Consolidated Financial Statements and Report of Independent Certified Public Accountants

KARNAVATI HOLDINGS, INC. AND SUBSIDIARIES

March 31, 2017 and 2016

C O N T E N T S

Grant Thornton LLP
1201 Walnut Street, Suite 2200
Kansas City, MO 64106-2176

T 816.412.2400
F 816.412.2404
www.GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

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, 2017 and 2016, 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, 2017 and 2016, 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 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 17, 2017

CONSOLIDATED FINANCIAL STATEMENTS

Karnavati Holdings, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

March 31, 2017

(in thousands, except per share amounts)

		2017		2016
ASSETS				
Current assets				
Cash and cash equivalents	$	93,956	$	63,460
Accounts receivable, net		56,428		66,393
Other receivables		639		767
Inventories, net		56,458		55,559
Other current assets		463		401
Deferred tax asset		1,695		3,390
Total current assets		209,639		189,970
Property, plant, and equipment, net		163,957		168,950
Investment in joint venture		375		458
Intangible assets, net		670		1,030
Total assets	$	374,641	$	360,408
LIABILITIES AND STOCKHOLDER'S EQUITY				
Current liabilities				
Accounts payable	$	42,027	$	38,541
Accrued salaries and wages		8,893		9,334
Other accrued liabilities		2,072		4,526
Total current liabilities		52,992		52,401
Other noncurrent liabilities		10,826		10,172
Long-term debt		20,105		29,949
Deferred tax liability		45,458		48,350
Total liabilities		129,381		140,872
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		120,259		94,535
Total stockholder's equity		245,260		219,536
Total liabilities and stockholder's equity	$	374,641	$	360,408

The accompanying notes are an integral part of these statements.

Karnavati Holdings, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 2017 and 2016

(in thousands)

	2017	2016
Net sales	$ 378,382	$ 384,573
Cost of goods sold - shipping and handling	92,050	93,800
Cost of goods sold - products	248,299	257,408
Gross profit	38,033	33,365
Selling, general, and administrative expenses	11,064	12,202
Income from operations	26,969	21,163
Other income	-	3,871
Interest (expense) income	(522)	328
Income before income taxes	26,447	25,362
Income taxes	723	3,800
Net income	$ 25,724	$ 21,562

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, 2017 and 2016

(in thousands)

	Common stock	Additional paid-in capital	Retained earnings	Total stockholder’s equity
Balance, March 31, 2015	$ 10	$ 124,991	$ 72,973	$ 197,974
Net income	-	-	21,562	21,562
Balance, March 31, 2016	10	124,991	94,535	219,536
Net income	-	-	25,724	25,724
Balance, March 31, 2017	$ 10	$ 124,991	$ 120,259	$ 245,260

The accompanying notes are an integral part of this statement.

Karnavati Holdings, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2017 and 2016

(in thousands)

	2017	2016
Cash flows from operating activities		
Net income	$ 25,724	$ 21,562
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and depletion	19,630	20,507
Amortization	360	360
Deferred taxes	(1,197)	(3,254)
Loss on investment in joint venture	269	269
Changes in operating assets and liabilities		
Accounts receivable	9,965	(8,190)
Other receivables	128	353
Inventories	(899)	6,697
Other current assets	(62)	489
Accounts payable, accrued salaries and wages, and other accrued liabilities	1,163	7,510
Due to parent	-	(841)
Other noncurrent liabilities	654	634
Net cash provided by operating activities	55,735	46,096
Cash flows from investing activities		
Purchases of property, plant, and equipment	(15,209)	(9,304)
Investment in joint venture	(186)	(230)
Net cash used in investing activities	(15,395)	(9,534)
Cash flows from financing activities		
Proceeds from revolving credit facility	130,497	128,502
Repayments of revolving credit facility	(140,341)	(132,163)
Net cash used in financing activities	(9,844)	(3,661)
Change in cash and cash equivalents	30,496	32,901
Cash and cash equivalents, beginning of year	63,460	30,559
Cash and cash equivalents, end of year	$ 93,956	$ 63,460
Supplemental disclosure of cash flow information		
Cash paid during the year for		
Interest	$ 744	$ 566
Taxes	4,666	8,411
Noncash investing activity		
Purchases of property, plant, and equiment in accounts payable	$ 1,186	$ 1,758

The accompanying notes are an integral part of these statements.

