Consolidated Financial Statements and
Independent Auditor's Report

ECC Capital Corporation and Subsidiaries

Year Ended December 31, 2024

ECC Capital Corporation and Subsidiaries

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Rogers & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

Independent Auditor's Report

To Board of Directors
ECC Capital Corporation and Subsidiaries
Laguna Beach, California

Opinion

We have audited the accompanying consolidated financial statements of ECC Capital Corporation (a Maryland corporation) and subsidiaries (the Company), which comprise the consolidated balance sheet as of December 31, 2024, and the related consolidated statement of operations, stockholders' deficit, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ECC Capital Corporation and subsidiaries as of December 31, 2024, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the consolidated financial statements of Kemmerer Holdings, LLC, which include the financial statements of its wholly-owned subsidiary, Kemmerer Operations, LLC. These statements reflect total assets of approximately $117,534,000 as of December 31, 2024, and total revenues of approximately $94,561,000 for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities, is based solely on the report of the other auditors.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit. 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 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 within one year after the date that the consolidated financial statements are available to be issued.

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Rogers & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

Independent Auditor's Report (Continued)

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 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 consolidated 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 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.

Rogers & Associates, LLC

Rockville, MD
April 14, 2025

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ECC CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31, 2024
(in thousands, except share data)

ASSETS

Current Asets:	
Cash and cash equivalents	$ 17,970
Restricted cash	2
Trade and other receivables	10,892
Prepaid expenses and other current assets	2,888
Inventories net of reserve	1,823
Accrued mortgage loan interest	695
Contract assets	152
Total Current Assets	34,422
Mortgage loans held for investment, net	209,030
Land and mineral rights, net of depletion	9,629
Plant and equipment, net of depreciation	18,495
Restricted investments	58,613
Other investments	745
Capitalized investment costs	808
Mortgage servicing rights	1,896
Real estate owned	239
Deferred financing costs	55
Total assets	$ 333,932

LIABILITIES AND STOCKHOLDERS' DEFICIT

Liabilities:	
Current Liabilities:	
Accounts payable	1,673
Accruals and other current liabilities	7,908
Accrued production taxes	4,404
Current portion of finance lease obligations	1,230
Current portion of long-term debt	364
Current portion of asset retirement obligations	11,375
Total Current Liabilities	26,954
Long-term debt associated with mortgage loans	364,785
Other long-term debt, less current portion	20,513
Finance leases, less current portion	3,925
Accrued production taxes, less current portion	2,998
Asset retirement obligations, less current portion	42,337
Total liabilities	461,512
Commitments and contingencies	
Stockholders' deficit:	
Common stock authorized, 200,000,000 shares of $0.001 par value, 190,523,300 shares issued and outstanding	191
Additional paid-in capital	384,846
Accumulated deficit	(512,617)
Total stockholders' deficit	(127,580)
Total liabilities and stockholders' deficit	$ 333,932

See notes to the consolidated financial statements

ECC CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
For the year ended December 31, 2024
(in thousands)

Revenue	
Interest income	$ 10,430
Interest expense	(10,283)
Net interest income	147
Provision for loan losses	(1,197)
Net income, after provision for loan losses	1,344
Revenues associated with mining operations	94,561
Change in value of mortgage servicing rights	(166)
Change in value of other investments	(100)
Net revenues	95,639
Expenses	
Cost of sales	62,762
Depreciation and depletion	3,815
Operating expenses	8,955
Gain on sale of real estate owned	(28)
Servicing fees, net	493
Total expenses	75,997
Other income	267
Other expense	(360)
Income (loss) before tax provision	19,549
Tax provision	26
Net income (loss)	$ 19,523

See notes to the consolidated financial statements

ECC CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
For the year ended December 31, 2024
(in thousands)

	Number of Common Shares Outstanding	Common Stock	Additional Paid In Capital	Minority Interest	Accumulated Deficit	Total
Balance December 31, 2023	106,523	$ 107	$ 378,885	$0	$ (532,139)	$ (153,147)
Net income					19,523	19,523
Stock issuance	84,000	84	$4,116			4,200
Gain on fair value adjustment to related party Term Loan ammendment			1,845			1,845
Dividends					(1)	(1)
Balance December 31, 2024	190,523	$ 191	$ 384,846	$0	$ (512,617)	$ (127,580)

See notes to the consolidated financial statements

ECC CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2024
(in thousands)

Cash Flows from Operating Activities:	
Net income	$ 19,523
Adjustments to Net income to Net Cash used in Operating Activities:	
Depreciation	
Changes in operating assets and liabilities	
Provision for loan losses	(1,492)
Depreciation, amortization and depretion	4,108
Accretion of asset retirement obligations	3,281
Non-cash PIK (payment-in-kind) interest expense	346
Accretion of accrued production tax liability	429
Amortization of fair value premium on Term Loan	188
Change in value of mortgage servicing rights	167
Fair value adjustment-other investments	100
Amortization of deferred financing costs	7
Interest income on restricted investments	(1,660)
Accretion of discount on restricted investments	(633)
Gain on sale of assets	(115)
Settlement of asset retirement obligations	(6,668)
Changes in:	
Receivables	2,304
Accrued mortgate loan interest	26
Contract assets	(152)
Inventories, net of reserve	(283)
Prepaids and other current assets	(925)
Accruals and other current liabilities	1,006
Accounts payable, trade	(883)
Contract liabilities	(686)
Accrued production taxes	(1,075)
Net cash provided by operating activities	16,913
Cash Flows from Investing Activities:	
Capitalized investment acquisition costs, net	(808)
Purchase of plant and equipment	(3,058)
Purchase of other investments	(34,845)
Proceeds on sale of assets	115
Proceeds from restricted investments	37,173
Purchases of restricted investments	(37,173)
Decrease in restricted investments	5,280
Term loan funding and revolving line drawdowns	(2,007)
Amortization and payoff of mortgage loans held for investment	14,677
Net proceeds from sale of REO	1,168
Net cash used in investing activities	(19,478)

See notes to the consolidated financial statements

ECC CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
For the year ended December 31, 2024
(in thousands)

Cash Flows from Financing Activities:	
Initial secured note financing	34,000
Payments on secured note financing	(26,579)
Borrowing on Term Loan from financing agreement	3,000
Payment on Asset-backed Loan, net	(759)
Issuance of common stock	4,200
Dividends paid	(1)
Payment of deferred financing costs	(63)
Finance lease payments, principal	(1,613)
Payments on long-term debt	(15,685)
Net cash used by financing activities	(3,500)
Cash and equivalents-beginning of the period	24,037
Net decrease in cash and equivalents	(6,065)
Cash and equivalents-end of the period	$ 17,972
Supplemental disclosure of cash flow information:	
Cash used to pay interest	8,316
Cash used to pay income taxes	26
Supplemental disclosure of non-cash investing and financing activities:	
Loans transferred to real estate owned due to foreclosure	952
Gain on fair value adjustment to related party term loan upon amendment	1,845
Increase in estimate of assets retirement obligation	232

See notes to the consolidated financial statements

NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operating Plans

ECC Capital Corporation (the "Company"), has been primarily engaged in the management of a portfolio of residential mortgage loans held in securitized formats. Its core operations include asset management, servicing oversight, and the strategic disposition of these mortgage assets, with a focus on maximizing long-term value for stakeholders through structured finance strategies.

In April 2024, the Company acquired Kemmerer Holdings LLC (KHL), including its wholly owned operating subsidiary, Kemmerer Operations LLC (KOL), (collectively, Kemmerer) a coal mining operator located in Kemmerer, Wyoming. The acquisition represents a strategic expansion beyond the Company's historical focus on mortgage finance into the natural resources sector. Kemmerer Operations LLC operates an active open pit, surface coal mine and provides thermal coal primarily to utility and other industrial customers under long-term supply agreements. This transaction reflects the Company's intent to diversify its operating platform and explore complementary cash-flow-generating businesses.

