

Consolidated Financial Statements and Report of Independent Certified Public Accountants

**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**

March 31, 2022 and 2021

## **C O N T E N T S**

	<b>Page</b>
<b>REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS</b>	<b>3</b>
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	
<b>CONSOLIDATED BALANCE SHEETS</b>	<b>6</b>
<b>CONSOLIDATED STATEMENTS OF OPERATIONS</b>	<b>7</b>
<b>CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY</b>	<b>8</b>
<b>CONSOLIDATED STATEMENTS OF CASH FLOWS</b>	<b>9</b>
<b>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>10</b>
<b>SUPPLEMENTARY INFORMATION</b>	
<b>CONSOLIDATING BALANCE SHEET - 2022</b>	<b>36</b>
<b>CONSOLIDATING STATEMENT OF OPERATIONS - 2022</b>	<b>37</b>

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors  
Karnavati Holdings, Inc.

### Opinion

We have audited the consolidated financial statements of Karnavati Holdings, Inc. and subsidiaries (the “Company”), which comprise the consolidated balance sheets as of March 31, 2022 and 2021, and the related consolidated statements of operations, stockholder’s equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for opinion

We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for one year after the date the financial statements are available to be issued.

### Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable

assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Grant Thornton LLP*

Kansas City, Missouri  
May 23, 2022

## **CONSOLIDATED FINANCIAL STATEMENTS**

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

	2022	2021
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 33,737	\$ 37,060
Certificates of deposit	63,642	63,613
Accounts receivable, net	50,671	63,726
Income taxes receivable	23,453	22,943
Other receivables	694	170
Inventories, net	62,703	64,687
Other current assets	3,587	4,542
Total current assets	238,487	256,741
Property, plant, and equipment, net	207,806	224,104
Investment in joint venture	-	191
Right of use assets, net of finance lease amortization	36,654	43,064
Intangible assets	400	400
Total assets	\$ 483,347	\$ 524,500
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Current liabilities		
Current maturities of long-term debt	\$ -	\$ 88,500
Accounts payable	35,833	32,309
Accrued salaries and wages	7,867	9,166
Other accrued liabilities	13,361	12,994
Total current liabilities	57,061	142,969
Other noncurrent liabilities	42,796	50,689
Long-term debt	83,000	-
Deferred tax liabilities	17,928	27,069
Total liabilities	200,785	220,727
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	157,561	178,772
Total stockholder's equity	282,562	303,773
Total liabilities and stockholder's equity	\$ 483,347	\$ 524,500

The accompanying notes are an integral part of these statements.

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

	<u>2022</u>	<u>2021</u>
Net sales	\$ 328,317	\$ 327,226
Cost of goods sold - products	255,502	235,156
Cost of goods sold - shipping and handling	90,336	92,027
Gross profit (loss)	<u>(17,521)</u>	<u>43</u>
Selling, general, and administrative expenses	<u>10,741</u>	<u>10,717</u>
Loss from operations	(28,262)	(10,674)
Interest expense	2,595	412
Loss before income taxes	(30,857)	(11,086)
Income taxes benefit	<u>(9,646)</u>	<u>(7,677)</u>
Net loss	<u><u>\$ (21,211)</u></u>	<u><u>\$ (3,409)</u></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, 2022 and 2021**  
**(in thousands)**

	Common stock	Additional paid-in capital	Retained earnings	Total stockholder's equity
Balance, March 31, 2020	\$ 10	\$ 124,991	\$ 182,181	\$ 307,182
Net loss	-	-	(3,409)	(3,409)
Balance, March 31, 2021	10	124,991	178,772	303,773
Net loss	-	-	(21,211)	(21,211)
Balance, March 31, 2022	\$ 10	\$ 124,991	\$ 157,561	\$ 282,562

The accompanying notes are an integral part of this statement.



**Karnavati Holdings, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years ended March 31, 2022 and 2021**  
**(in thousands)**

	2022	2021
Cash flows from operating activities		
Net loss	\$ (21,211)	\$ (3,409)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and depletion	28,273	25,624
Deferred taxes	(9,141)	(3,833)
Loss on investment in joint venture	396	318
Loss on disposal	451	76
Changes in operating assets and liabilities		
Accounts receivable	13,055	9,869
Income tax receivable	(510)	(3,643)
Other receivables	(524)	155
Inventories	1,984	(4,272)
Other current assets	955	(1,896)
Other noncurrent assets	9,838	9,347
Accounts payable, accrued salaries and wages, and other accrued liabilities	3,185	(4,771)
Other noncurrent liabilities	(11,698)	(9,426)
Net cash provided by operating activities	15,053	14,139
Cash flows from investing activities		
Purchases of property, plant, and equipment	(12,547)	(9,782)
Maturities of certificates of deposit	521,630	485,089
Investments in certificates of deposit	(521,659)	(485,089)
Investment in joint venture	(205)	(276)
Net cash used in investing activities	(12,781)	(10,058)
Cash flows from financing activities		
Proceeds from revolving credit facility	83,000	21,500
Repayments of revolving credit facility	(88,500)	(33,000)
Proceeds from finance lease	244	975
Payments of finance lease	(339)	(339)
Net cash used in financing activities	(5,595)	(10,864)
Change in cash and cash equivalents	(3,323)	(6,783)
Cash and cash equivalents, beginning of year	37,060	43,843
Cash and cash equivalents, end of year	\$ 33,737	\$ 37,060
Supplemental disclosure of cash flow information		
Cash paid/(refunded) during the year for		
Interest	\$ 2,261	\$ 2,289
Taxes	(18)	(270)
Noncash investing activity		
Purchases of property, plant, and equipment in accounts payable	\$ 929	\$ 1,620