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. *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 cost 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 an allowance for doubtful accounts of $0 and $76 as of March 31, 2017 and 2016, respectively.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. *Inventories*

Raw materials and supply costs are carried at the lower of cost (first-in, first-out (FIFO) at the average cost method) or market (net realizable value). 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.

4. *Property, Plant, and Equipment*

Property, plant, and equipment are stated at cost less accumulated depreciation and depletion. The costs of replacement 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, 2017 and 2016.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. *Major Maintenance Activities*

The Company incurs planned major maintenance costs on all of its major equipment. Major maintenance costs that are expected to benefit current and future periods are expensed as incurred.

6. *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.

7. *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.

8. *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.

9. *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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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, 2017 and 2016 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, 2017 and 2016, based upon terms and conditions available to the Company at those dates in comparison to terms and conditions of the outstanding debt.

11. *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, 2017 and 2016. No single customer accounted for more than 10% of the Company's accounts receivable as of March 31, 2017 or 2016. Sales to customers outside North America aggregated 32% and 39% of total sales for the years ended March 31, 2017 and 2016, respectively. Receivables from customers outside North America aggregated 33% and 51% of total receivables as of March 31, 2017 and 2016, respectively.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 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, 2017 and 2016, the Company contributed $267 and $230, respectively.

13. *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 allowance for doubtful accounts receivable, 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.

(in thousands)

NOTE C - INVENTORIES

Inventories consisted of the following at March 31,

	2017	2016
Finished goods	$ 31,907	$ 32,693
Raw materials	8,032	6,619
Supplies	23,474	22,385
Reserves	(6,955)	(6,138)
	$ 56,458	$ 55,559

NOTE D - PROPERTY, PLANT, AND EQUIPMENT

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

	2017	2016
Land and improvements	$ 1,807	$ 1,807
Buildings and improvements	3,685	3,606
Machinery and equipment	313,108	298,836
Mineral reserves	33,882	33,882
Construction in progress	8,226	7,940
	360,708	346,071
Less accumulated depreciation and depletion	(196,751)	(177,121)
	$ 163,957	$ 168,950

The Company capitalized interest of $215 and $63 for the years ended March 31, 2017 and 2016, respectively, related to construction in progress.

(in thousands)

NOTE E - INTANGIBLE ASSETS

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

	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
	$ 4,000	$ 3,330	$ 670

	March 31, 2016		
	Gross carrying amount	Accumulated amortization	Net book value
Amortized intangible assets			
Customer relationships	$ 3,600	$ 2,970	$ 630
Nonamortized intangible assets			
Trademark	400	-	400
	$ 4,000	$ 2,970	$ 1,030

Amortization expense for the years ended March 31, 2017 and 2016 was $360 in each year. Estimated annual amortization expense for the year ending March 31, 2018 is $270.

(in thousands)

NOTE F - DEBT

Debt consisted of the following at March 31,

	2017	2016
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 (2.0344% and 1.6885% at March 31, 2017 and 2016, respectively), due September 10, 2018.	$ 20,105	$ 29,949

The Company had outstanding letters of credit totaling $7,161 and $6,447 at March 31, 2017 and 2016, 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, 2017 and 2016 were $37,734 and $28,604, respectively. The Company was in compliance with covenants as of March 31, 2017.

NOTE G - INCOME TAXES

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

	2017	2016
Federal		
Current	$ 2,877	$ 3,959
Deferred	(1,431)	(2,797)
	1,446	1,162
State		
Current	(974)	3,095
Deferred	234	(457)
	(740)	2,638
Foreign		
Current	17	-
	$ 723	$ 3,800

(in thousands)

NOTE G - INCOME TAXES - Continued

For the years ended March 31, 2017 and 2016, the provisions for income taxes are different than expected from applying statutory rates to pretax income. The difference is predominately due to permanent tax differences, primarily depletion and domestic production deduction.