The Company owns and manages interests in securitization trusts which issued securities collateralized by residential real estate mortgages. Its principal sources of revenue are net interest income on its portfolio of loans held for investment and interest accretion on its investments in residual interests in its securitizations. As part of managing the *Company's* portfolio of loans held for investment, it may also originate mortgage loans to generate additional revenue.

The Company's four securitization trust subsidiaries are specifically engaged in the securitization of loans and their related financial assets, whether permanent or temporary in purpose. These entities hold beneficial interest in eligible loans that are subject to creditors with specific interests. The transfers of mortgage loans and their related financial assets to the eligible lender trusts that comprise the securitization trusts do not qualify as sales under the provisions of FASB ASC 860 (formerly SFAS 140), *Transfers and Servicing*, as: (i) the Company retains certain discretionary rights as servicer of the mortgage loans transferred to the trust, (ii) the Company holds a right to repurchase any of the loans in the trust aggregating up to 1% of the initial principal balance of the transferred loans, and (iii) the trust may, with the approval of the beneficial interest holders, acquire derivative financial instruments.

However, the liabilities of the securitization trusts are not the obligations of the Company or any of its other subsidiaries, and cannot be consolidated in the event of bankruptcy, default or liquidation. The Corporation is merely a beneficiary of the eligible lender trusts' residual equity, if any.

Kemmerer Operations, LLC, located in Kemmerer, Wyoming, runs an open pit, surface- mine that produces sub-bituminous coal for electrical generation and industrial uses. On April 9, 2024, PhenixFIN purchased the remaining membership interest of KHL, increasing its ownership to 100%. Concurrently, ECC Capital Corporation (ECC), entered into an agreement to and completed the purchase of 100% of the membership interests of KHL from PhenixFIN in exchange for a promissory note issued to PhenixFIN valued at $34.0 million.

Principles of Consolidation

The consolidated financial statements include the accounts of ECC Capital Corporation and its wholly-owned subsidiaries, including ECR Mortgage Corp., ECR Investment Corp., Performance Credit, LLC, and Performance Real Estate, Inc., as well as its newly acquired and wholly-owned subsidiary Kemmerer Holdings, LLC and its subsidiary Kemmerer Operations, LLC (collectively, "Kemmerer"), effective as of April 9, 2024, the date of acquisition.

All intercompany transactions and balances have been eliminated in consolidation. The results of operations for Kemmerer are included in the consolidated statement of operations from the acquisition date forward.

The acquisition was accounted for as a business combination, and Kemmerer elected pushdown accounting in accordance with ASC 805-50-S99-4A (ASU 2014-17). See Note 2 – Acquisition of Kemmerer Holdings, LLC for additional detail.

The Company securitized its loans held for investment by transferring loans to trusts that issued long-term debt. The Company retained certain servicing rights and the excess interest spread between the rate paid by the borrowers and the rate paid to the noteholders. The structure of the trusts limits its activities to holding the transferred assets and transferring cash collected to the trusts' beneficial interest holders. The securitization trusts utilized by the Company do not meet the definition of a qualified special purpose entity, therefore such trusts are considered variable interest entities ("VIEs"). The Company is considered the primary beneficiary of the trusts because, as the recipient of the excess cash flows from the trusts, the Company's interests in the trusts are exposed to the majority of the variability in the trust's cash flows. As the primary beneficiary of the trusts, the Company has consolidated the assets and liabilities of the trusts in the accompanying consolidated financial statements.

NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities and contingencies at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant balance sheet items which could be materially affected by such estimates include mortgage servicing rights, deferred fees, deferred bond issuance costs and allowance for loan losses on loans held for investment and real estate owned.

Revenue recognition – Coal mining

The Company recognizes revenue in accordance with Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers.

To determine revenue recognition for contracts with customers within the scope of ASC 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize when (or as) the entity satisfies the relevant performance obligation.

The Company derives its revenues from contracts with customers through sales of coal under coal supply agreements. The Company measures revenue based on the consideration specified in the contract, and revenue is recognized when the performance obligations in the contract are satisfied. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when the customer receives the benefit of the performance obligation. Control is transferred when the goods are delivered to the customer, we have a present right to receive payment for the goods, there is no unfulfilled obligation that could affect the customer's acceptance of the goods, and the risks and rewards of ownership have transferred to the customer in line with the terms of the contract.

For all our coal sales contracts, performance obligations consist of the delivery of each ton of coal to the customer as our promise is to sell multiple distinct units of a commodity at a point in time. Revenue is recognized at a point in time when the performance obligation has been satisfied, and the customer obtains control of the goods. The transaction price principally consists of fixed consideration in the form of a base price per ton of coal with additional variable consideration comprising adjustments to the base price based on quality measurements, price indexing, tier pricing, and any expected tonnage shortfalls arising from contractual purchase or supply minimum volume commitments. Subsequent adjustments to revenue are made based on published indices, coal quality assessments, and tier volumes achieved (if applicable). Tonnage shortfall revenues are recognized prospectively at a point in time on a unit of output basis as control of the goods transfers to the customer for each measurement period in the contract.

All our coal supply agreements with customers do not extend beyond the mine life, which is estimated to be 2027.

The Company considers a contract modification to exist when the modification either creates new or changes the existing enforceable rights and obligations. Most contract modifications are for goods that are distinct from the existing contract and are accounted for as a new contract. Therefore, generally adjustments to revenue are made prospectively.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less but exclude restricted investments to be cash equivalents. Cash equivalents include Company operating checking accounts and funds invested in interest bearing accounts such as money market funds and similar accounts.

NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Cash

Cash and cash equivalents as of December 31, 2024 consist of the following (in thousands):

Cash and cash equivalents	$	17,970
Restricted cash		2
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$	17,972

At December 31, 2024, restricted cash was deposited in a separate account at the financial institution.

Restricted Investments

Funds required as collateral for surety bonds securing asset retirement obligations have been invested in held-to-maturity investments, which are reflected as restricted investments.

Investment securities are comprised solely of held-to-maturity investments in U.S. Treasury Bills and Notes and are carried at amortized cost, except that investment securities were adjusted to fair value on April 9, 2024 (Note 2). The Company intends to hold these investments to maturity. As the investments are restricted for future asset retirement obligation (ARO) funding, they are classified as long-term assets in the consolidated balance sheets. Discounts and premiums to par value of the investment securities are amortized to interest income over the term of the security, and no gains or losses on held to maturity investment are realized until they are sold.

The Company's methodology of assessing other-than-temporary impairments is based on security-specific analysis as of the balance sheet date and considers various factors, including the length of time to maturity and the extent to which the fair value has been less than the cost, recoverability of future cash flows as compared to carrying value of the security, the financial condition and the near-term prospects of the issuer, and the Company's ability and intent to hold the security. If a decline in fair value of investments is determined to be other-than-temporary, the securities are written down to fair value as the new cost basis and the amount of the write down is accounted for as realized losses. During the period from April 9, 2024 to December 31, 2024, the Company did not recognize any other-then-temporary impairments of its investments.

Trade and other receivables

Trade receivables are recorded when the Company has an unconditional right to consideration arising from performance of contracts with customers. The Company's invoices are short-term in nature and include payment terms that are typically due within 30 days. The Company has $10.6 million and $13.4 million of trade receivables as of December 31, 2024 and December 31, 2023, respectively, related to its contracts with customers. Other receivables arise from all other activities not related to the performance of contracts with customers.

The Company records allowance for credit losses using the expected credit loss model upon the initial recognition of financial assets. The Company's financial assets include accounts receivable and held-to-maturity investments. The estimate of expected credit loss considers historical credit loss information that is adjusted for current and future expected economic and credit conditions. Bad debt expense is charged to cost of sales in the Consolidated Statement of Operations in the period the allowance is recognized. The counterparties to the majority of the Company's financial assets are utilities companies, industrial customers, and government institutions with a long history of no credit losses.

During the period from April 9, 2024 to December 31, 2024, the allowance for credit losses was $0.0 million.

NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract assets

Contract assets include unbilled amounts representing revenue recognized from work performed where the Company does not yet have an unconditional right to compensation. These balances generally relate to (i) revenue accruals on contracts with tier pricing structures where the estimation of variable consideration requires an accrual over what has been billed and (ii) revenue accruals for contracts with minimum customer purchase commitments that result in tonnage shortfalls. The Company has $0.2 million and $0 of contract assets as of December 31, 2024 and December 31, 2023, respectively.

Contract liabilities

Contract liabilities consist of advance payments and billings in excess of costs incurred. The Company has $0 and $0.9 million of contract liabilities as of December 31, 2024 and December 31, 2023, respectively.

Inventories

Inventories include materials and supplies, which are carried at historical cost including its acquisition cost less an obsolescence reserve, when necessary, and coal, which is carried at the lower of cost or net realizable value. The cost of coal is determined using the first-in, first-out cost method and includes labor, supplies, equipment, depreciation, operating overhead, and other related costs.

Land and mineral rights

Land and mineral rights are recorded at acquisition cost. Mineral rights and mine development costs are depleted based upon estimated proven and probable reserves which are limited to current and expected coal supply agreement lives.

Plant and equipment

Plant and equipment are recorded at acquisition cost. Expenditures that extend the useful lives of existing plant and equipment or increase productivity of plant and equipment are capitalized. Maintenance and repair costs that do not extend the useful lives or increase productivity of plant and equipment are expensed as incurred.

Plant and equipment are depreciated on a straight-line basis over the assets' estimated useful lives no longer than through December 2027, the end of our expected sales period.

When an asset is retired or sold, its cost and related accumulated depreciation are removed from the accounts. The difference between the net book value of the asset and proceeds on disposition is recorded as a gain or loss. Fully depreciated plant and equipment still in use is not eliminated from the accounts. Amortization of finance leases is included in depreciation expense in the consolidated statements of operations.

NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of long-lived assets

The Company's long-lived assets, including land and mineral rights and plant and equipment, comprise a single asset group as the individual assets do not have identifiable cash flows separate from its consolidated cash flows. The asset group is reviewed for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. A qualitative test is first performed to determine whether it is more likely than not that the asset group is impaired. If the qualitative assessment cannot reasonably conclude that the fair value of the asset group exceeds its' carrying value, a recoverability test is performed, where if the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of the asset group is less than its carrying amount, it is considered to be impaired.

The Company measures the impairment loss as the amount by which the carrying amount of the group of assets exceeds its fair value. In determining whether an impairment exists, the Company makes assumptions about the future cash flows expected from the use of its long-lived assets, such as: applicable industry performance and prospects; general business and economic conditions that prevail and are expected to prevail; expected growth; maintaining its customer base; and achieving cost reductions.

There can be no assurance that expected future cash flows will be realized or will be sufficient to recover the carrying amount of long-lived assets. Furthermore, the process of determining fair values is subjective and requires management to exercise judgment in making assumptions about future results, including revenue and cash flow projections and discount rates. At each reporting period, the Company reviews the carrying value of its long-lived assets for indications of impairment.

During the period from April 9, 2024 to December 31, 2024, impairment of long-lived assets was $0.0 million.

Asset retirement obligations (ARO)

ARO primarily consist of estimated costs to reclaim surface land and support facilities at our mines and in accordance with federal and state reclamation laws as established by each mining permit.

We estimate ARO for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of the future costs to perform the required work. These estimates are based on projected pit configurations at the end of mining and are escalated for inflation, then discounted at a credit adjusted risk-free rate. ARO is accreted to the projected settlement date. Changes in estimates could occur due to revisions of mine plans, changes in estimated costs, and changes in timing of the performance of reclamation activities. See Note 18, Asset Retirement Obligations, to the consolidated financial statements.

Mortgage Loans Held for Investment and Loan Origination Fees and Costs

Mortgage loans held for investment are stated at amortized cost, including the outstanding principal balance, less the allowance for credit losses and servicer advances of principal and interest. Deferred origination fees and costs, net of discounts, are amortized as an adjustment of yield over the life of the portfolio using the effective yield method in a manner that anticipates prepayments.

Interest Income Recognition

Interest income is accrued as earned. Loans are placed on nonaccrual status when any portion of principal or interest is 90 days past due, based on contractual terms of the loan, or earlier when any concern exists as to the ultimate collectability of principal or interest. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectable.

NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses on Mortgage Loans Held for Investment

Beginning January 1, 2023, the allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset origination or acquisition. Adjustments to the allowance each period for changes in our estimate of lifetime expected credit losses are recognized in earnings through the provision for credit losses presented on our Consolidated Statement of Operations. The Company charges off uncollectible loans at the time of liquidation.

We estimate our allowance for lifetime expected credit losses for our loan portfolio using a probability of default/loss given default methodology. Our allowance for credit losses consists of a collective allowance and an asset-specific allowance. The collective allowance is established for loans in our portfolio that share similar risk characteristics and are therefore evaluated on a collective, or pool, basis in measuring expected credit losses. The asset-specific allowance is established for loans in our portfolio that do not share similar risk characteristics with other loans in our portfolio and are therefore evaluated on an individual basis in measuring expected credit losses. The Company evaluates the adequacy of the allowance each reporting period, giving consideration to factors such as the current performance of the loans, characteristics of the portfolio, the value of the underlying collateral and the general economic environment. Expected credit losses are estimated based on historical experience, current conditions and forecasts, if applicable, that affect the collectability of the reported amount.

At December 31, 2024, total accrued interest receivable on loans, which has been excluded from reported amortized cost basis on loans, was approximately $695,000, and included in accrued mortgage loan interest on the Consolidated Balance Sheet. Accrued mortgage loan interest represents, for the most part, the current month's interest, which will be included as a part of the borrower's next monthly loan payment. Interest receivable is accrued only if deemed collectible. Accrued interest is reversed or charged off in a timely manner in line with our non-accrual and past due policies for loans. An allowance was not carried on the accrued interest receivable.

Real Estate Owned

Real estate owned ("REO") results from the Company foreclosing on delinquent borrowers. These properties are initially recorded at fair value at the date of foreclosure less estimated selling cost, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in losses associated with real estate owned in the accompanying consolidated statement of operations. At December 31, 2024, the Company held REO properties in its four on balance sheet securitizations valued at $239,000 resulting from foreclosing on loans held for investment.

Income Taxes

The Company is subject to federal and state taxes on its income. Accordingly, the Company reports a provision for taxes based upon the earnings using the asset and liability method of accounting for income taxes.

Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates for the periods in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in results of operations in the period that includes the enactment date.

The Company records a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax asset will not be realized. In determining the possible realization of deferred tax assets, the Company considers future taxable income from the following sources: (i) the reversal of taxable temporary differences, (ii) taxable income from future operations and (iii) tax planning strategies that, if necessary, would be implemented to accelerate taxable income into periods in which net operating losses might otherwise expire.

Uncertain tax positions that meet the more likely than not recognition threshold are measured to determine the amount of benefit to recognize. An uncertain tax position is measured at the largest amount of benefit that management believes has a greater than 50% likelihood of realization upon settlement. If recognized, the tax portion of the adjustment would affect the effective tax rate. There were no new uncertain tax positions taken during 2024. All tax years remain open to examination by tax authorities due to the potential utility of net operating losses (NOLs).

NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Company determines whether a contract is or contains a lease at inception of the contract. At the lease commencement date, the Company recognizes a right-of-use (ROU) asset and a lease liability. The ROU asset for operating and finance leases are included in other assets and plant and equipment, respectively, on the consolidated balance sheets. The lease liability for operating and finance leases are included in operating lease obligations and finance lease obligations, respectively.

Operating and finance lease liabilities are initially measured at the present value of lease payments at the commencement date. Subsequently, finance lease liabilities are measured at amortized cost using the effective interest rate method and operating lease liabilities are measured at the present value of unpaid lease payments.

As most of the Company's operating lease contracts do not provide the implicit interest rate, nor can the implicit interest rate be readily determined, the Company has elected to use the option available to nonpublic entities to use the risk-free interest rate as an alternative to the incremental borrowing rate as the discount rate for determining the present value of lease payments by class of underlying asset. The risk-free rate has been used for the operating leases of various support equipment, whereas the incremental borrowing rate has been applied for finance leases of the Company's heavy equipment asset class. The Company uses the lease implicit interest rate when it is determinable.