The accompanying notes are an integral part of these statements.

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

**March 31, 2022 and 2021**

**(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, potassium sulfate, salt and various boron based chemicals. These products serve a variety of global 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, 2022 and 2021**  
**(in thousands)**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

3. *Revenue Recognition and Accounts Receivable*

The Company follows the Financial Accounting Standards Board (the “FASB”) Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers* (“ASC 606”) that requires companies to recognize revenue when a customer obtains control. The Company’s revenue arrangements generally consist of a single performance obligation to transfer promised goods or services. Under ASC 606, substantially all of the Company’s revenue is recognized at a point in time when control of the goods transfers to the customer.

The Company recognizes revenue at the time of shipment to the customer, which generally coincides with the transfer of title and risk of ownership to the customer. Sales represent billings to customers net of sales tax collected on product purchased by the customer.

Accounts receivable are due 30-105 days after delivery or according to the contract terms and are stated at amounts due from customers. Any accounts outstanding longer than their contractual payment terms are considered past due. The Company writes off accounts receivable when they are deemed to be uncollectible. The Company has historically had minimal write offs of accounts receivable.

4. *Inventories and Lower of Cost or Net Realizable Value*

Raw materials and supply costs are carried at the lower of cost or net realizable value (first-in, first-out (FIFO) at the average cost method). In calculating the lower of cost or net realizable value reserve, the Company compares the average finished inventory cost to the current market selling price less costs of completion which usually include distribution costs. 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.

**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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

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, 2022 and 2021.

6. *Major Maintenance Activities*

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.

**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

7. *Intangible Assets*

The Company's \$400 trademark intangible asset is deemed to have an indefinite life and is not amortized but is reviewed annually for impairment.

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. *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.

**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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, 2022 and 2021 because of the short maturities of these instruments. The carrying amounts of long-term debt, including the current portion approximated fair value as of March 31, 2022 and 2021, due to the variable nature of the debt's interest rate.

11. *Concentration of Credit Risk*

The Company's products are sold throughout North America and internationally. No single customer or group of affiliated customers accounted for more than 10% of the Company's net sales for the year ended March 31, 2022 and 2021. One customer accounted for 12% and 10% of the Company's accounts receivable as of March 31, 2022 and 2021, respectively. Net sales to customers outside North America aggregated 24% and 29% of total net sales for the years ended March 31, 2022 and 2021, respectively. Receivables from customers outside North America aggregated 19% and 31% of total receivables as of March 31, 2022 and 2021.

12. *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 generated tax credits for the Investors (See Note I Income Taxes for credits earned). FTF was dissolved by both parties in December 2021.

**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

13. *Management Estimates*

The Consolidated 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 an allowance for doubtful accounts, inventory reserves for lower of cost or net realizable value; 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; port commitments; asset retirement obligations, and other accruals. Actual results could differ from those estimates.

14. *Leases*

The Company follows the FASB issued ASC 842, Leases, which requires lessees to recognize on their balance sheet a right-of-use asset which represents a lessee's right to use the underlying asset, and a lease liability which represents a lessee's obligation to make lease payments for the right to use the asset.

**NOTE C - LIQUIDITY**

The accompanying audited Consolidated Financial Statements of the Company have been prepared in conformity with Generally Accepted Accounting Principles ("GAAP"), which contemplates continuation of the Company as a going concern. The Company has incurred significant losses in recent periods associated with the impacts of interrupted revenue and repairs from a 7.1 magnitude earthquake in July 2019. and the impacts of the COVID-19 global pandemic.

Historically, the Company has funded some of its working capital needs and capital expenditures through long-term financing with lenders, as described further in Note H-Debt. At March 31, 2022, Searles Valley Minerals Inc. has utilized approximately \$83,000 of its \$107,500 of availability under the Asset Based and Term Loans (as defined in Note H) to fully fund the necessary earthquake repairs from the 2019 earthquakes and to sustain working capital for operations. The Company was in compliance with all debt covenants as of March 31, 2022.