The Company earned tax credits for refined coal treatments related to the joint venture with FRM (See Note 2 (l) Joint Venture). The Company earned refined coal tax credits of $2,266 and $2,059 for the years ended March 31, 2017 and 2016, 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,

	2017	2016
Deferred income tax assets:		
Inventories	$ 1,536	$ 1,518
Other accrued liabilities	1,861	1,993
Other noncurrent liabilities	4,538	4,480
State net operating loss carryforward	18	38
Alternative minimum tax credit carryforward	7,140	5,875
Total gross deferred income tax assets	15,093	13,904
Less valuation allowance	(7,140)	(5,875)
Net deferred income tax assets	7,953	8,029
Deferred income tax liabilities:		
Property, plant, and equipment	(51,118)	(52,366)
Intangible assets	(298)	(404)
Other current assets	(187)	(121)
Other noncurrent assets	(113)	(98)
Total gross deferred income tax liabilities	(51,716)	(52,989)
Net deferred income tax liabilities	$ (43,763)	$ (44,960)
Current deferred tax assets – net	1,695	3,390
Long-term deferred tax liabilities – net	(45,458)	(48,350)
	$ (43,763)	$ (44,960)

NOTE G - INCOME TAXES – Continued

At March 31, 2017 and 2016 the Company had Kansas net operating loss carryforwards of $404 and $902, respectively, which if not utilized expire on March 31, 2018. At March 31, 2017 and 2016, the Company had federal and California alternative minimum tax (AMT) credit carryforwards of approximately $7,140 and $5,875, respectively, which may be carried forward indefinitely. However, due to the nature of the items giving rise to the AMT credit carryforwards, the utilization of the AMT credit carryforwards is uncertain. Accordingly, the Company has recorded a valuation allowance of $7,140 and $5,875 at March 31, 2017 and 2016, 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.

The Company is under examination for their March 31, 2006 and 2007 California state income tax returns. The Company believes that an adequate provision has been made for all open years.

During the years ended March 31, 2017 and 2016, the Company had uncertain tax positions of $149 and $840 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 $3,270 and $3,182 for the years ended March 31, 2017 and 2016, 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.

(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:

2018	$	10,868
2019		8,108
2020		6,314
2021		2,520
2022		1,205
Thereafter		3,946
	$	32,961

Rent expense for operating leases was $11,766 and $11,886 for the years ended March 31, 2017 and 2016, 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, 2017 to fulfill this requirement is $2,690.

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, 2017 and 2016, the Company recorded a liability of $765 and $943, respectively, in other accrued liabilities for self-insured medical costs. At March 31, 2017 and 2016, the Company recorded a liability of $7,377 ($1,401 classified in other accrued liabilities and $5,976 in other noncurrent liabilities) and $6,196 ($1,239 classified in other accrued liabilities and $4,957 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 $9,832 and $8,998 for the years ended March 31, 2017 and 2016, 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 $29,808 through December 31, 2018. Future minimum purchases remaining under the gas agreement are $1,564 through March 31, 2019.

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 January 2018 and the Long Beach port agreement expires in May 2018. The Company recorded $1,649 and $1,918 in unfulfilled MAG commitments as of March 31, 2017 and 2016, 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 $1,006 and $5,171, respectively.

8. *Environmental Matters*

At March 31, 2017 and 2016, the Company recorded accruals of $2,837 ($80 classified in other accrued liabilities and $2,757 in other noncurrent liabilities) for future costs associated with environmental matters.

NOTE J - RELATED-PARTY TRANSACTIONS

The Company had sales of $1,140 and $2,335 for the years ended March 31, 2017 and 2016, respectively, and accounts receivables of $0 and $547 as of March 31, 2017 and 2016, respectively, with its parent.

The Company had sales of $2,018 for the year ended March 31, 2017 and accounts receivable of $0 as of March 31, 2017 with an affiliate.