The lease term for the Company's leases includes the non-cancellable period of the lease plus any period covered by options to extend (or not to terminate) the lease term when it is reasonably certain that the Company will exercise that option.

Lease payments are comprised of fixed payments owed over the lease term and the exercise price of a purchase option if the Company is reasonably certain to exercise the option. The ROU assets for both operating and finance leases are initially measured at cost, which consists of the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred, less any lease incentives received.

Subsequently, the ROU assets for finance leases are amortized on a straight-line basis from the lease commencement dates to the end of their useful life as it is reasonably certain the that purchase options will be exercised at the end of the lease term, and the amortization considers estimated salvage values. ROU asset depreciation expense (for assets under financing leases) is recognized and presented separately from interest expense on the lease liability through depreciation and interest expense, respectively.

The ROU asset for operating leases is measured at the amortized value of the ROU asset. Amortization of the ROU asset is calculated as the current-period lease cost adjusted by the lease liability accretion to the then outstanding lease balance. Lease expense of the operating lease ROU asset is recognized on a straight-line basis over the remaining lease term through cost of goods sold.

ROU assets for operating and finance leases are reduced by any accumulated impairment losses. The Company's existing accounting policy for impairment of long-lived assets is applied to determine whether an ROU asset is impaired, and if so, the amount of the impairment loss to be recognized.

The Company monitors for events or changes in circumstances that require a reassessment of one or more of its leases. 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.

ROU assets and lease liabilities for all leases that have a lease term of 12 months or less (short-term leases) are not recognized. The Company recognizes its short-term lease payments as an expense on a straight-line basis over the lease term. Short-term lease variable payments are recognized in the period in which the payment is assessed.

NOTE 2 – ACQUISITION OF KEMMERER HOLDINGS, LLC

On April 9, 2024, ECC Capital Corporation ("ECC") acquired 100% of the membership interests of Kemmerer Holdings, LLC ("KHL") from PhenixFIN Investment Holdings Omnivere, LLC ("PhenixFIN") in exchange for a $34.0 million senior secured promissory note issued to PhenixFIN. The acquisition included KHL's wholly owned subsidiary, Kemmerer Operations, LLC ("KOL"), which operates an open pit, surface coal mine located in Kemmerer, Wyoming. The mine primarily produces sub-bituminous coal for power generation and industrial use.

NOTE 2 – ACQUISITION OF KEMMERER HOLDINGS, LLC (CONTINUED)

The acquisition was accounted for as a business combination under ASC 805, Business Combinations. KHL elected pushdown accounting under ASC 805-50-S99-4A (ASU 2014-17), and accordingly, the acquisition-date fair values of assets acquired and liabilities assumed were reflected in KHL and KOL's financial statements as of April 9, 2024. ECC has consolidated the results of Kemmerer from the acquisition date.

The fair value of the consideration transferred was $34.0 million. The fair values of identifiable assets acquired and liabilities assumed at the acquisition date were as follows:

	April 9, 2024
Assets acquired	
Cash and cash equivalents	$ 22,030
Trade and other receivables	13,196
Inventories	1,540
Other current assets	1,327
Land and mineral rights	11,144
Plant and equipment	17,505
Restricted investments	61,600
Total assets	128,342
Liabilities assumed	
Accounts payable, trade	2,557
Accruals and other current liabilities	12,003
Long-term debt	12,782
Finance leases	6,767
Accrued production taxes	3,367
Asset retirement obligations	56,866
Total liabilities	94,342
Net assets acquired	$ 34,000

As a result of the allocation, ECC recognized $4.9 million of mineral rights, which represents the excess of consideration over the fair value of identifiable net assets acquired.

A third-party valuation specialist assisted with estimating fair values using Level 3 inputs, including discounted life-of-mine cash flow models, inventory and equipment appraisals, and market-based discount rates of 11% (term loan) and 17% (accrued production taxes).

The results of Kemmerer's operations from April 9 through December 31, 2024 are included in ECC's consolidated statement of operations and primarily consist of mining revenue and related operating expenses.

NOTE 3 – SEGMENT REPORTING

The Company operates in two reportable segments: (1) Trust Entities (securitization trusts), (2) Non-Trust Entities (loan investment, servicing operations, and coal mining). These segments reflect the Company's internal reporting structure used for evaluating performance and allocating resources.

Trust segment activity primarily includes securitized loan trusts with no recourse to ECC. Non-Trust segment consists of ECC's direct investment in mortgage loans, loan servicing rights, corporate overhead, and coal mining (the operations of Kemmerer Holdings, LLC and Kemmerer Operations, LLC, beginning April 9, 2024).

NOTE 3 – SEGMENT REPORTING (CONTINUED)

The following table presents detailed balance sheet information by reportable segment for the year ended December 31, 2024 (in thousands):

ASSETS

Current Asets:	Securitization Trusts	Non-trust entities	Total
Cash and cash equivalents	$ -	$ 17,970	$ 17,970
Restricted cash	2	-	2
Trade and other receivables	-	10,892	10,892
Prepaid expenses and other current assets	5	2,883	2,888
Inventories net of reserve	-	1,823	1,823
Accrued mortgage loan interest	648	47	695
Contract assets	-	152	152
Total Current Assets	655	33,767	34,422
Mortgage loans held for investment, net	206,961	2,069	209,030
Land and mineral rights, net of depletion	-	9,629	9,629
Plant and equipment, net of depreciation	-	18,495	18,495
Restricted investments	-	58,613	58,613
Other investments	-	745	745
Capitalized investment costs	-	808	808
Mortgage servicing rights	-	1,896	1,896
Real estate owned	239	-	239
Deferred financing costs	-	55	55
Total assets	$ 207,855	$ 126,077	$ 333,932

LIABILITIES AND STOCKHOLDERS' DEFICIT

Liabilities:			
Current Liabilities:			
Accounts payable	-	1,673	1,673
Accruals and other current liabilities	-	7,908	7,908
Accrued production taxes	-	4,404	4,404
Current portion of finance lease obligations	-	1,230	1,230
Current portion of long-term debt	-	364	364
Current portion of asset retirement obligations	-	11,375	11,375
Total Current Liabilities	-	26,954	26,954
Long-term debt associated with mortgage loans	364,785	-	364,785
Other long-term debt, less current portion	-	20,513	20,513
Finance leases, less current portion	-	3,925	3,925
Accrued production taxes, less current portion	-	2,998	2,998
Asset retirement obligations, less current portion	-	42,337	42,337
Total liabilities	364,785	96,727	461,512
Commitments and contingencies			
Stockholders' deficit:			
Common stock authorized, 200,000,000 shares of $0.001 par value, 190,523,300 shares issued and outstanding	-	191	191
Additional paid-in capital	1,001	383,845	384,846
Accumulated deficit	(157,931)	(354,686)	(512,617)
Total stockholders' equity (deficit)	(156,930)	29,350	(127,580)
Total liabilities and stockholders' equity (deficit)	$ 207,855	$ 126,077	$ 333,932

NOTE 3 – SEGMENT REPORTING (CONTINUED)

The following table presents detailed income statement information by reportable segment as of December 31, 2024 (in thousands):

	Securitization Trusts	Non-trust entities	Total
Revenue			
Interest income	$ 7,720	$ 2,710	$ 10,430
Interest expense	(7,113)	(3,170)	(10,283)
Net interest income	607	(460)	147
Provision for loan losses	(1,197)	-	(1,197)
Net income, after provision for loan losses	1,804	(460)	1,344
		-	
Revenues associated with mining operations	-	94,561	94,561
Change in value of mortgage servicing rights	-	(166)	(166)
Change in value of other investments	-	(100)	(100)
Net revenues	1,804	93,835	95,639
Expenses		-	
Cost of sales	-	62,762	62,762
Depreciation and depletion	-	3,815	3,815
Operating expenses	85	8,870	8,955
Gain on sale of real estate owned	(28)	0	(28)
Servicing fees, net	947	(454)	493
Total expenses	1,004	74,993	75,997
Other income	-	267	267
Other expense	-	(360.00)	(360)
Loss before tax provision	800	18,749	19,549
Tax provision	-	26	26
Net income	$ 800	$ 18,723	$ 19,523

NOTE 4 – TRADE AND OTHER RECEIVABLES

Trade and other receivables consisted of the following as of December 31:

		2024
Trade accounts receivable	$	10,613
Other		279
Trade and other receivables	$	10,892

The following customers represented 10% or more of trade receivables:

	2024
Customer 1	41%
Customer 2	20%
Customer 3	17%
Customer 4	15%

NOTE 5—INVENTORIES

Inventories consisted of the following as of December 31:

		2024
Coal stockpiles	$	972
Parts and supplies		851
Total	$	1,823

The inventory reserve for obsolescence was $0.0 million at December 31, 2024; the reserve is included in the parts and supplies balance.

