Kern Energy

Financial Statements

November 30, 2024 and 2023

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BARBICH HOOPER KING
DILL HOFFMAN, LLP

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, 2024 and 2023, 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, 2024 and 2023, 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.

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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, LLP

Barbich Hooper King

Bakersfield, California
February 28, 2025

Kern Energy

Balance Sheets
November 30, 2024 and 2023
(in thousands)

	2024	2023
ASSETS		
Current Assets		
Cash and cash equivalents	$ 35,626	$ 72,127
Marketable securities	22,168	17,153
Trade accounts receivable	48,893	58,538
Taxes and other receivables	15,613	12,833
Inventories	21,638	25,730
Prepaid expenses and other assets	8,855	5,541
	152,793	191,922
Property, Plant and Equipment, at cost	177,229	167,419
Less accumulated depreciation	(122,605)	(116,042)
	54,624	51,377
	$ 207,417	$ 243,299
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities		
Accounts payable	$ 65,102	$ 74,182
Accrued liabilities and taxes	16,534	20,546
	81,636	94,728
Stockholder's Equity		
Common stock, no par value, authorized, issued and outstanding 2,000 shares	21	21
Additional paid in capital	10,578	10,578
Retained earnings	115,182	137,972
	125,781	148,571
	$ 207,417	$ 243,299

See Notes to Financial Statements.

Kern Energy

Statements of Income and Retained Earnings
Years Ended November 30, 2024 and 2023
(in thousands)

	2024	2023
Sales	$ 874,197	$ 1,067,015
Operating expenses		
Cost of products sold	815,673	951,190
Refinery operating costs	75,414	83,378
Selling, general and administrative	8,238	7,548
Depreciation	6,641	6,881
	905,966	1,048,997
Operating income (loss)	(31,769)	18,018
Dividends, interest, other income and (expenses), net	8,979	5,307
Net income (loss)	(22,790)	23,325
Retained earnings at beginning of year	137,972	126,647
Dividends paid to stockholder	-	(12,000)
Retained earnings at end of year	$ 115,182	$ 137,972

See Notes to Financial Statements.

Kern Energy

Statements of Cash Flows
Years Ended November 30, 2024 and 2023
(in thousands)

	2024	2023
Cash flows from operating activities:		
Net income (loss)	$ (22,790)	$ 23,325
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	6,641	6,881
Net realized and unrealized gain on marketable securities	(5,245)	(1,229)
Changes in operating assets and liabilities:		
Decrease in trade and other receivables	6,865	11,438
(Increase) decrease in inventories	4,092	(615)
(Increase) decrease in prepaid expenses and other assets	(3,314)	6,402
Decrease in accounts payable, accrued liabilities and taxes	(13,092)	(26,185)
Net cash provided by (used in) operating activities	(26,843)	20,017
Cash flows from investing activities:		
Net proceeds (purchase) of marketable securities	230	(1,106)
Purchase of property, plant and equipment	(9,888)	(10,794)
Net cash used in investing activities	(9,658)	(11,900)
Cash flows from financing activities:		
Dividends paid to stockholder	-	(12,000)
Net cash used in financing activities	-	(12,000)
Net decrease in cash and cash equivalents	(36,501)	(3,883)
Cash and cash equivalents at beginning of year	72,127	76,010
Cash and cash equivalents at end of year	$ 35,626	$ 72,127

See Notes to Financial Statements.

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.

Marketable securities:

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

The unrealized gain recognized for the years ended November 30, 2024 and 2023 for equity securities held as of year-end were $5,172,105 and $1,200,537, 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, 2024 and 2023. Accordingly, no reserve for credit losses exists at November 30, 2024 and 2023.

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 4 to 10 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, 2024 and 2023.

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, 2024 and 2023.

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.

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 stockholders 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.

Margin deposits and futures contract balances were $2,318,000 and $2,082,000 at November 30, 2024 and 2023, respectively, and are included in prepaid expenses and other assets on the balance sheets. For the years ended November 30, 2024 and 2023, the gains (losses) recognized from futures contracts in the statements of income in cost of products sold were $(319,000) and $1,371,000, respectively.

At November 30, 2024, the Company held futures contracts obligating the Company to sell crude oil at a fair value of approximately $19,554,000. The crude oil futures contracts have maturity dates of January 2025 and February 2025. The Company also held futures contracts obligating the Company to purchase crude oil at a fair value of approximately $3,746,000. These crude oil futures contracts had a maturity date of January 2025.

At November 30, 2023, the Company held futures contracts obligating the Company to sell crude oil at a fair value of approximately $29,250,000. The crude oil futures contracts had maturity dates of January 2024 and February 2024. The Company also held futures contracts obligating the Company to purchase crude oil at a fair value of approximately $6,420,000. These crude oil futures contracts had a maturity date of January 2024.

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.

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, 2024 and 2023 were $1,246,000 and $1,200,000, respectively.

Change in accounting principle:

ASU 2016-13, "Financial Instruments - Credit Losses" (Topic 326), and subsequent amendments is effective December 1, 2023 and adopts a current expected credit loss model (CECL) for analysis of the impairment of financial instruments and provides additional disclosure requirements. The Company adopted this standard using the modified-retrospective approach, which did not have any effect on the prior year financial statements.

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.