**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE C - LIQUIDITY - Continued**

The Company believes it has adequate liquidity to meet its financial obligations as they become due for a period of one year from the date of the financial statements are available to be issued based on its forecasts and sources of liquidity, such as cash flows from operations, available borrowings on ABL and cash on hand.

**NOTE D - REVENUES**

*Nature of Products and Services*

The Company has one product segment, inorganic chemicals, which includes soda ash, sodium sulfate and various boron based chemicals.

*Identifying the Contract*

The Company accounts for a customer contract when there is approval and commitment from both parties, the rights of the parties and payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

*Identifying the Performance Obligations*

At contract inception, the Company assesses the goods it has promised to its customers and identifies a performance obligation for each promise to transfer to the customer a distinct good or bundle of goods. Determining whether products are considered distinct performance obligations that should be accounted for separately or aggregated together may require significant judgment.

*Identifying and Allocating the Transaction Price*

The Company's revenues are measured based on consideration specified in the customer contract, net of any sales incentives and amounts collected on behalf of third parties such as sales taxes. The Company's contracts generally consist of a single performance obligation to transfer promised goods. As a result, the Company does not have to allocate the transaction price.



**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE D - REVENUES - Continued**

*When Performance Obligations Are Satisfied*

The vast majority of the Company's revenues are recognized at a point in time when the performance obligations are satisfied based upon transfer of control of the product or service to a customer. To determine when the control of goods is transferred, the Company typically assesses, among other things, the shipping terms of the contract. Revenue for most of the Company's products is recognized when the goods transferred are shipped to the customer because the shipping terms state that control passes to the customer at the time of shipment. The Company has no contract assets or liabilities as of March 31, 2022 and 2021.

*Significant Payment Terms*

The customer contract states the final terms of the sale, including the description, quantity and price of each product purchased. Payment is typically due in full within 30 to 105 days of delivery. As a practical expedient, the Company does not adjust consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the good or service is transferred to the customer and when the customer pays for that good will be one year or less.

*Refunds, Returns and Warranties*

The Company's products are generally not sold with a right of return and the Company does not generally provide material credits or incentives, which may be required to be accounted for as variable consideration when estimating the amount of revenue to be recognized. The Company uses historical experience to estimate accruals for refunds due to manufacturing or other defects.

*Practical Expedients and Accounting Policy Elections*

The Company has elected (i) to exclude disclosures of transaction prices allocated to remaining performance obligations when the Company recognized such revenue for all periods prior to the date of initial application of ASC 606, (ii) not to adjust the amount of consideration for the effects of a significant financing component when the Company expects, at contract inception, that the period between the Company's transfer of a product or service to a customer and when the customer pays for that product or service will be one

**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE D - REVENUES - Continued**

year or less, (iii) to expense costs to obtain a contract as incurred when the Company expects that the amortization period would have been one year or less, (iv) not to recast revenue for customer contracts that begin and end in the same fiscal period, and (v) not to assess whether promised goods are performance obligations if they are immaterial in the context of the customer contract.

Revenue by geographical region:

Information related to sales for the years ended March 31,

Region	2022	2021
Domestic	\$ 130,608	\$ 138,599
International	197,709	188,627
	\$ 328,317	\$ 327,226

**NOTE E - INVENTORIES**

Inventories consisted of the following at March 31,

	2022	2021
Finished goods	\$ 35,646	\$ 39,692
Raw materials	7,081	6,484
Supplies	30,017	29,862
Total	\$ 72,744	\$ 76,038
Reserves and lower of cost or net realizable value adjustment	(10,041)	(11,351)
	\$ 62,703	\$ 64,687

**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE F - PROPERTY, PLANT, AND EQUIPMENT**

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

	2022	2021
Land and improvements	\$ 2,726	\$ 2,726
Buildings and improvements	3,388	3,298
Machinery and equipment	475,344	471,515
Mineral reserves	33,882	33,882
Construction in progress	15,954	15,467
	531,294	526,888
Less accumulated depreciation and depletion	(323,488)	(302,784)
	\$ 207,806	\$ 224,104

The Company capitalized interest of \$128 and \$1,939 for the years ended March 31, 2022 and 2021, respectively, related to construction in progress.

**NOTE G - ASSET RETIREMENT OBLIGATION (“ARO”)**

The Company has significant obligations to remove tangible equipment and restore land at the end of various agreements for the Company’s production operations. The Company’s removal and restoration obligations are primarily associated with the removal of leasehold improvements at one of the Company’s port operations, plugging and abandoning wells and restoring land. Estimating the future restoration and removal costs is difficult and requires management to make estimates and judgments. Asset removal technologies and costs are constantly changing, as are regulatory, political, environmental, safety, and public relations considerations.