NOTE 6—LOANS HELD FOR INVESTMENT

The components of mortgage loans held for investment at December 31, 2024 were as follows (in thousands):

Unpaid principal balance of mortgage loans	$	218,875
Servicing advances		1,238
Net deferred origination costs and discounts		274
Allowance for loan losses		(11,357)
	$	209,030

NOTE 6—LOANS HELD FOR INVESTMENT (CONTINUED)

The following table presents a summary of the activity in the allowance for losses on mortgage loans held for investment for the year ended December 31, 2024 (in thousands):

Beginning balance	$	13,320
Reductions		(937)
Charge-offs, net		(1,026)
Ending balance	$	11,357

At December 31, 2024, the Company had loans held for investment in its four on balance sheet securitizations valued at $206,962,000. Additionally, as of December 31, 2024, the Company directly held unencumbered loans held for investment valued at $2,068,000. The aggregate weighted average coupon for loans held for investment at December 31, 2024 was 4.39%.

All non-accrual loans were associated with the four on balance sheet securitization trusts. The following table provides the amortized cost of loans on nonaccrual status and past due over 90 days still on accrual (in thousands).

(Dollars in thousands)	Nonaccrual		Past Due Over 90 Days Still Accruing
	1/1/2024	**12/31/2024**	**12/31/2024**
Residential real estate	$ 14,226	$ 12,318	$ -
Total	$ 14,226	$ 12,318	$ -

There is no interest income recognized on nonaccrual loans during 2024. There is no non-accrual loan for which no allowance for credit losses has been established as of December 31, 2024.

NOTE 7—LOANS MODIFICATIONS MADE TO BORROWERS EXPERIENCING FINANCIAL DIFFICULTY

Loans in the Company's held for investment portfolio for which the contractual terms have been restructured for economic or other reasons related to the borrower's financial difficulty, under which concessions are provided to the borrower are classified as loan modifications made to borrowers experiencing financial difficulty. An assessment of whether a borrower is experiencing financial difficulty is made on the date of modification. Loan modifications made to borrowers experiencing financial difficulty may include, among other things, reduction in the stated interest rate, conversion of a variable rate to a fixed rate, extension of the maturity date, capitalization of interest or reduction of principal and/or interest due. At the current time, almost all modifications are to either capitalize accrued past due interest and occasionally advances for property taxes and insurance, or the deferral of past due interest-bearing principal to bring the loan current without changing the monthly payment or interest rate. The borrower with capitalized accrued past due interest and occasionally advances for property taxes and insurance have had those past due interest and advances for property taxes and insurance deferred to the contractual maturity of their loans. The borrowers with deferral of past due interest-bearing principal have had principal deferred to the earlier of contractual maturity of their loans or loan prepayment payoff in full. Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for loan losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for loan losses is generally not recorded upon modification.

NOTE 7—LOANS MODIFICATIONS MADE TO BORROWERS EXPERIENCING FINANCIAL DIFFICULTY (CONTINUED)

The following table shows the amortized cost of loans at December 31, 2024, that were both experiencing financial difficulty and modified during the year ended December 31, 2024, segregated by portfolio segment and type of modification. The percentage of the amortized cost of loans that were modified to borrowers in financial distress as compared to the amortized cost of each segment of financial receivable is also presented below (dollars in thousands).

(Dollars in thousands)	Capitalize Accrued Past Due Interest and Occasionally Advances for Property Taxes and Insurance or Interest Rate Reduction	% of Total Segment of Financing Receivable
Residential real estate	$ 2,815	1.30%
Total	$ 2,815	1.30%

(Dollars in thousands)	Deferral of Past Due Interest-Bearing Principal	% of Total Segment of Financing Receivable
Residential real estate	$ 13,453	6.20%
Total	$ 13,453	6.20%

There were no commitments to lend additional amounts to the borrowers included in the previous table.

The Company closely monitors the performance of loans that have been modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table shows the performance of such loans that have been modified during the year ended December 31, 2024 (in thousands).

(Dollars in thousands)	Current	Greater Than 90 Days Past Due
Residential real estate	$ 12,569	$ 3,230
Total	$ 12,569	$ 3,230

Upon the Company's determination that a modified loan has subsequently been deemed uncollectible, the loan is written off. Therefore, the amortized cost of the loan is reduced by the uncollectible amount and the allowance for loan losses is adjusted by the same amount.

There is no financing receivable which experienced a payment default during the period and had been modified within the prior 12 months preceding the default when the borrower was experiencing financial difficulty at the time of the modification.

NOTE 8—LAND AND MINERAL RIGHTS

	Cost	Accumulated depletion	Net book value
December 31, 2024			
Owned assets			
Land	$ 6,280	$ —	$ 6,280
Mineral rights	5,096	(1,747)	3,349
Total land and mineral rights	$ 11,376	$ (1,747)	$ 9,629

During the period from April 9, 2024 to December 31, 2024, depletion expense was $1.7 million.

NOTE 9—PLANT AND EQUIPMENT

	Cost	Accumulated depletion	Net book value
December 31, 2024			
Owned assets			
Heavy equipment	$ 14,845	$ (1,921)	$ 6,280
Other assets	3,118	(447)	3,349
	17,963	(2,068)	15,895
Assets under finance lease			
Heavy equipment	2,600	—	2,600
Total plant and equipment	$ 20,563	$ (2,068)	$ 18,495

During the period from April 9, 2024 to December 31, 2024, depreciation expense for owned assets and assets under finance leases were $2.1 million and $0.0 million, respectively, for a total of $2.1 million.

NOTE 10- RESTRICTED INVESTMENTS

Funds required as collateral for surety bonds securing asset retirement obligations have been invested in held-to-maturity investments, which are carried at amortized cost in restricted investments. The investment maturities range from four months to three years remaining as of December 31, 2024. As of December 31, 2024, the Company has $58.6 million in held-to-maturity investments. This includes $0.0 million of residual cash held in the restricted account to be re-invested as the Company's investments mature.

NOTE 10- RESTRICTED INVESTMENTS (CONTINUED)

The amortized cost of debt securities held-to-maturity and their approximate carrying values net of the allowance for credit losses and accrued interest are as follows:

	Gross amortized cost	Allowance for credit loss	Carrying value
December 31, 2024			
Cash	$ 5	$ —	$ 5
U.S Government Treasury Bills	19,297	—	19,297
U.S Government Treasury Notes	39,311	—	39,311
Total	$ 58,613	$ —	$ 58,613

Restricted investments were revalued downwards at April 9, 2024 (Note 2) by $1,457 of which $824 remained unamortized at December 31, 2024.

NOTE 11 – INVESTMENTS

The Company has a 4% investment in the Class E membership interest in MB Precision Investment Holdings LLC, which is carried at fair value. MB Precision Investment Holdings LLC provides machines, fabricates, and assembles complex, mission-critical component parts for large, industrial manufacturing companies across the aerospace, defense, and industrial power end-markets. The fair value amount of the Company's investment is $744,761 at December 31, 2024.

