

***Kern Energy***

***Financial Statements***

***November 30, 2022 and 2021***

CONFIDENTIAL

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

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### **Independent Auditors' Report**

Board of Directors  
Kern Energy  
Bakersfield, California

#### **Opinion**

We have audited the accompanying financial statements of Kern Energy (a California corporation), which comprise the balance sheets as of November 30, 2022 and 2021, and the related statements of income and retained earnings, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kern Energy as of November 30, 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 in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Kern Energy 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 generally accepted auditing standards 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 Kern Energy'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kern Energy'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.

**BARBICH HOOPER KING**  
**DILL HOFFMAN**  
**Accountancy Corporation**



Bakersfield, California  
May 24, 2023

***Kern Energy***

***Balance Sheets***  
***November 30, 2022 and 2021***  
*(in thousands)*

	<u>2022</u>	<u>2021</u>
<b><i>ASSETS</i></b>		
<b><i>Current Assets</i></b>		
Cash and cash equivalents	\$ 76,010	\$ 9,864
Marketable securities	14,818	35,116
Trade accounts receivable	63,959	45,112
Taxes and other receivables	18,850	20,042
Inventories	25,115	28,894
Prepaid expenses and other assets	11,943	9,659
	<u>210,695</u>	<u>148,687</u>
 <b><i>Property, Plant and Equipment, at cost</i></b>	 158,303	 149,074
Less accumulated depreciation	(110,839)	(104,161)
	<u>47,464</u>	<u>44,913</u>
	<u><u>\$ 258,159</u></u>	<u><u>\$ 193,600</u></u>
 <b><i>LIABILITIES AND STOCKHOLDER'S EQUITY</i></b>		
<b><i>Current Liabilities</i></b>		
Accounts payable	\$ 98,395	\$ 74,403
Accrued liabilities and taxes	22,518	11,257
	<u>120,913</u>	<u>85,660</u>
 <b><i>Stockholder's Equity</i></b>		
Common stock, no par value, authorized, issued and outstanding 2,000 shares	21	21
Additional paid in capital	10,578	10,578
Retained earnings	126,647	97,341
	<u>137,246</u>	<u>107,940</u>
	<u><u>\$ 258,159</u></u>	<u><u>\$ 193,600</u></u>

*See Notes to Financial Statements.*

***Kern Energy***

***Statements of Income and Retained Earnings***  
***Years Ended November 30, 2022 and 2021***  
***(in thousands)***

	<u>2022</u>	<u>2021</u>
<b><i>Sales</i></b>	\$ 1,286,825	\$ 829,048
<b><i>Operating expenses</i></b>		
Cost of products sold	1,146,992	786,524
Refinery operating costs	76,818	66,976
Selling, general and administrative	6,486	4,662
Depreciation	6,678	6,219
	<u>1,236,974</u>	<u>864,381</u>
Operating income (loss)	49,851	(35,333)
<b><i>Dividends, interest, other income and expenses, net</i></b>	<u>(545)</u>	<u>9,608</u>
Net income (loss)	49,306	(25,725)
<b><i>Retained earnings at beginning of year</i></b>	97,341	123,066
<b><i>Dividends paid to stockholder</i></b>	<u>(20,000)</u>	<u>-</u>
<b><i>Retained earnings at end of year</i></b>	<u>\$ 126,647</u>	<u>\$ 97,341</u>