AROs associated with retiring tangible long-lived assets are recognized as a liability in the period in which the legal obligation is incurred and becomes determinable. The liability is offset by a corresponding increase in the underlying asset. The ARO liability reflects the estimated present value of the amount of dismantlement, removal, site reclamation, and similar activities associated with the Company’s properties. The Company utilizes current retirement costs to estimate the expected cash outflows for retirement obligations. Inherent in the present value calculation are numerous regulatory, environmental, and political

**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE G - ASSET RETIREMENT OBLIGATION (“ARO”) -Continued**

environments. Accretion expense is recognized over time as the discounted liability is accreted to its expected settlement value.

The following table describes the changes to the Company’s ARO liability, which is included in other noncurrent liabilities, for the years ended March 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Asset retirement obligation at beginning of year	\$ 9,694	\$ 9,365
Accretion expenses	516	329
Asset retirement obligation at end of year	<u>\$ 10,210</u>	<u>\$ 9,694</u>

The ARO liability reflects the estimated present value of the amount of dismantlement, removal, site reclamation, and similar activities associated with the Company’s production and leased port properties. The Company utilizes current retirement costs to estimate the expected cash outflows for retirement obligations. The Company estimates the ultimate productive life of the properties, a risk-adjusted discount rate of 7.43%, and an inflation rate of 2.00%, in order to determine the current present value of this obligation.

**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE H - DEBT**

Debt consisted of the following at March 31,

	<u>2022</u>	<u>2021</u>
Primary revolving credit facility	\$ -	\$ 43,500
Secondary revolving credit facility	-	45,000
Asset based lending credit facility, interest paid monthly, bearing a weighted average interest rate of 2.53% at March 31, 2022	\$ 8,000	-
Term Loan, interest paid monthly, bearing a weighted average interest rate of 1.13% at March 31, 2022	<u>75,000</u>	<u>-</u>
	\$ 83,000	\$ 88,500
Less current maturities of long-term debt	-	(88,500)
Long-term debt	<u><u>\$ 83,000</u></u>	<u><u>\$ -</u></u>

On March 31, 2022 the Company refinanced its Primary Revolving and Secondary Revolving Credit Facilities. The Company refinanced its debt obligations with a \$75,000 Term Loan and a \$32,500 Asset Based Lending Credit Facility (ABL) less outstanding letters of credit.

The ABL Credit Facility is secured by SVM's accounts receivable, inventory and property, plant and equipment. The Term Loan is secured by Karnavati's cash deposits with the lender, accounts receivable, inventory, and property, plant, and equipment. The ABL Credit Facility and Term Loan will expire on March 31, 2027.

**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE H - DEBT - Continued**

As a result the related outstanding balances at March 31, 2022 are classified as long-term on the accompanying Consolidated Balance Sheets. Due to the revolving nature of loans under the Company's credit facility, additional borrowings and periodic repayments and re-borrowings may be made until the maturity date of March 31, 2027.

SVM had outstanding letters of credit totaling \$6,749 and \$6,765 for the years ended March 31, 2022 and 2021, respectively. Available borrowings under the ABL Credit Facility as of March 31, 2022 were \$17,751 and under the Primary Credit Facility were \$11,500 as of March 31, 2021. Available borrowings under the Term Loan and Secondary Credit Facility as of March 31, 2022 and 2021 were \$0.

Loans under the amended ABL Credit Facility bear interest at 30-day SOFR plus 2.25%. Loans under the Term Loan bear interest at 30-day SOFR plus 0.85%. The unused portion of the ABL is subject to an unused line fee of 0.25%. The ABL and Term Loan have certain covenants the Company must maintain. The Company must meet a fixed charged coverage ratio of 1:1 if the availability on the ABL falls below \$5,000.

**NOTE I - INCOME TAXES**

Income tax benefit consisted of the following at March 31,

	<u>2022</u>	<u>2021</u>
Federal		
Current	\$ (493)	\$ (4,876)
Deferred	(8,741)	(1,463)
	<u>(9,234)</u>	<u>(6,339)</u>
State		
Current	(13)	1,032
Deferred	(399)	(2,370)
	<u>(412)</u>	<u>(1,338)</u>
Foreign		
Current	-	-
	<u>\$ (9,646)</u>	<u>\$ (7,677)</u>

**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE I - INCOME TAXES - Continued**

For the years ended March 31, 2022 and 2021, 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 Coronavirus Aid, Relief, and Economic Security Act (the “CARES” Act), the depletion permanent tax difference and the Refined Coal Credit. On March 27, 2020, the U.S. government enacted comprehensive tax legislation. The CARES Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) granting taxpayers a 5-year carryback period for net operating losses (“NOLs”) arising in the tax years beginning after December 31, 2017 and before January 1, 2021; and (2) accelerating the utilization of any remaining minimum tax credits (corporate alternative minimum tax) to offset against regular tax or elect to claim the entire refundable credit beginning in tax year 2019. The Company generated a federal NOL for the year ended March 31, 2022 which will be carried forward indefinitely. A portion of the federal NOL generated for the year ended March 31, 2021 has been carried back to years March 31, 2017, 2018, and 2019. The remaining portion of NOL generated for the year ended March 31, 2021 is carried forward indefinitely. The NOL carryback years fall under both the pre and post-Tax Cuts and Jobs Act (TCJA) tax regime.