NOTE 12 – CAPITALIZED INVESTMENT COSTS

As part of the April 2024 transaction to acquire the Kemmerer coal mine business, the Company incurred approximately $1 million in capitalized costs. These costs primarily relate to due diligence, legal review, and other professional services directly associated with the acquisition.

In accordance with applicable accounting standards, these acquisition-related costs have been capitalized and will be amortized over the expected useful life of the coal mine, which is estimated to extend through December 2027. The Company has elected to amortize these capitalized costs using the straight-line method, reflecting a consistent allocation of cost over the life of the mine.

As of December 31, 2024, the unamortized balance of these capitalized costs is $808,380.

Management believes this method appropriately matches the expense recognition with the expected economic benefits derived from the acquisition.

NOTE 13—MORTGAGE SERVICING RIGHTS

Mortgage servicing rights ("MSRs") represent the rights associated with servicing pools of residential mortgage loans under four securitization trust subsidiaries. The Company entered into subservicing agreements with a duly licensed subservicer who performs all servicing functions for the loans underlying the MSRs. The Company splits the servicing fee with subservicer. The Company elected to account for all of its investments in MSRs at fair value. As such, they are recognized at fair value on the accompanying Consolidated Balance Sheet with changes in the estimated fair value presented in the Consolidated Statement of Operations.

The Company uses certain assumptions and estimates to determine the fair value of MSRs. These assumptions include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, and late fees, among other considerations. These assumptions are reviewed periodically by management. If these assumptions change, the related asset and income would be affected. At December 31, 2024 the prepayment rates used in evaluating cash flows for these fees was 7%. The discount rate used to value such service fee cash flows at December 31, 2024 was 10%. Mortgage servicing rights are classified as Level 3 assets at December 31, 2024.

The following table presents activity related to MSRs for the year ended December 31, 2024 (in thousands):

Fair value, beginning of year	$	2,063
Change in fair value		(167)
Fair value, end of year	$	1,896

Servicing expenses, net of servicing income, is reported in the Consolidated Statements of Operations. For the year ended December 31, 2024, the Company recognized $493,000 of net servicing expenses in the Consolidated Statements of Operations.

NOTE 14—FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy under Topic 820 are described as follows:

- Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:
  a. Quoted prices for similar assets or liabilities in active markets
  b. Quoted prices for identical or similar assets or liabilities in inactive markets
  c. Inputs other than quoted prices that are observable for the asset or liability
  d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

  If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 - Inputs that are unobservable inputs for the asset or liability.

The Company determines fair value based upon quoted prices when available or through the use of alternative approaches, such as discounting the expected cash flows using market interest rates commensurate with the credit quality and duration of the investment. A description of the valuation techniques applied to the Company's major categories of assets and liabilities measured at fair value follows. There have been no changes in the methodologies used at December 31, 2024.

Mortgage servicing rights - Fair value of mortgage servicing rights is determined by discounting estimated future cash flows over the estimated remaining life of the underlying loans, using discount and interest rates, loss and prepayment assumptions based on available market data. Since one or more of these assumptions are unobservable, these assets are classified as Level 3 of the fair value hierarchy.

NOTE 14—FAIR VALUE MEASUREMENTS (CONTINUED)

Other investments — The Company holds preferred equity and detachable warrants issued by MB Precision Holdings LLC. The fair value of these financial instruments is determined using valuation models that incorporate various assumptions, including estimated future cash flows, discount rates, volatility, and potential exit scenarios. Because certain valuation inputs—such as expected holding periods, redemption features, and exit timing—are not observable in the market, both the preferred equity and the warrants are classified within Level 3 of the fair value hierarchy.

Real estate owned (“REO") — Real estate owned is valued using the lower of cost or market value, less estimated costs to sell. The estimated market price is obtained either from third party broker price opinion or property sale price. Real estate owned is classified as Level 3 in the hierarchy since the assets are valued using third party sale price estimates, adjusted by additional unobservable inputs, less estimated selling costs.

Restricted investments — The Company’s restricted investments in US Treasury held-to-maturity instruments are Level 3 instruments that constitute a nonrecurring fair value measurement.

Asset retirement obligations (“ARO”) — On December 31, 2024, there was an upward revision to the Company’s ARO in 2024 of $0.2 million as a result of updated cost estimates and revision of timing of expected costs. The updated reclamation cost estimates are comprised of Level 3 unobservable inputs which include the estimated future reclamation costs, discount rates, and timing of reclamation spending.

The Company records mortgage servicing rights and other investments at fair value on a recurring basis. Certain other assets such as REO, restricted investments, and ARO are recorded at fair value on a nonrecurring basis. Nonrecurring fair value measurements typically involve assets that are evaluated for impairment and for which any impairment is recorded in the period in which the re-measurement is performed.

A distribution of asset and liability fair values according to the fair value hierarchy at December 31, 2024 is provided in the table below. (in thousands):

		Fair Value Measurements at the End of the Reporting Period Using:		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage servicing rights	$ 1,896	$ -	$ -	$ 1,896
Other investments	745			745
Total	$ 2,641	$ -	$ -	$ 2,641

NOTE 14—FAIR VALUE MEASUREMENTS (CONTINUED)

The changes in Level 3 assets measured on a recurring basis for the year ended December 31, 2024 are summarized in the following table (in thousands):

	Mortgage Servicing Rights	Other Investments
Beginning balance	$ 2,063	$ -
Purchases	-	845
Sales	-	-
Total gains or losses for the period		
Included in earnings	(167)	(100)
Included in other comprehensive income	-	-
Transfers into (out of) level 3	-	-
Ending balance	$ 1,896	$ 745
Change in unrealized gains or losses for the period included in earnings for assets held at the end of the reporting period.	$ (167)	$ (100)

Accretion of residual interests is in interest income. From time to time, the Company may be required to report certain assets at fair value on a non-recurring basis. These include assets measured at the lower of cost or market or that were recognized at a fair value below cost at the end of the reporting period. The following table presents such assets measured on a non-recurring basis as of December 31, 2024 (in thousands):

		Fair Value Measurements at the End of the Reporting Period Using:		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Real estate owned	$ 239	$ -	$ -	$ 239
Restricted investments	58,613			58,613
Asset retirement obligations	53,712			53,712
Total	$ 112,564	$ -	$ -	$ 112,564

There were no transfers between level 1 and level 2 during the year ended December 31, 2024.

NOTE 14—FAIR VALUE MEASUREMENTS (CONTINUED)

For Level 3 assets measured at fair value on a recurring or non-recurring basis as of December 31, 2024, the significant unobservable inputs used in the fair value measurements were as follows:

(Dollars in thousands)	Fair Value at December 31, 2024	Valuation Technique	Significant Unobservable Inputs	General Range of Significant Unobservable Input Values
Mortgage Servicing Rights	$ 1,896	Third party appraisal	Discounts to reflect estimated future cash flows	Prepayment rates 7%, Discount rate 10%
Real estate owned	$ 239	Actual historical liquidation loss percentages are multiplied by each portfolio's outstanding balance	Actual historical liquidation loss percentages	Actual historical liquidation loss percentages ranging from 64.1% to 89.1%
Other investments	$ 745	Internal valuation models including discounted cash flow and option pricing methods	Discount rate, expected exit timing, holding period, and volatility assumptions	Input ranges based on internal estimates; specific values not disclosed
Restricted investments	$ 58,613	Amortized cost basis; fair value assessed on a nonrecurring basis	Estimated market rates for similar instruments	Classified as Level 3; fair value inputs not observable
Asset retirement obligations	$ 53,712	Discounted cost estimate based on updated reclamation plans	Estimated future reclamation costs, discount rates, timing of reclamation spend	Level 3 inputs; assumptions based on engineering estimates and regulatory guidance

NOTE 15 – CERTAIN CURRENT AND LONG-TERM LIABILITIES

Accruals and other current liabilities

	December 31, 2024 (in thousands)
Payroll liabilities	$ 5,513
Accrued accounts payable	1,551
Insurance financiing	775
Accrued interest payable	33
Stale dated checks	36
	$ 7,908

Long-term production taxes payable

Certain production taxes in the amount of $8.4 million at December 31, 2024, are payable in annual installments over 10.5 remaining years, with the next annual payment due in December 2025. The production tax liability was revalued at April 9, 2024 (Note 2). At December 31, 2024, the long-term portion of $7.6 million is recorded at a discounted value of $3.0 million, and the current portion of $0.8 million is included in current liabilities – production taxes. During the period from April 9, 2024 to December 31, 2024, accretion of interest expense was $0.4 million.

