credits for the Investors (See Note 7 Income Taxes for credits earned). To qualify for the tax credit, FTF must produce a refined coal from raw coal, and show that the refined coal, when burned to produce steam, has lower emission than raw coal. SVM is a 49% owner of FTF, and FRM is a 51% owner of FTF and manager of FTF. The Company has accounted for their interest in FRM as an equity method investment. The Investors have a contractual obligation to make annual capital contributions to FRM to keep FRM solvent until November 2021. The Company does not believe the annual contribution will exceed \$500 in any year. For the years ended March 31, 2018 and 2017, the Company contributed \$225 and \$186, respectively.

14. *Management Estimates*

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Significant estimates include inventory reserves for lower of cost or market, obsolete, and slow-moving supplies inventory; estimated lives used for calculation of depreciation and amortization; accruals for environmental liabilities; self-insurance reserves; legal liabilities; recoverability of deferred tax assets; and other accruals. Actual results could differ from those estimates.

KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
March 31, 2018 and 2017
(in thousands)

NOTE C - INVENTORIES

Inventories consisted of the following at March 31,

	2018	2017
Finished goods	\$ 32,948	\$ 32,046
Raw materials	8,465	8,032
Supplies	23,751	23,474
Reserves	(6,595)	(6,956)
	\$ 58,569	\$ 56,596

NOTE D - PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consisted of the following at March 31,

	2018	2017
Land and improvements	\$ 2,726	\$ 2,726
Buildings and improvements	3,685	3,685
Machinery and equipment	378,981	362,080
Mineral reserves	33,882	33,882
Construction in progress	30,338	12,805
	449,612	415,178
Less accumulated depreciation and depletion	(244,051)	(223,742)
	\$ 205,561	\$ 191,436

The Company capitalized interest of \$200 and \$215 for the years ended March 31, 2018 and 2017, respectively, related to construction in progress. The aforementioned change in accounting principle impacted assets reflected within machinery and equipment.

KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
March 31, 2018 and 2017
(in thousands)

NOTE E - INTANGIBLE ASSETS

Intangible assets and the related accumulated amortization are summarized as follows:

	March 31, 2018		
	Gross carrying amount	Accumulated amortization	Net book value
Amortized intangible assets			
Customer relationships	\$ 3,600	\$ 3,600	\$ -
Nonamortized intangible assets			
Trademark	400	-	400
	<u>\$ 4,000</u>	<u>\$ 3,600</u>	<u>\$ 400</u>
	March 31, 2017		
	Gross carrying amount	Accumulated amortization	Net book value
Amortized intangible assets			
Customer relationships	\$ 3,600	\$ 3,330	\$ 270
Nonamortized intangible assets			
Trademark	400	-	400
	<u>\$ 4,000</u>	<u>\$ 3,330</u>	<u>\$ 670</u>

Amortization expense of \$270 and \$360 for the years ended March 31, 2018 and 2017, respectively. Estimated annual amortization expense for the year ending March 31, 2019 is \$0.

KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
March 31, 2018 and 2017
(in thousands)

NOTE F - DEBT

Debt consisted of the following at March 31,

	2018	2017
Second revolving credit facility, secured by accounts receivable, inventory, and property, plant, and equipment of the Company, interest paid monthly (at 1.25% over 1-month LIBOR 2.9142% and 2.0344% at March 31, 2018 and 2017, respectively), due September 10, 2018.	<u>\$ 33,403</u>	<u>\$ 20,105</u>
Less current maturities	<u>33,403</u>	<u>-</u>
	<u><u>\$ -</u></u>	<u><u>\$ 20,105</u></u>

The Company had outstanding letters of credit totaling \$7,161 and \$7,161 at March 31, 2018 and 2017, respectively. The outstanding letters of credit are secured by the second revolving credit facility and reduce the borrowing base availability. The facility allows the Company to borrow \$65,000 through September 10, 2018 subject to certain financial covenants. Available borrowings as of March 31, 2018 and 2017 were \$24,436 and \$37,734, respectively. The Company intends to renew its credit facility in September 2018. The Company was in compliance with covenants as of March 31, 2018.

KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
March 31, 2018 and 2017
(in thousands)

NOTE G - INCOME TAXES

Income tax expense (benefit) consisted of the following at March 31,

	<u>2018</u>	<u>2017</u>
Federal		
Current	\$ 1,547	\$ 2,877
Deferred	(26,350)	(1,431)
	<u>(24,803)</u>	<u>1,446</u>
State		
Current	1,504	(974)
Deferred	1,087	234
	<u>2,591</u>	<u>(740)</u>
Foreign		
Current	(19)	17
	<u>\$ (22,231)</u>	<u>\$ 723</u>

For the years ended March 31, 2018 and 2017, the provisions for income taxes are different than expected from applying statutory rates to pretax income. The difference is predominately due to the impact resulting from the enactment of the Tax Cuts and Jobs Act (the "Tax Act") and permanent tax differences, primarily depletion and domestic production deduction. On December 22, 2017, the U.S. government enacted comprehensive tax legislation. The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent effective January 1, 2018; (2) eliminating the Section 199 deduction for tax years beginning in 2018; (3) extending bonus depreciation that will allow for full expensing of qualified property; and, (4) eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized.

The Company earned tax credits for refined coal treatments related to the joint venture with FRM (See Note B (13) Joint Venture). The Company earned refined coal tax credits of \$1,659 and \$2,266 for the years ended March 31, 2018 and 2017, respectively.

KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2018 and 2017

(in thousands)

NOTE G - INCOME TAXES - Continued

Deferred federal income taxes result from temporary differences between the amounts of assets and liabilities reported for financial reporting purposes and income tax purposes. The components of the deferred tax assets and the deferred tax liabilities are as follows as of March 31,

	2018	2017
Deferred income tax assets:		
Inventories	\$ 768	\$ 1,536
Other accrued liabilities	1,205	1,861
Other noncurrent liabilities	2,856	4,538
State net operating loss carryforward	12	18
Non R&E general business credit carryforward	460	-
Alternative minimum tax credit carryforward	7,767	7,140
Total gross deferred income tax assets	13,068	15,093
Less valuation allowance	(1,977)	(7,140)
Net deferred income tax assets	11,091	7,953
Deferred income tax liabilities:		
Property, plant, and equipment	(40,031)	(61,906)
Intangible assets	(105)	(298)
Other current assets	(145)	(187)
Other noncurrent assets	(98)	(113)
Total gross deferred income tax liabilities	(40,379)	(62,504)
Net deferred income tax liabilities	\$ (29,288)	\$ (54,551)
Current deferred tax assets – net	\$ 1,524	\$ 1,695
Long-term deferred tax liabilities – net	(30,812)	(56,246)
	\$ (29,288)	\$ (54,551)

KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
March 31, 2018 and 2017
(in thousands)

NOTE G - INCOME TAXES - Continued

The Securities and Exchange Commission ('SEC') issued Staff Accounting Bulletin No. 118 ('SAB 18') to address the application of accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. While the views and interpretations of the SEC staff are not directly applicable to private companies, the Financial Accounting Standards Board ('FASB'), in its Staff Q&A Topic 740 No. 1, concluded that private companies may elect to apply SAB 118 in its entirety based on the longstanding practice of private companies electing to apply SABs. The Company has considered SAB 118 and has no incomplete or provisional estimates for any material items and appropriately reflected the impacts of the Tax Act in the financial statements for the period ended March 31, 2018.

At March 31, 2018 and 2017 the Company had Kansas net operating loss carryforwards of \$12 and \$18, respectively, which if not utilized expire on March 31, 2018. At March 31, 2018, the Company had a general business credit carryforward of \$460 related to its investment in FRM Trona Fuels LLC. At March 31, 2018 and 2017, the Company had federal and California alternative minimum tax (AMT) credit carryforwards of approximately \$7,767 and \$7,140, respectively, which may be carried forward indefinitely. The Act repealed AMT at the federal level and made any AMT credit carryforwards refundable effective for tax years beginning after December 31, 2017. As a result, the Company removed the valuation allowance associated with the federal AMT credits. As of March 31, 2018, California has not conformed to the Act's provision regarding the repeal of AMT. Thus, due to the nature of the items giving rise to the AMT credit carryforwards, the utilization of the California AMT credit carryforwards is uncertain. Accordingly, the Company has recorded a valuation allowance of \$1,977 and \$7,140 at March 31, 2018 and 2017, respectively. The Company believes the results of future operations may generate sufficient taxable income to realize the deferred tax assets, net of valuation allowances related to AMT tax credits.

KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
March 31, 2018 and 2017
(in thousands)

NOTE G - INCOME TAXES - Continued

The Company files income tax returns in the U.S. federal jurisdiction, various state jurisdictions, and one international jurisdiction. In 2017, California completed its examination of the Company's tax returns for tax years ended March 31, 2006 and 2007. Tax years ending after fiscal 2014 remain subject to examination and assessment. However, the federal and state loss and credit carryforwards and amounts utilized in open years are also open for potential adjustment.

During the years ended March 31, 2018 and 2017, the Company had uncertain tax positions of \$0 and \$149 recorded within the other accrued liabilities account. A tax position is a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more-likely-than-not" test, no tax benefit is recorded. The Company records tax interest & penalties as a pretax expense in selling, general, and administrative expenses.

NOTE H - EMPLOYEE BENEFIT PLANS

The Company has a 401(k) retirement savings and investment plan covering substantially all employees. Contributions are made to this plan by participants through voluntary salary deferral and by the Company in accordance with the terms of the plan. Expense under these benefit plans was \$3,278 and \$3,270 for the years ended March 31, 2018 and 2017, respectively.

The Company offers a variety of health and welfare plans to active employees. No company-sponsored health and welfare benefit plans are offered to retirees.

KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
March 31, 2018 and 2017
(in thousands)

NOTE I - COMMITMENTS AND CONTINGENCIES

1. *Litigation*

In the ordinary course of business, the Company is involved in various legal and administrative proceedings. The Company establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Management currently believes that resolving claims against us will not have a material impact on the liquidity, results of operations, or financial condition of the Company. However, these matters are subject to inherent uncertainties and management's view of these matters may change in the future.

2. *Leases*

The Company leases certain property and equipment under noncancelable operating leases for varying periods.

The aggregate minimum annual rentals under lease arrangements are as follows:

Year ended March 31,	Amount
2019	\$ 9,942
2020	8,090
2021	3,907
2022	2,376
2023	2,360
Thereafter	5,119
	<u>\$ 31,794</u>

Rent expense for operating leases was \$11,537 and \$11,766 for the years ended March 31, 2018 and 2017, respectively.

A minimum of once during the life of the agreement, the Company's railcar lease agreements require the Company to maintain their leased railcars by abrasive blasting and subsequently painting the exterior. The agreements mature between 2018 and 2021, and the estimated remaining obligation as of March 31, 2018 to fulfill this requirement is \$1,810.

KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
March 31, 2018 and 2017
(in thousands)

NOTE I - COMMITMENTS AND CONTINGENCIES - Continued

3. *Self-Insurance*

The Company is self-insured for certain employee health benefits (\$250 annually per employee with no annual aggregate) and workers' compensation (\$750 per accident). Self-insurance costs are accrued based upon the aggregate of the liability for reported claims and an estimated liability for claims incurred but not reported. The liability is included in current other accrued liabilities and other noncurrent liabilities.

At March 31, 2018 and 2017, the Company recorded a liability of \$1,250 and \$765, respectively, in other accrued liabilities for self-insured medical costs. At March 31, 2018 and 2017, the Company recorded a liability of \$6,418 (\$1,193 classified in other accrued liabilities and \$5,225 in other noncurrent liabilities) and \$7,377 (\$1,401 classified in other accrued liabilities and \$5,976 in other noncurrent liabilities), respectively, for self-insured worker's compensation costs.

4. *Royalties*

A substantial portion of the land used in the Company's operations in Searles Valley, California is owned by the U.S. government. The Company paid a royalty to the U.S. government of 5% on the net sales value of the minerals extracted from government land. The leases generally have a term of 10 years with preferential renewal options. Royalty expense was \$9,761 and \$9,832 for the years ended March 31, 2018 and 2017, respectively.