NOTE K - SUBSEQUENT EVENTS

The Company has evaluated subsequent events from the balance sheet date through May 17, 2017, 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, 2017

(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
Current assets									
Cash and cash equivalents	$ 613	$ -	$ -	$ 1	$ -	$ 614	$ 93,342	$ -	$ 93,956
Accounts receivable, net	349	2	46	56,285	(254)	56,428	-	-	56,428
Other receivables	52	-	-	628	(41)	639	-	-	639
Inventories, net	-	40	106	56,312	-	56,458	-	-	56,458
Other current assets	15	-	12	436	-	463	-	-	463
Deferred tax asset	-	-	-	1,695	-	1,695	-	-	1,695
Total current assets	1,029	42	164	115,357	(295)	116,297	93,342	-	209,639
Property, plant, and equipment, net	3	4,642	454	158,858	-	163,957	-	-	163,957
Investment in joint venture	-	-	-	63,825	(63,450)	375	152,417	(152,417)	375
Intangible assets, net	-	-	-	670	-	670	-	-	670
Total assets	$ 1,032	$ 4,684	$ 618	$ 338,710	$ (63,745)	$ 281,299	$ 245,759	$ (152,417)	$ 374,641
Current liabilities									
Accounts payable	$ 282	$ 9,293	$ 22	$ 32,684	$ (254)	$ 42,027	$ -	$ -	$ 42,027
Accrued salaries and wages	73	226	-	8,594	-	8,893	-	-	8,893
Other accrued liabilities	25	-	26	1,507	(41)	1,517	555	-	2,072
Total current liabilities	380	9,519	48	42,785	(295)	52,437	555	-	52,992
Due to parent	-	(66,746)	(317)	67,063	-	-	-	-	-
Other noncurrent liabilities	-	-	-	10,826	-	10,826	-	-	10,826
Long-term debt	-	-	-	20,105	-	20,105	-	-	20,105
Deferred tax liability	-	-	-	45,514	-	45,514	(56)	-	45,458
Total liabilities	380	(57,227)	(269)	186,293	(295)	128,882	499	-	129,381
Stockholder’s equity									
Common stock	-	-	-	-	-	-	10	-	10
Additional paid-in capital	744	29,436	372	201,920	(32,959)	199,513	124,991	(199,513)	124,991
Retained earnings	(92)	32,475	515	(49,503)	(30,491)	(47,096)	120,259	47,096	120,259
Total stockholder’s equity	652	61,911	887	152,417	(63,450)	152,417	245,260	(152,417)	245,260
Total liabilities and stockholder’s equity	$ 1,032	$ 4,684	$ 618	$ 338,710	$ (63,745)	$ 281,299	$ 245,759	$ (152,417)	$ 374,641

Karnavati Holdings, Inc. and Subsidiaries

CONSOLIDATING STATEMENT OF INCOME

March 31, 2017

(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	$ 2,562	$ 10,672	$ 586	$ 377,397	$ (12,835)	$ 378,382	$ -	$ -	$ 378,382
Cost of goods sold - shipping									-
and handling	87	-	-	91,963	-	92,050	-	-	92,050
Cost of goods sold - products	2,422	6,577	550	251,585	(12,835)	248,299	-	-	248,299
Gross profit	53	4,095	36	33,849	-	38,033	-	-	38,033
Selling, general and administrative						-	-	-	-
expenses	45	-	-	11,019	-	11,064	-	-	11,064
Income from operations	8	4,095	36	22,830	-	26,969	-	-	26,969
Other income	-	-	-	-	-		-	-	-
Interest (expense) income	-	-	-	(522)	-	(522)	-	-	(522)
Income (loss) from subsidiary	-	-	-	4,122	(4,122)	-	-	-	-
	8	4,095	36	26,430	(4,122)	26,447	-	-	26,447
Income taxes	17	-	-	728	-	745	(22)	-	723
Net income	$ (9)	$ 4,095	$ 36	$ 25,702	$ (4,122)	$ 25,702	$ 22	$ -	$ 25,724