Production taxes accruing in 2023 and beyond are due and payable on a current basis.

NOTE 16—LONG-TERM DEBT

Long-term debt consists of mortgage-backed securities secured solely by mortgages transferred to the related securitization trust and are non-recourse to the Company. The principal and interest payments on the mortgages, reduced by 50 basis points of the outstanding principal balance used to pay contractual obligations of the trust provide the funds to pay debt service on the securities. The interest rate on the securities resets monthly and is based upon one-month SOFR (Secured Overnight Financing Rate). The weighted-average interest rate payable on the Company's long-term debt at December 31, 2024 was 3.72%. As principal payments on the underlying mortgages are paid through to reduce principal on the bonds, the term of the bonds is ultimately a function of the rate at which principal is paid on the mortgages. The Company estimates that the bonds will be paid at maturity, 2035. The bonds have a "clean-up call" provision which allows the Company to dissolve the Trust and repay outstanding bonds when the remaining principal balance of the underlying loans is 10% or less of their original balance. As of December 31, 2024, the balance of long-term debt consists of the following (in thousands):

Securitized bonds	$	362,838
Accrued interest on securitized bonds		1,947
Total financing on mortgage loans held for investment	$	364,785

Costs associated with issuing long-term debt were capitalized and are being amortized as a component of interest expense over the estimated term of the debt, expecting that the debt will be paid fully from the cash flows from the underlying collateral. The balance of deferred bond issue costs at December 31, 2024, net of accumulated amortization, was $5,000 and is included in prepaid expenses and other assets.

The discount on bonds reflects the difference between the proceeds received from the sale of the bonds and the face amount to be repaid over the life of the bonds. The discount is being amortized as an adjustment to interest expense over the estimated life of the bonds. Mortgage losses depleted the over-collateralization on the four trusts. As a result, the trustee passed a total cumulative of $187.4 million in losses through to bondholders of certain subordinate security classes and reduced the amount showing as outstanding for such classes as of December 31, 2024. The Company recognizes that a legal release of liability to such bondholders has not yet occurred since these bonds could receive payments from future cash flows of the underlying mortgages. Until such time as the bonds are called or mature, the Company will continue to report bond balances for bond classes affected by losses as reconciling items from related balances reported by the trusts. The carrying value of the long-term debt has not been reduced by the losses passed through to bond holders as reported by the trusts.

NOTE 17 – OTHER LONG-TERM DEBT

	December 31, 2024	
Term loan - related party	$	10,505
Asset-backed loan		2,193
Note payable - Caterpillar Financial Services		758
Note payable - PhenixFIN		7,421
		20,877
Less: current portion		(364)
Total other long-term debt, net	$	20,513

	Aggregate Maturities	
2025	$	7,785
2026		2,587
2027		—
2028		12,161
Total	$	22,533

NOTE 17 – OTHER LONG-TERM DEBT (CONTINUED)

The aggregate maturities of long-term debt subsequent to December 31, 2024, excludes the unamortized fair value discount of $1.7 million on the Term Loan.

<u>Term loan – related party</u>

Pursuant to the Financing Agreement dated as of June 21, 2019, by and among Kemmerer Operations, LLC (as borrower), Kemmerer Holdings, LLC (as guarantor), the lenders from time to time a party thereto, and U.S. Bank National Association, as collateral and administrative agent, KOL entered into a term loan (Term Loan) that provided for aggregate facility of $48.4 million, split between an "Effective Date Term Loan" ($25.0 million) and a "Delayed Draw Term Loan" (a commitment of up to $23.4 million). The Term Loan is secured by substantially all of KOL's assets. The Term Loan contains customary affirmative and negative covenants; there are no financial covenants.

The Company assumed the $25.0 million Effective Date Term Loan on June 21, 2019 upon contribution of the Kemmerer Business into KOL. KOL also received on that date $10.0 million in cash pursuant to the Delayed Draw Term Loan facility, for securing surety bond commitments and to provide additional working capital.

On June 21, 2019, the date of the contribution of the Kemmerer Business into KOL, the Term Loans were fair valued at $27.9 million and $11.1 million for the $25.0 million and $10.0 million loans, respectively, using market discount rate of 13%. The Term loans were initially recognized at fair value and subsequently measured at amortized costs using the effective interest method.

Partial repayments occurred in each of years 2019 to 2023 and there was no remaining balance outstanding on the Delayed Draw Term Loan facility at December 31, 2024.

The remaining balance outstanding on the Effective Date Term Loan was $12.2 million on December 31, 2024. This balance excludes the unamortized discount on the Term Loan of $1.7 million, as of December 31, 2024.

Under the original terms, interest was payable on a quarterly basis at a fixed rate of 15% per annum, and KOL had the option to pay in cash or in kind (PIK Interest), whereby PIK Interest was capitalized to the principal amount of the Term Loan, determinable each quarter. Pursuant to a July 3, 2024, amendment (July 2024 Amendment), interest is now payable quarterly in cash at a rate of three-month Secured Overnight Financing Rate (SOFR) + 5.0%. At December 31, 2024, the interest rate was 9.91%.

During the period from April 9, 2024 to December 31, 2024, PIK interest expense was $0.3 million and cash interest expense was $0.6 million.

The Term Loan was originally scheduled to mature on June 21, 2023; however, this maturity date was extended on February 9, 2023, to provide for a maturity date of June 21, 2025, and then again on July 3, 2024, to December 31, 2028.

In connection with the February 9, 2023, amendment, the Delayed Draw Term Loan commitment was reduced to zero.

Under the original terms, the $25.0 million Effective Date Term Loan could not be reborrowed once principal payments had been made. However, on July 3, 2024, these terms were amended to provide for a one-time borrowing of $3.0 million, and no further borrowings are permitted once future principal payments are made.

NOTE 17 – OTHER LONG-TERM DEBT (CONTINUED)

The lenders were, until April 9, 2024, members of KHL or affiliates of those members. By and in connection with the April 9, 2024, transactions (Note 2), one member's affiliate (PhenixFIN's affiliate) had acquired all the other members' (or their affiliates') interests in the Term Loan. At this date, PhenixFIN's affiliate purchased a 44% interest in ECC, and was represented by one of three members of the ECC board of directors. ECC became the 100% equity owner as of April 9, 2024. PhenixFIN continues to own 100% of the Term Loan as of December 31, 2024.

On April 9, 2024, the outstanding balance of the Term Loan was $8.8 million, and which approximated fair value at a market discount rate of 17%.

On June 10, 2024, a PhenixFIN affiliate replaced U.S. Bank National Association as administrative and collateral agent for the Term Loan.

The July 2024 Amendment was accounted for as a debt extinguishment and the Company recognized a gain of $1.8 million which was accounted for as a capital transaction and recognized in stockholders' deficit, as the Term Loan is from a related party.

The outstanding Term Loan amount represents the following:

	Period from April 9, 2024 to December 31, 2024
Opening balance	$ 8,816
Partial repayment, at amortized fair value	—
Borrowing	3,000
PIK interest cost	346
Fair value adjustment upon amendment	(1,845)
Fair value discount amortization	188
Ending balance	$ 10,505

The Term Loan ranks below the Asset-backed Loan described below, in terms of lien priority for those assets pledged to the Asset-backed Loan and have a subordinate lien on the Company's assets. An Intercreditor Agreement dated December 17, 2019 and subsequently an Amended and Restated Intercreditor Agreement dated July 3, 2024, were entered into by the collateral and administrative agent for the Term Loan and the agent for the Asset-backed Loan. The former and present intercreditor agreement each (a) confirms the relative priority of their security interests in the assets of borrower and the guarantor, (b) provides for the application, in accordance with such priorities, of proceeds of such assets and properties, and (c) addresses certain other matters.