*See Notes to Financial Statements.*

**Kern Energy**

**Statements of Cash Flows**  
**Years Ended November 30, 2022 and 2021**  
*(in thousands)*

	<u>2022</u>	<u>2021</u>
<b><i>Cash flows from operating activities:</i></b>		
Net income (loss)	\$ 49,306	\$ (25,725)
<b><i>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</i></b>		
Depreciation	6,678	6,219
Net realized and unrealized (gain) loss on marketable securities	2,351	(3,235)
Gain on PPP loan forgiveness	-	(5,245)
<b><i>Changes in operating assets and liabilities:</i></b>		
Decrease in trade and other receivables	(17,655)	(11,393)
(Increase) decrease in inventories	3,779	(15,503)
Increase in prepaid expenses and other assets	(2,284)	(376)
Increase in accounts payable, accrued liabilities and taxes	35,253	24,744
Net cash provided by operating activities	<u>77,428</u>	<u>(30,514)</u>
<b><i>Cash flows from investing activities:</i></b>		
Net proceeds of marketable securities	17,947	40,694
Purchase of property, plant and equipment	(9,229)	(7,758)
Net cash provided by investing activities	<u>8,718</u>	<u>32,936</u>
<b><i>Cash flows from financing activities:</i></b>		
Dividends paid to stockholder	(20,000)	-
Net cash used in financing activities	<u>(20,000)</u>	<u>-</u>
<b><i>Net increase in cash and cash equivalents</i></b>	66,146	2,422
<b><i>Cash and cash equivalents at beginning of year</i></b>	<u>9,864</u>	<u>7,442</u>
<b><i>Cash and cash equivalents at end of year</i></b>	<u><u>\$ 76,010</u></u>	<u><u>\$ 9,864</u></u>

*See Notes to Financial Statements.*

## ***Kern Energy***

### ***Notes to Financial Statements***

#### ***Note 1. Nature of Business and Summary of Significant Accounting Policies***

##### ***Nature of business:***

Kern Oil and Refining Co., a California “S” Corporation, doing business as Kern Energy (the Company), is a petroleum refiner and renewable fuels producer with operations located near Bakersfield, California. The Company is the successor to other entities that originally began operations at the location in the 1930’s.

The Company is a wholly owned subsidiary of Casey Co., a privately held company headquartered in Long Beach, California. The Company refines crude oil and other petroleum feedstocks into various petroleum products, processes biomass into renewable diesel and produces biodiesel blends. The Company markets and sells those products primarily to retailers, wholesalers, distributors and major oil companies located in California. Credit is extended to customers in the form of accounts receivable in the normal course of business.

##### ***Basis of accounting:***

Assets, liabilities, income and expenses are recognized on the accrual basis of accounting.

##### ***Use of estimates:***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

##### ***Cash and cash equivalents:***

For purposes of reporting cash balances and cash flows, the Company considers all highly liquid debt instruments purchased with a maturity or effective maturity of three months or less to be cash equivalents.

Cash and cash equivalents are concentrated in high quality financial institutions, and are placed in money market funds, United States government securities, municipal bonds, and commercial paper. Although these balances exceed government insurance levels, the Company does not believe it has any significant risk associated with these investments.



## *Notes to Financial Statements*

### ***Marketable securities:***

Investments in marketable securities are stated at market value, using quoted market prices. Unrealized gains and losses are included in earnings on the statements of income.

The unrealized gain (loss) recognized for the years ended November 30, 2022 and 2021 for equity securities held as of year-end were \$(1,817,468) and \$2,402,277, respectively.

### ***Accounts receivable:***

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management believes that all accounts receivable are fully collectible as of November 30, 2022 and 2021. Accordingly, no reserve for bad debts exists at November 30, 2022 and 2021.

### ***Inventories:***

Crude oil and refined product inventories are stated at lower of cost or market, with cost being determined by the last-in, first-out (LIFO) method. Refinery supply inventories are stated at lower of cost or market determined by the average cost method.

### ***Property, plant and equipment:***

Property, plant and equipment are recorded at cost. Depreciation is computed using the straight line method over estimated useful lives of 10 to 20 years.

Expenditures which materially increase values, expand capacities, or extend useful lives are capitalized. Maintenance and repairs of property and equipment are charged to operations as incurred. Upon retirement, sale, or other disposition of property, plant and equipment, the cost and accumulated depreciation are eliminated from the accounts and gains or losses are included in net income or loss.

### ***Long-lived assets:***

The Company evaluates its long-lived assets for indicators of possible impairment when events or changes in circumstances indicate the carrying value of an asset may not be recoverable. To date, management has determined that no impairment of long-lived assets exists and therefore no impairment losses have been recognized as of November 30, 2022 and 2021.

## *Notes to Financial Statements*

### ***Asset retirement obligations:***

The Financial Accounting Standards Board (FASB) requires that the fair value of a liability associated with the retirement of long-lived assets be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. Retirement dates for the Company's assets generally cannot be determined, and estimates of the fair value of asset retirement liabilities cannot be made, therefore no liabilities have been recorded as of November 30, 2022 and 2021.