5. *Purchase Commitments*

As of March 31, 2017, the Company has entered into supply contracts to purchase natural gas and coal. The purchase commitments have been for amounts to be consumed within the normal production process, and thus, the Company has determined that these contracts meet normal purchases and sales exceptions as defined under U.S. generally accepted accounting principles. As such, these contracts have been excluded from recognition within these financial statements until the actual contracts are physically settled. The purchase commitments for coal and natural gas are with one supplier for each and require the Company to purchase a minimum usage. Future minimum purchases remaining under the coal agreement are \$11,484 through December 31, 2018. Future minimum purchases remaining under the gas agreement are \$2,891 through October 31, 2019.

KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
March 31, 2018 and 2017
(in thousands)

NOTE I - COMMITMENTS AND CONTINGENCIES - Continued

6. *Sales Commitments*

The Company has various agreements with customers to sell specified amounts of sodium sulfate, soda ash, salt, and boron products over a period of 1 to 3 years at fixed sales prices and minimum quantities. Management does not anticipate any significant losses from these contracts.

7. *Minimum Annual Guarantee*

The Company's shipments through the San Diego and Long Beach, California ports require a minimum annual guaranty (MAG). The Port of San Diego requires that the Company ship a minimum amount of tons at a fixed wharfage charge through the port on an annual basis through expiration of the agreement. The Port of Long Beach requires that the Company ship an annual minimum tonnage through the port at the basis rates. The San Diego port agreement expires in February 2019 and the Long Beach port agreement expires in May 2020. The Company recorded \$1,662 and \$1,649 in unfulfilled MAG commitments as of March 31, 2018 and 2017, respectively, which is included in accounts payable. Future MAG commitments on the San Diego and Long Beach ports through the respective contract expiration dates are \$1,348 and \$9,534 respectively.

8. *Environmental Matters*

At March 31, 2018 and 2017, the Company recorded accruals of \$2,716 (\$80 classified in other accrued liabilities and \$2,636 in other noncurrent liabilities) and \$2,757 (\$80 classified in other accrued liabilities and \$2,677 in other noncurrent liabilities), respectively, for future costs associated with environmental matters.

NOTE J - RELATED-PARTY TRANSACTIONS

The Company had sales of \$95 and \$1,140 for the years ended March 31, 2018 and 2017, respectively, and accounts payable of \$4 and \$0 as of March 31, 2018 and 2017, respectively, with its parent.

The Company had sales of \$4,450 for the year ended March 31, 2018 and accounts receivable of \$2,350 as of March 31, 2018 with an affiliate.

KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
March 31, 2018 and 2017
(in thousands)

NOTE K - SUBSEQUENT EVENTS

The Company has evaluated subsequent events from the balance sheet date through May 22, 2018, the date on which the consolidated financial statements were available to be issued, and determined that there are no other items to disclose.

SUPPLEMENTARY INFORMATION

Karnavati Holdings, Inc. and Subsidiaries

CONSOLIDATING BALANCE SHEET

March 31, 2018

(in thousands)