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 \$1,906 and \$2,056 for the years ended March 31, 2022 and 2021, respectively.

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,

**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE I - INCOME TAXES - Continued**

	2022	2021
Deferred income tax assets:		
Inventories	\$ 1,187	\$ 2,282
Lease liabilities	9,120	10,749
Asset retirement obligation	2,686	2,560
Other accrued liabilities	2,524	2,774
Other noncurrent liabilities	945	1,016
163(j) interest expense carryforward	528	6,282
Federal net operating loss carryforward	10,068	
State net operating loss carryforward	4,007	2,257
General business credit carryforward	8,368	6,356
Alternative minimum tax credit carryforward	2,554	2,554
Total gross deferred income tax assets	41,985	36,830
Less valuation allowance	(4,243)	(2,554)
Net deferred income tax assets	37,742	34,275
Deferred income tax liabilities:		
Property, plant, and equipment	(38,057)	(41,858)
ROU assets	(9,056)	(10,738)
Intangible assets	(8,383)	(8,460)
Other current assets	(175)	(219)
Other noncurrent assets		(70)
Total gross deferred income tax liabilities	(55,671)	(61,344)
Net deferred income tax liabilities	\$ (17,929)	\$ (27,069)



**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE I - INCOME TAXES - Continued**

At March 31, 2022 and 2021, the Company had California alternative minimum tax (“AMT”) credit carryforwards of approximately \$3,232 and \$3,232, respectively, which may be carried forward indefinitely. The Company also had federal general business credit carryforwards of \$8,368 at March 31, 2022, which can be carried forward for 20 years. The CARES Act accelerated the utilization of remaining federal AMT credits effective immediately. The Company elected and claimed remaining refundable federal AMT credits. As of March 31, 2022, California has not conformed to the CARES Act’s provision regarding the acceleration of AMT credit utilization. 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, net of the federal benefit, of \$2,544 and \$2,554 as of March 31, 2022 and 2021, respectively. The Company also has a federal net operating loss carryforward of \$47,941, which was generated in the years ending March 31, 2022 and 2021, which carries forward indefinitely. The Company scheduled out the reversal of the cumulative temporary differences which demonstrated there will be sufficient taxable temporary differences to utilize the deductible temporary differences and other deferred tax assets. The Company also has state net operating loss carryforwards of \$59,758 which were generated in the years ending March 31, 2020, 2021 and 2022 which are carried forward from 10 years to indefinitely. The Company scheduled out the reversal of the cumulative temporary differences for state purposes which demonstrated there will not be sufficient taxable temporary differences to utilize all the deductible temporary differences and other deferred tax assets. Accordingly, the Company has recorded an additional valuation allowance of \$1,689 (net of the federal benefit) against a portion of state net operating loss carryforwards.

The Company files income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions, and France. Tax years ending after fiscal year 2019, remain subject to examination and assessment for federal purposes and for certain states fiscal 2018 and after. However, the federal and state loss and credit carryforwards and amounts utilized in open years are also open for potential adjustment. As of the date of these financial statements, there are no ongoing examinations.

**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE I - INCOME TAXES - Continued**

During the years ended March 31, 2022 and 2021, the Company had no uncertain tax positions. 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 interest expense.

**NOTE J - 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 \$3,042 and \$3,142 for the years ended March 31, 2022 and 2021, 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.

**NOTE K - 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.

The Company is currently in litigation with the Indian Wells Groundwater Authority “IWGA” over the IWGA’s replenishment fee. On January 1, 2015 California enacted the Sustainable Groundwater Management Act due to a severe multi-year drought in California and a growing understanding the groundwater was being pumped faster than it was being replenished. The IWGA was established under the SGMA and created a Groundwater Sustainability Plan “GSP” on January 16, 2020. Under the GSP the IWGA set up a significant replenishment fee based on water consumption. The Company is challenging the

**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE K - COMMITMENTS AND CONTINGENCIES - Continued**

replenishment fee based the Company's belief it has prescriptive water rights not subject to the IWGA's replenishment fee. The Company does continue to accrue for the replenishment fee and late fees. The Company has accrued \$6,427 as of March 31, 2022 classified in Accounts payable.

2. *Leases*

The Company is a lessee in several non-cancellable operating leases, primarily for rail cars, heavy and office equipment, and real property, and finance leases for certain machinery. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The Company's activities as a lessor and sub-lessor are not significant.