### ***Accounts payable:***

The Company's accounts payable includes trade payables and other short-term liabilities outstanding at year-end that are expected to be paid within the next year. During the year ended November 30, 2020 the Company received an advance of \$3,245,000 payable under the Federal Government's Paycheck Protection Program (PPP), administered by a bank on behalf of the Small Business Administration (SBA). During the year ended November 30, 2021 the Company received a second advance under the PPP program in the amount of \$2,000,000. On July 6, 2021, the Company was notified that the Company's first PPP loan, in the amount of \$3,245,000 was forgiven. On October 22, 2021, the Company was notified that the Company's second PPP loan, in the amount of \$2,000,000 was forgiven. Gain on loan forgiveness was included in other income for the year ended November 30, 2021.

### ***Revenue recognition:***

The Company records revenues for products sold when it has completed its performance obligation, typically upon delivery to customers, which is the point at which title is transferred and when payment has either been received or collection is reasonably assured. Revenue is measured at the amount the Company expects to receive in exchange for transferring commodities to the customer. All revenues are reported on a net basis, exclusive of shipping and handling costs. Excise and other taxes collected from customers and remitted to governmental authorities are not included in revenues and costs.

The Company enters into certain purchases and sales of inventory with the same counterparty that are deemed to be made in contemplation of one another. These buy/sell transactions are combined and, as a result, revenues and cost of sales are not recognized in connection with these arrangements, with no effect on net income or loss.

## *Notes to Financial Statements*

### ***Income taxes:***

The Company and its parent company have elected to be taxed as “S” Corporations under Internal Revenue Code Section 1371 and file consolidated income tax returns. Under this election, the corporation does not pay Federal income taxes. Although California has conformed to “S” Corporation provisions, it still imposes a minimum tax of 1.5% on taxable income, which is paid by the parent company. The income and other distributable items of the consolidated tax returns flow through to the stockholder and will be reported by them on their individual income tax returns.

### ***Futures contracts:***

The Company periodically enters into futures contracts to manage its exposure to crude oil and refined products price fluctuations. Futures contracts are carried at fair value. Generally, because of the short-term nature of the contracts or their limited use, the Company does not apply hedge accounting principles, and changes in the fair value of these contracts are reflected in current operating income (loss).

Margin deposits and futures contract balances were \$3,233,000 and \$3,134,000 at November 30, 2022 and 2021, respectively, and are included in prepaid expenses and other assets on the balance sheets. For the years ended November 30, 2022 and 2021, the gains (losses) recognized from futures contracts in the statements of income in cost of products sold were (\$10,148,000) and (\$4,840,000), respectively.

At November 30, 2022, the Company held futures contracts obligating the Company to sell crude oil at a fair value of approximately \$30,715,000. The crude oil futures contracts have maturity dates of January 2023 and February 2023. The Company also held futures contracts obligating the Company to purchase crude oil at a fair value of approximately \$6,265,000. These crude oil futures contracts had a maturity date of January 2023.

At November 30, 2021, the Company held futures contracts obligating the Company to sell crude oil at a fair value of approximately \$32,190,000. The crude oil futures contracts had maturity dates of January 2022 and February 2022. The Company also held futures contracts obligating the Company to purchase crude oil at a fair value of approximately \$3,533,000. These crude oil futures contracts had a maturity date of January 2022.

### ***Environmental costs:***

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to existing conditions caused by past operations and that do not contribute to future revenue generation are expensed. Reserves for estimated expenses are recorded when environmental remediation efforts are considered probable and the costs can be reasonably estimated. Expenditures that will ultimately be capitalized are not accrued in advance.

## *Notes to Financial Statements*

### ***Retirement plans:***

The Company maintains a 401(k) plan covering qualified full time employees. Employees may contribute up to 100% of their wages subject to the statutory limitations. Company contributions are made at the discretion of the Board of Directors.

The Company also maintains a defined contribution plan covering substantially all full time employees. The Company contributes 5.1% of eligible compensation to the plan.