	Valley Minerals Europe, S.A.S.	Railway Company, LLC	Domestic Water Company, LLC	Valley Minerals Inc. (SVM)	SVM eliminations	SVM consolidated	Karnavati Holdings, Inc. (KHI)	KHI eliminations	KHI consolidated
Current assets									
Cash and cash equivalents	\$ 578	\$ -	\$ 133	\$ (2,423)	\$ 2,291	\$ 579	\$ 27,009	\$ -	\$ 27,588
Certificates of deposit	-	-	-	-	-	-	80,000	-	80,000
Accounts receivable, net	572	2	64	53,640	(463)	53,815	-	-	53,815
Other receivables	24	-	-	1,592	(13)	1,603	112	-	1,715
Inventories, net	-	47	112	58,410	-	58,569	-	-	58,569
Other current assets	18	-	5	449	-	472	-	-	472
Deferred tax asset	-	-	-	1,524	-	1,524	-	-	1,524
Total current assets	<u>1,192</u>	<u>49</u>	<u>314</u>	<u>113,192</u>	<u>1,815</u>	<u>116,562</u>	<u>107,121</u>	<u>-</u>	<u>223,683</u>
Property, plant, and equipment, net	5	4,773	444	200,339	-	205,561	-	-	205,561
Investment in joint venture	-	-	-	67,013	(66,666)	347	191,192	(191,192)	347
Intangible assets, net	-	-	-	400	-	400	-	-	400
Total assets	<u>\$ 1,197</u>	<u>\$ 4,822</u>	<u>\$ 758</u>	<u>\$ 380,944</u>	<u>\$ (64,851)</u>	<u>\$ 322,870</u>	<u>\$ 298,313</u>	<u>\$ (191,192)</u>	<u>\$ 429,991</u>
Current liabilities									
Current maturities of long term debt	\$ -	\$ -	\$ -	\$ 33,403	\$ -	\$ 33,403	\$ -	\$ -	\$ 33,403
Accounts payable	539	8,437	23	32,164	1,828	42,991	-	-	42,991
Accrued salaries and wages	68	255	-	9,509	-	9,832	-	-	9,832
Other accrued liabilities	(28)	-	12	5,194	(13)	5,165	(784)	-	4,381
Total current liabilities	<u>579</u>	<u>8,692</u>	<u>35</u>	<u>80,270</u>	<u>1,815</u>	<u>91,391</u>	<u>(784)</u>	<u>-</u>	<u>90,607</u>
Due to parent	-	(68,925)	(271)	69,037	-	(159)	159	-	-
Other noncurrent liabilities	-	-	-	9,634	-	9,634	-	-	9,634
Deferred tax liability	-	-	-	30,812	-	30,812	-	-	30,812
Total liabilities	<u>579</u>	<u>(60,233)</u>	<u>(236)</u>	<u>189,753</u>	<u>1,815</u>	<u>131,678</u>	<u>(625)</u>	<u>-</u>	<u>131,053</u>
Stockholder's equity									
Common stock	-	-	-	-	-	-	10	-	10
Additional paid-in capital	744	29,435	372	201,920	(32,959)	199,512	124,991	(199,512)	124,991
Retained earnings	(126)	35,620	622	(10,729)	(33,707)	(8,320)	173,937	8,320	173,937
Total stockholder's equity	<u>618</u>	<u>65,055</u>	<u>994</u>	<u>191,191</u>	<u>(66,666)</u>	<u>191,192</u>	<u>298,938</u>	<u>(191,192)</u>	<u>298,938</u>
Total liabilities and stockholder's equity	<u>\$ 1,197</u>	<u>\$ 4,822</u>	<u>\$ 758</u>	<u>\$ 380,944</u>	<u>\$ (64,851)</u>	<u>\$ 322,870</u>	<u>\$ 298,313</u>	<u>\$ (191,192)</u>	<u>\$ 429,991</u>

Karnavati Holdings, Inc. and Subsidiaries
CONSOLIDATING STATEMENT OF INCOME

March 31, 2018

(in thousands)

	Searles Valley Minerals Europe, S.A.S.	Trona Railway Company, LLC	Searles Domestic Water Company, LLC	Searles Valley Minerals Inc. (SVM)	SVM eliminations	SVM consolidated	Karnavati Holdings, Inc. (KHI)	KHI eliminations	KHI consolidated
Net sales	\$ 2,712	\$ 10,166	\$ 613	\$ 373,250	\$ (12,686)	\$ 374,055	\$ -	\$ -	\$ 374,055
Cost of goods sold - shipping and handling	106	-	-	94,894	-	95,000	-	-	95,000
Cost of goods sold - products	2,573	7,022	520	249,572	(12,686)	247,001	-	-	247,001
Gross profit	33	3,144	93	28,784	-	32,054	-	-	32,054
Selling, general and administrative expenses	91	-	-	12,493	-	12,584	3,909	-	16,493
Income from operations	(58)	3,144	93	16,291	-	19,470	(3,909)	-	15,561
Other income	-	-	-	-	-	-	-	-	-
Interest expense	-	-	13	(956)	-	(943)	-	-	(943)
Income (loss) from subsidiary	-	-	-	3,216	(3,216)	-	39,476	(39,476)	-
	(58)	3,144	106	18,551	(3,216)	18,527	35,567	(39,476)	14,618
Income taxes	(24)	-	-	(20,925)	-	(20,949)	(1,282)	-	(22,231)
Net income	<u>\$ (34)</u>	<u>\$ 3,144</u>	<u>\$ 106</u>	<u>\$ 39,476</u>	<u>\$ (3,216)</u>	<u>\$ 39,476</u>	<u>\$ 36,849</u>	<u>\$ (39,476)</u>	<u>\$ 36,849</u>