The Company's rail car leases have initial lease terms ranging from 1 to 10 years, some of which include options to extend or renew the leases for 2 to 7 years. For rail car leases, the options to extend are not considered reasonably certain at lease commencement because of the availability of alternative rail cars and ease of relocation. Other leases have initial lease terms ranging from 1 month to 20 years, some of which may include automatic renewal options or options to extend the leases for up to 20 years. Generally, the renewal option periods are not included within the lease term because the Company typically does not exercise renewal options except for the San Diego port lease. The San Diego lease is currently in a month-to-month holdover. The Company believes both parties will more likely than not extend the agreement for a period of 20 years.

The Company determines if an arrangement is a lease at contract inception. A lease exists when a contract conveys to the customer the right to control the use of identified property, plant, or equipment for a period of time in exchange for consideration. ROU assets represent the Company's right to use an underlying asset for the lease term, and lease liabilities represent the Company's obligation to make lease payments arising from the lease.

Operating leases where the Company is the lessee are included in Right of Use Assets and Other accrued liabilities for short-term and Other noncurrent liabilities for long term on the Company's Consolidated Balance Sheets. Finance leases where we are the lessee are included in Right of Use Assets and Other accrued liabilities for short term and Other noncurrent liabilities for long term on the Company's Consolidated Balance Sheets. The ROU asset and lease liability for operating leases are initially measured and recorded at the present value of the expected future lease payments at contract commencement or modification. For finance leases, the lease liability is initially measured in the same manner

**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE K - COMMITMENTS AND CONTINGENCIES - Continued**

and date as for operating leases and is subsequently measured at amortized cost using the effective interest method.

ASC 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. As the interest rate implicit in the Company's leases is not readily determinable, the Company uses its incremental borrowing rate as the discount rate for the lease. The Company determines the rates using a portfolio approach. Because the Company does not generally borrow on a collateralized basis, we have developed a credit rating in order to derive an appropriate incremental borrowing rate, adjusted for the lease term and the effect of collateral.

Payments due under the lease contracts include fixed payments plus, for many of the Company's leases, variable payments such as escalations based on usage fees, property taxes, insurance, and common area maintenance which may be paid to the lessor or a third party. The Company's real property leases may include fixed escalations or escalations based on the consumer price index. The Company has elected to combine lease and nonlease components for all classes of underlying asset. Therefore, separate lease and non-lease components are accounted for as a single lease component.

Operating lease costs are recognized on the Consolidated Statements of Operations on a straight-line basis over the lease term, with operating lease costs being recorded to cost of goods sold -products or selling, general and administrative expense based on the primary use of the leased asset. Finance lease costs are recorded to depreciation expense, and interest expense is recognized using the effective interest rate method and included in interest expense in the Company's Consolidated Statements of Operations. Variable rent payments for both operating and finance leases are not included in the measurement of the lease liability and are recognized when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs.

ROU assets for operating and finance leases may be periodically reduced by impairment losses. The Company uses the long-lived assets impairment guidance to determine whether an ROU asset is impaired, and if so, the amount of the impairment loss to recognize. As of March 31, 2022, we have not encountered any impairment losses.

**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE K - COMMITMENTS AND CONTINGENCIES - Continued**

The Company monitors for events or changes in circumstances that require a reassessment of a lease. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance is recorded in profit or loss.

The components of lease cost included in cost of goods sold for the year ended March 31,

	<u>2022</u>	<u>2021</u>
Operating lease expense	\$ 12,015	\$ 12,255
Finance lease cost		
Amortization of right-of-use assets	369	48
Interest on lease liabilities	87	80
Total finance lease expense	<u>456</u>	<u>128</u>
Short term lease expense	2,508	1,675
Variable lease expense	1,353	1,340
Total lease expense	<u>\$ 16,332</u>	<u>\$ 15,398</u>

Amounts reported in the Consolidated Balance Sheets for leases where the Company is the lessee as of the year ended March 31,

**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE K - COMMITMENTS AND CONTINGENCIES - Continued**

<u>Leases</u>	<u>Classification</u>	<u>2022</u>	<u>2021</u>
<b>Assets</b>			
Operating lease assets	Right of use assets	\$ 34,426	\$ 40,664
Finance lease assets	Right of use assets(less accumulated amortization of \$625 and \$56)	2,227	2,400
<b>Total lease assets</b>		<b>\$ 36,653</b>	<b>\$ 43,064</b>
<b>Liabilities</b>			
<b>Current</b>			
Operating	Other accrued liabilities	\$ 10,055	\$ 8,693
Finance	Other accrued liabilities	562	464
<b>Noncurrent</b>			
Operating	Other noncurrent liabilities	24,613	32,010
Finance	Other noncurrent liabilities	1,404	1,598
<b>Total lease liabilities</b>		<b>\$ 36,634</b>	<b>\$ 42,765</b>

Information related to lease term and discount rate for the year ended March 31,

	<u>2022</u>	<u>2021</u>
<b>Weighted-average remaining lease term</b>		
Operating leases	4.87 years	5.65 years
Finance leases	5.67 years	4.16 years
<b>Weighted-average discount rate</b>		
Operating leases	4.54%	4.81%
Finance leases	4.48%	4.88%