Assets measured at fair value on a recurring basis, excluding accrued interest components, consisted of the following November 30, 2024 and 2023:

	2024	***2023***
	(in thousands)	*(in thousands)*
Cash and cash equivalents:		
Cash	$ 959	$ 372
Cash and money market funds	34,667	71,755
	$ 35,626	$ 72,127
Marketable securities:		
Certificate of deposit	$ 50	$ 50
Common stocks, exchange-traded funds	21,088	16,104
Mutual funds	564	21
US Treasury bills	466	978
	$ 22,168	$ 17,153
Margin deposits:		
Futures contracts	$ 2,318	$ 2,082

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, 2024 and 2023 consisted of the following:

	2024	2023
	(in thousands)	(in thousands)
Crude oil	$ 18,377	$ 21,111
Refined products	21,313	26,363
Exchanges	4,695	10,035
Refinery supplies	5,784	4,359
LIFO reserve	(28,531)	(36,138)
	$ 21,638	$ 25,730

If the first-in, first-out (FIFO) method had been used to determine the cost of inventories, inventories would have been approximately $28,531,000 and $36,138,000 higher than reported at November 30, 2024 and 2023, respectively. If the FIFO method had been used, the income statement would have reported operating loss of ($39,376,000) and net loss of ($30,396,000) for the year ended November 30, 2024, and operating income of $11,428,000 and net income of $16,735,000 for the year ended November 30, 2023, respectively.

Note 4. Property, Plant and Equipment

Property, plant and equipment consisted of the following at November 30, 2024 and 2023:

	2024	2023
	(in thousands)	(in thousands)
Land	$ 1,208	$ 1,208
Buildings and leasehold improvements	4,336	4,336
Refinery machinery and equipment	170,833	161,228
Office equipment	852	647
	177,229	167,419
Accumulated depreciation	(122,605)	(116,042)
	$ 54,624	$ 51,377

Refinery machinery and equipment included construction in progress of $13,665,000 and $13,473,000 as of November 30, 2024 and 2023, respectively.

During the year ended November 30, 2024, the Company disposed of fully depreciated assets with a cost and accumulated depreciation of $78,000. For the year ended November 30, 2023, the Company disposed of fully depreciated assets with a cost and accumulated depreciation of $1,679,000.

Note 5. Bank Line of Credit

The Company has a line of credit with a bank for available credit of $35,000,000 at November 30, 2024 and 2023, to finance general working capital needs and to provide letters of credit to facilitate the purchases of crude oil and petroleum products. Letters of credit were also issued to serve as financial assurances for potential environmental obligations and for the purchase of carbon allowances. 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 at November 30, 2024 and 2023. The line of credit expires March 31, 2025.

The SOFR rate was 4.59% at November 30, 2024.

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, 2024, the Company was in compliance with these covenants after receiving a waiver from the bank.

At November 30, 2024 and 2023, the Company had outstanding letters of credit of $13,277,000 and $25,277,000, respectively and no outstanding borrowings under the line of credit.

Note 6. Concentrations

Refinery sales to two major oil companies approximated 13% and 11% of total sales for the year ended November 30, 2024 and sales to two major oil companies approximated 11% and 11% of total sales for the year ended November 30, 2023.

At November 30, 2024, two customers' accounts receivable balances were in excess of 10% of the Company's total trade accounts receivable. The balances were $12,743,000 and $10,306,000 or 26% and 21%, respectively, of the total.

At November 30, 2023, two customers' accounts receivable balances were in excess of 10% of the Company's total trade accounts receivable. The balances were $16,837,000 and $14,378,000, or 29% and 25%, respectively, of the total.

Purchases of raw materials from three suppliers approximated 18%, 14%, and 12% of cost of products sold for the year ended November 30, 2024. Purchases of raw materials from two suppliers approximated 18% and 11% of cost of products sold for the year ended November 30, 2023.

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, 2024 and 2023, 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, 2024 and 2023, were $2,249,000 and $3,229,000, respectively. As of November 30, 2024 and 2023, accounts receivable from KFR were $146,000 and $188,000, respectively.

The Company's purchases from KFR for the years ended November 30, 2024 and 2023 were $262,000 and $354,000, respectively.

Related party transactions with Casey Co. relate primarily to expense allocation and reimbursements between the parties. The Company paid $1,091,000 and $1,027,000 to Casey Co. during the years ended November 30, 2024 and 2023, respectively, for management fees.

Note 8. Commitments and Contingencies

Capital expenditures:

The Company had commitments for capital expenditures of approximately $12,754,000 and $6,400,000 at November 30, 2024 and 2023, respectively. Subsequent to year-end, the Company committed to an additional $37,220,000 in capital expenditures.

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, 2024 and 2023. 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. Such costs are expensed as incurred.

Litigation:

The Company is subject to various claims and lawsuits, some of which may be for substantial amounts. The Company will record a loss contingency for these matters if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. In addition, the Company will disclose, in aggregate, its exposure to loss in excess of the amount recorded on the balance sheet for these matters if it is reasonably possible that an additional material loss may be incurred. The determination of loss contingencies are based on judgments made by management with respect to the likely outcome of these matters and are adjusted as appropriate. Management's judgments could change based on new information, change in, or interpretations of, laws and regulations, changes in management's plans, intentions, or opinions regarding the outcome of legal proceedings, or other factors. Based on management's assessment, there is no litigation ongoing that would require disclosure in the financial statements.

Note 9. Subsequent Events

The Company has evaluated events and transactions subsequent to November 30, 2024 through February 28, 2025, the date of the independent auditors' report, noting no significant items requiring further discussion.