All contributions are funded currently. Company contributions to these plans for the years ended November 30, 2022 and 2021 were \$1,103,000 and \$943,000, respectively.

### ***Note 2. Fair Value Measurements***

In accordance with generally accepted accounting principles (GAAP), fair value is determined as the price that would be received in exchange for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The standard establishes three levels of inputs that may be used to measure fair value:

Level 1 – Values are based on quoted prices in active markets for identical assets or liabilities.

Level 2 – Values are based on 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 of substantially the full term of the assets or liabilities.

Level 3 – Values are determined using pricing models, discounted cash flow methodologies or similar techniques, and at least one significant model assumption or input is unobservable. Determination of the fair value requires significant management judgment or estimation.

## *Notes to Financial Statements*

Assets measured at fair value on a recurring basis, excluding accrued interest components, consisted of the following:

	<b><i>2022</i></b>	<b><i>2021</i></b>
	<i>(in thousands)</i>	<i>(in thousands)</i>
Cash and cash equivalents:		
Cash	\$ 2,341	\$ 4,716
Cash and money market funds	73,669	5,148
	<u>\$ 76,010</u>	<u>\$ 9,864</u>
Marketable securities:		
Certificates of deposit	\$ 50	\$ 50
Common stocks, exchange-traded funds	14,747	15,905
Mutual funds	21	19,161
	<u>\$ 14,818</u>	<u>\$ 35,116</u>
Margin deposits:		
Futures contracts	3,233	3,134
	<u>\$ 3,233</u>	<u>\$ 3,134</u>

Cash and cash equivalents and marketable securities are considered Level 1 assets. Margin deposits are considered Level 2 assets and are included in prepaid expenses and other assets on the balance sheets.

### ***Note 3. Inventories***

Inventories at November 30, 2022 and 2021 consisted of the following:

	<b><i>2022</i></b>	<b><i>2021</i></b>
	<i>(in thousands)</i>	<i>(in thousands)</i>
Crude oil	\$ 22,425	\$ 26,126
Refined products	28,215	26,961
Exchanges	13,760	8,755
Refinery supplies	3,443	2,763
LIFO reserve	(42,728)	(35,711)
	<u>\$ 25,115</u>	<u>\$ 28,894</u>

If the first-in, first-out (FIFO) method had been used to determine the cost of inventories, inventories would have been approximately \$42,728,000 and \$35,711,000 higher than reported at November 30, 2022 and 2021, respectively. If the FIFO method had been used, the income statement would have reported operating income of \$56,869,000 and net income of \$56,324,000 for the year ended November 30, 2022, and operating loss of \$12,442,000 and net loss of \$2,834,000 for the year ended November 30, 2021, respectively.

## *Notes to Financial Statements*

### **Note 4. Property, Plant and Equipment**

Property, plant and equipment consisted of the following at November 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
	<i>(in thousands)</i>	<i>(in thousands)</i>
Land	\$ 1,208	\$ 1,208
Buildings and leasehold improvements	3,465	3,465
Refinery machinery and equipment	152,748	143,519
Office equipment	882	882
	<u>158,303</u>	<u>149,074</u>
Accumulated depreciation	<u>(110,839)</u>	<u>(104,161)</u>
	<u>\$ 47,464</u>	<u>\$ 44,913</u>

Refinery machinery and equipment included construction in progress of \$7,418,000 and \$4,195,000 as of November 30, 2022 and 2021, respectively.

### **Note 5. Bank Line of Credit**

The Company has a line of credit with a bank for available credit of \$40,000,000 at November 30, 2022 and 2021, respectively, to finance general working capital needs and to provide letters of credit to facilitate the purchases of crude oil and petroleum products. Borrowings on this line of credit are collateralized by all assets of the Company. The interest rate on borrowings is the secured overnight financing rate (SOFR) plus one and three-quarters percent and LIBOR plus one and one-quarter percent at November 30, 2022 and 2021, respectively. The line of credit expired March 31, 2023.

The line of credit was amended and restated on March 27, 2023 with available credit of \$30,000,000, on terms generally consistent with the expiring agreement, and now expires on March 31, 2025.