**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE K - COMMITMENTS AND CONTINGENCIES - Continued**

Other information related to leases as of the year ended March 31,

	2022	2021
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	\$ 87	\$ 80
Operating cash flows from operating leases	11,826	12,077
Financing cash flows from finance leases	491	339
Total cash paid for amounts included in the measurement of lease liabilities:	\$ 12,404	\$ 12,496
Right-of-use assets obtained in exchange for lease liabilities		
Operating leases	\$ 3,998	\$ 11,190
Finance leases	335	975
Reductions to ROU assets resulting from reductions to lease obligations		
Operating leases	752	615
Finance leases	-	-

Amounts disclosed for ROU assets obtained in exchange for lease obligations include amounts added to the carrying amount of ROU assets resulting from lease modifications and reassessments.

Maturities of lease liabilities under non-cancellable leases as of the year ended March 31, 2022 are as follows:

	Operating leases	Finance leases
2023	\$ 11,364	\$ 636
2024	10,288	636
2025	8,083	565
2026	3,331	218
2027	784	60
Thereafter	5,248	-
Total undiscounted lease payments	\$ 39,098	\$ 2,115
Less imputed interest	4,430	149
Total lease liabilities	\$ 34,668	\$ 1,966

**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE K - COMMITMENTS AND CONTINGENCIES - Continued**

As of the year ended March 31, 2022, we have no additional operating or finance leases that have not yet commenced.

The Company must at a minimum of once during the life of the agreement perform abrasive blasting and subsequently painting the exterior of each railcar. The agreements mature between 2020 and 2026, and the estimated remaining obligation as of March 31, 2022 to fulfill this requirement is \$1,004. These payments are not included as part of the Company's lease payments because re-painting of railcars is considered routine maintenance.

3. *Self-Insurance*

The Company is self-insured for certain employee health benefits (\$260 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, 2022 and 2021, the Company recorded a liability of \$1,586 and \$1,495, respectively, in Other accrued liabilities for self-insured medical costs. At March 31, 2022 and 2021, the Company recorded a liability of \$4,158 (\$848 classified in Other accrued liabilities and \$3,310 in Other noncurrent liabilities) and \$4,804 (\$930 classified in Other accrued liabilities and \$3,874 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 pays a royalty to the U.S. government of 5% on the net sales value of the minerals extracted from government land. The U.S. government reduced the royalty rate for Soda Ash products from 5% to 2% for a 10 year period starting on January 1, 2021. The leases generally have a term of 10 years with preferential renewal options. Royalty expense included in Cost of goods sold-products was \$5,220 and \$7,353, for the years ended March 31, 2022 and 2021, respectively.



**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE K - COMMITMENTS AND CONTINGENCIES – Continued**

5. *Purchase Commitments*

As of March 31, 2017, the Company has entered into supply contracts to purchase coal and as of March 31, 2022, the Company has entered into supply contracts to purchase natural gas. 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. GAAP. As such, these contracts have been excluded from recognition within these Consolidated Financial Statements until the actual contracts are physically settled. The purchase commitments for coal are with two suppliers and one supplier for natural gas and require the Company to purchase a minimum usage. Future minimum purchases remaining under the coal agreement are \$6,186 through December 31, 2022. Future minimum purchases remaining under the gas agreement are \$1,189 through October 31, 2023.

6. *Sales Commitments*

The Company has various agreements with customers to sell specified amounts of sodium sulfate, soda ash, potassium sulfate, 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 is currently in a hold over period. The Company intends to remain in San Diego for at least another 20 years if it can successfully renew its agreement with the Port of San Diego over such period. The Long Beach port agreement expires in December 2023. For the San Diego port, the Company recorded \$715 and \$703 in unfulfilled MAG commitments as of March 31, 2022 and 2021, respectively, which are included in Accounts

**KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**March 31, 2022 and 2021**  
**(in thousands)**

**NOTE K - COMMITMENTS AND CONTINGENCIES – Continued**

payable. Future MAG commitments based on the lease periods noted above on the San Diego and Long Beach ports through the respective contract expiration dates are \$11,770 and \$8,924, respectively.

8. *Environmental Matters*

At March 31, 2022 and 2021, the Company recorded accruals \$2,716 (\$80 classified in Other accrued liabilities and \$2,636 in Other noncurrent liabilities) for future costs associated with environmental matters.

**NOTE L - RELATED-PARTY TRANSACTIONS**

The Company had sales of \$1,375 and \$11,100 for the years ended March 31, 2022 and 2021, respectively, and accounts receivable of \$222 and \$53 as of March 31, 2022 and 2021, respectively, with its Parent.

**NOTE M - SUBSEQUENT EVENTS**

The Company has evaluated subsequent events from the Consolidated Balance Sheet date through May 23, 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, 2022**

**(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
\$ 478	\$ -	\$ 694	\$ 12	\$ -	\$ 1,184	\$ 32,553	\$ -	\$ 33,737
-	-	-	-	-	-	63,642	-	63,642
-	147	45	50,479	-	50,671	-	-	50,671
-	-	-	23,531	-	23,531	(78)	-	23,453
15	-	-	684	(5)	694	-	-	694
-	55	122	62,526	-	62,703	-	-	62,703
4	-	3	3,580	-	3,587	-	-	3,587
<u>497</u>	<u>202</u>	<u>864</u>	<u>140,812</u>	<u>(5)</u>	<u>142,370</u>	<u>96,117</u>	<u>-</u>	<u>238,487</u>
2	4,040	395	203,369	-	207,806	-	-	207,806
-	-	-	79,843	(79,843)	-	171,047	(171,047)	-
-	489	-	36,164	-	36,654	-	-	36,654
-	-	-	400	-	400	-	-	400
<u>\$ 499</u>	<u>\$ 4,731</u>	<u>\$ 1,259</u>	<u>\$ 460,588</u>	<u>\$ (79,848)</u>	<u>\$ 387,229</u>	<u>\$ 267,165</u>	<u>\$ (171,047)</u>	<u>\$ 483,347</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
21	8,065	29	27,718	-	35,833	-	-	35,833
52	348	-	7,467	-	7,867	-	-	7,867
9	259	8	12,949	(6)	13,219	142	-	13,361
<u>82</u>	<u>8,672</u>	<u>37</u>	<u>48,134</u>	<u>(6)</u>	<u>56,919</u>	<u>142</u>	<u>-</u>	<u>57,061</u>
(95)	(82,497)	66	98,065	-	15,539	(15,539)	-	-
-	383	-	42,413	-	42,796	-	-	42,796
-	-	-	83,000	-	83,000	-	-	83,000
-	-	-	17,928	-	17,928	-	-	17,928
<u>(13)</u>	<u>(73,442)</u>	<u>103</u>	<u>289,540</u>	<u>(6)</u>	<u>216,182</u>	<u>(15,397)</u>	<u>-</u>	<u>200,785</u>
-	-	-	-	-	-	10	-	10
744	29,435	372	199,513	(30,551)	199,513	124,991	(199,513)	124,991
<u>(232)</u>	<u>48,738</u>	<u>784</u>	<u>(28,466)</u>	<u>(49,291)</u>	<u>(28,466)</u>	<u>157,561</u>	<u>28,466</u>	<u>157,561</u>
<u>512</u>	<u>78,173</u>	<u>1,156</u>	<u>171,047</u>	<u>(79,842)</u>	<u>171,047</u>	<u>282,562</u>	<u>(171,047)</u>	<u>282,562</u>
<u>\$ 499</u>	<u>\$ 4,731</u>	<u>\$ 1,259</u>	<u>\$ 460,588</u>	<u>\$ (79,848)</u>	<u>\$ 387,229</u>	<u>\$ 267,165</u>	<u>\$ (171,047)</u>	<u>\$ 483,347</u>

**Karnavati Holdings, Inc. and Subsidiaries**  
**CONSOLIDATING STATEMENT OF OPERATIONS**

**March 31, 2022**

**(in thousands)**

	Minerals Europe, S.A.S.	Company, LLC	Water Company, LLC	Minerals Inc. (SVM)	SVM eliminations	SVM consolidated	Holdings, Inc. (KHI)	KHI eliminations	KHI consolidated
Net sales	\$ -	\$ 10,707	\$ 628	\$ 327,638	\$ (10,657)	\$ 328,317	\$ -	\$ -	\$ 328,317
Cost of goods sold - products	2	6,985	542	258,630	(10,657)	255,502	-	-	255,502
Cost of goods sold - shipping and handling	-	-	-	90,336	-	90,336	-	-	90,336
Gross profit (loss)	(2)	3,722	86	(21,328)	-	(17,521)	-	-	(17,521)
Selling, general and administrative expenses	(13)	-	-	10,796	-	10,785	(352)	308	10,741
Income (loss) from operations	11	3,722	86	(32,124)	-	(28,306)	352	(308)	(28,262)
Interest expense	-	13	-	2,891	-	2,903	-	(308)	2,595
Income (loss) from subsidiary	-	-	-	3,806	(3,806)	-	(21,471)	21,471	-
Income (loss) before taxes	11	3,709	86	(31,209)	(3,806)	(31,209)	(21,119)	21,471	(30,857)
Income tax expense (benefit)	-	-	-	(9,738)	-	(9,738)	92	-	(9,646)
Net income (loss)	\$ 11	\$ 3,709	\$ 86	\$ (21,471)	\$ (3,806)	\$ (21,471)	\$ (21,211)	\$ 21,471	\$ (21,211)