The line of credit agreement with the bank has financial covenants which, among other things, require the Company to maintain minimum liquidity, tangible net worth and profitability levels. At November 30, 2022, the Company was in compliance with these covenants.

At November 30, 2022 and 2021, the Company had outstanding letters of credit of \$21,000,000 and \$-0-, respectively and no outstanding borrowings under the line of credit.

### **Note 6. Concentrations**

Refinery sales to two major oil companies approximated 13% and 12% of total sales for the year ended November 30, 2022 and sales to two major oil companies approximated 17% and 15% of total sales for the year ended November 30, 2021.

## ***Notes to Financial Statements***

At November 30, 2022, two customers' accounts receivable balances were in excess of 10% of the Company's total trade accounts receivable. The balances were \$18,745,000 and \$12,725,000 or 29% and 20%, respectively, of the total.

At November 30, 2021, three customers' accounts receivable balances were in excess of 10% of the Company's total trade accounts receivable. The balances were \$12,917,000, \$8,494,000, and \$6,186,000, or 29%, 19%, and 14%, respectively, of the total.

Purchases of raw materials from one supplier approximated 17% of cost of products sold for the year ended November 30, 2022. Purchases of raw materials from three suppliers approximated 18%, 15%, and 12% of cost of products sold for the year ended November 30, 2021.

### ***Note 7. Related Party Transactions***

The Company has entered into various related party transactions, including product sales and terminal services, for the years ended November 30, 2022 and 2021, with its parent company, Casey Co. and with Kern Fuels Research, LLC (KFR), an operating subsidiary of Casey Co. Transactions between all entities within common control of Casey Co. are conducted in the same manner as transactions with unrelated entities.

The Company's sales to KFR for the years ended November 30, 2022 and 2021, were \$5,303,000 and \$2,837,000, respectively. As of November 30, 2022 and 2021, accounts receivable from KFR were \$-0- and \$172,000, respectively.

Related party transactions with Casey Co. relate primarily to expense allocation and reimbursements between the parties. The Company paid \$1,041,000 and \$1,008,000 to Casey Co. during the years ended November 30, 2022 and 2021, respectively, for management fees.

### ***Note 8. Commitments and Contingencies***

#### ***Capital expenditures:***

The Company had commitments for capital expenditures of approximately \$5,100,000 and \$7,300,000 at November 30, 2022 and 2021, respectively.

#### ***Environmental:***

The Company is subject to various Federal, state and local environmental laws and regulations relating to its operations and facilities. Consistent with its accounting policy for environmental costs, the Company had reserves for environmental expenses of \$199,000 at November 30, 2022 and 2021. Such amounts reflect the Company's most likely estimates of the costs that will be incurred over an extended period to remediate identified environmental conditions for which costs are reasonably estimable.

## *Notes to Financial Statements*

### ***Litigation:***

The Company is subject to various claims and lawsuits, some of which may be for substantial amounts. The following actions are being contested and neither the timing nor the ultimate amount of any final disposition of these matters can be predicted with assurance.

The Company has been named as a co-defendant along with other refiners, manufacturers, and others in a number of lawsuits alleging that certain products manufactured or used by the Company have caused cancer and other injuries to the plaintiffs. The suits seek recovery of medical expenses as well as other damages. The Company has submitted the claims to its insurance carriers who have agreed to defend the Company from the claims, subject to reservation of rights as to specific coverage under the insurance policies. Since the ultimate outcome of the litigation and its impact on the Company are unknown at this time, no specific reserve for any potential liability has been recorded.

The Company does not believe that any aggregate liability resulting from the above or any other matters, after taking into consideration amounts already provided for in the financial statements, will have a material adverse effect on its financial position.

Subsequent to year-end, the Company settled an asbestos matter not covered by insurance. The settlement was \$375,000 which was included in accrued liabilities and taxes at November 30, 2022 and reflected in selling, general and administrative expenses for the year ended November 30, 2022.

### ***Note 9. Subsequent Events***

The Company has evaluated events and transactions subsequent to November 30, 2022 through May 24, 2023, the date of the independent auditors' report, noting no significant items requiring further discussion other than the settlement identified in Note 8.