NOTE 17 – OTHER LONG-TERM DEBT (CONTINUED)

Asset-backed loan

Pursuant to the Loan and Security Agreement dated as of December 17, 2019, by and among Kemmerer Operations, LLC (as borrower), Kemmerer Holdings, LLC (as guarantor), the lender(s) from time to time a party thereto, and an agent for the lender(s), KOL entered into a revolving credit facility (the Asset-backed Loan) that allowed borrowings of up to $15 million. On February 10, 2023, an amendment was entered into whereby this amount is reduced to $12.5 million based on lesser Company needs. The Asset-backed Loan is subject to a borrowing base rate computed at any time as: (1) 85% or 80% of eligible billed and unbilled account receivable, respectively (with a sublimit of $8 million for borrowing base on unbilled accounts receivable); and (2) an equipment and parts borrowing base of 50% of appraised value with a sublimit of $4 million initially in 2019 and refreshed to $4 million in February 2023, and which sublimit declines on monthly basis by $0.08 million on the first day of each month; as of December 31, 2024, this sublimit was $2.2 million. As of December 31, 2024, the borrowing base limit was $11.1 million.

As amended on February 10, 2023, the maturity date was changed to the earliest to occur of (1) January 5, 2025; and (2) on early termination of a certain coal supply agreement currently scheduled to terminate on December 31, 2025.

On October 17, 2024, the maturity date was changed to the earliest to occur of (1) July 6, 2026; and (2) on early termination of a certain coal supply agreement currently scheduled to terminate on December 31, 2025.

As of December 31, 2024, there was a balance of $2.2 million and unused borrowing base availability of $8.9 million on the Asset-backed Loan.

The Asset-backed Loan is subject to two financial covenants that are tested on a monthly basis. As of December 31, 2024, the Company was in compliance with its financial covenants.

- The first covenant is a requirement to have minimum excess availability of $2.0 million, unless the fixed charge coverage ratio is greater than 1.10:1, in which case this covenant does not apply.

- The second covenant is a capital expenditure limitation of $8.0 million in a fiscal year as well as a separate limit of $7.5 million for a wheel loader acquired in 2023.

As amended on October 17, 2024, the Asset-backed Loan bears interest at U.S. Dollar Base Rate, or SOFR, plus applicable margins of 3.75% – 5.25% (previously as of February 10, 2023, 4.0% – 5.50%) depending on the Fixed Charge Coverage Ratio. On February 10, 2023, SOFR replaced London Inter-Bank Offered Rate (LIBOR). There is a floor of 1.75% for both Base Rate and SOFR borrowings. The Company is also subject to an unused line fee of 0.50%, and minimum interest is payable on the equipment and parts sublimit amount. The interest rate at December 31, 2024, was 9.42%.

The Asset-backed Loan is collateralized by a first-priority security interest in bank account balances, accounts receivable, inventory, equipment, and certain other assets, and contains a lock box feature for all deposits.

Note payable – Caterpillar Financial Services

On December 11, 2023, KOL entered into an equipment loan with Caterpillar Financial Services for a principal amount of $1.1 million. Monthly repayments are scheduled over a 36-month period at an interest rate of 7.94%.

As of December 31, 2024, the outstanding balance of the promissory note was $0.8 million.

NOTE 17 – OTHER LONG-TERM DEBT (CONTINUED)

Note payable – PhenixFIN

In connection with the Kemmerer acquisition (see Note 2), ECC issued a $34.0 million senior secured promissory note to PhenixFIN on April 9, 2024. The note accrues interest at a variable rate equal to the three-month term SOFR plus 500 basis points.

Interest is payable quarterly, in arrears, on March 15th, June 15th, September 15th, and December 15th of each calendar year, beginning June 15, 2024. The note includes an excess cash flow sweep, and the remaining balance is due in full by December 31, 2031. The debt is secured by substantially all assets of ECC.

During 2024, ECC made total principal payments of $26.6 million, reducing the outstanding balance to $7.4 million as of December 31, 2024.

NOTE 18 – ASSET RETIREMENT OBLIGATIONS

As permittee, KOL is responsible for the total amount of final reclamation costs for its mining operations. Its ARO arises from federal and state statutes, which require that certain mine property be restored in accordance with specified standards and an approved reclamation plan. The required reclamation activities to be performed are outlined in its mining permits.

As of December 31, 2024, the Company's ARO balance was $53.7 million including amounts reported as current liabilities. This balance has been discounted using the credit-adjusted, risk-free interest rate in effect when the initial costs were recorded and is adjusted in subsequent periods depending on the upward or downward revisions to the liability. While the precise amount of these future costs cannot be determined with certainty, we estimate that, as of December 31, 2024, the aggregate undiscounted cost of final ARO was $68.6 million. Further, as of December 31, 2024, the Company had $62.8 million in surety bonds outstanding to secure reclamation obligations. The surety bonds were secured by $58.6 million in restricted investments as of December 31, 2024.

Changes in the asset retirement obligations were as follows:

	Period from April 9, 2024 to December 31, 2024	
Opening balance	$	56,867
Changes due to amount and timing of reclamation		232
Reclamation costs incurred during the period		(6,668)
Accretion (included in cost of sales)		3,281
Ending asset retirement obligations balance		53,712
Less: current portion		(11,375)
Ending asset retirement obligations, less current portion	$	42,337

The changes due to amount and timing of reclamation are a result of an updated mine plan and increased cost assumptions.

NOTE 19 – EQUITY TRANSACTIONS

On April 9, 2024, ECC issued 84,000,000 shares of common stock to PhenixFIN at $0.05 per share for gross proceeds of $4.2 million. The newly issued shares represented approximately 44% of total shares outstanding at issuance. The proceeds were used to partially fund the Kemmerer acquisition.

NOTE 20 – REVENUE

We produce and sell thermal coal primarily to a large electric utility customer's coal-fired power plant next to our mining operation, under a long-term contract with one year remaining as of December 31, 2024, with the power plant scheduled to close by December 31, 2025. In addition, we sell coal to industrial customers, which is delivered by rail or truck, for which our customers contract.

We measure revenue based on the consideration specified in the contract, and revenue is recognized when the performance obligations in the contract are satisfied. A performance obligation is a promise in a contract to transfer a distinct service to the customer. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue at a point in time when the customer obtains control. Generally, control is obtained as the title passes to the customer when coal is loaded at the central loading facility.

The total transaction price can be comprised of fixed consideration in the form of a base price per ton of coal and variable consideration, such as index-based adjustments, quality measurements, and minimum contractual purchase and supply penalties. Some contracts also contain a tier-pricing system in which each tier has a range of output and specified price. This pricing system does not give rise to material rights to the customer nor separate performance obligation because the contract did not give the customers the right to purchase additional tonnage. When a contract includes variable consideration, the amount included in the total transaction price is based on the expected value or most likely amount, constrained to an amount that it is probable a significant reversal will not occur. Changes in customer demand and underlying index-based adjustments outside of the Company's control are considered possible indicators of significant revenue reversals.

The Company's invoicing frequency and payment terms are in accordance with negotiated customer contracts. Customer invoicing generally occurs monthly and payment terms range between net 10 and net 30 days. The Company does not typically include extended payment terms in contracts with its customers.

A contract modification is considered to exist when the modification either creates new or changes existing enforceable rights and obligations.

Sales of coal were recognized at a point in time as performance obligations were satisfied and control of the goods were transferred to customers. During the period from April 9, 2024 to December 31, 2024, revenue was $94.6 million.

NOTE 21 – LEASE

As of December 31, 2024, the mining operation of the Company has a finance lease for a front-end loader. The lease on the front-end loader has a term ending in 2028.

<u>Lease expenses</u>

	Period from April 9, 2024 to December 31, 2024
Operating lease expense	$ —
Depreciation of equipment under finance leases	$ —

NOTE 21 – LEASE (CONTINUED)

As the fair value of the front-end loader was equal to the salvage value on April 9, 2024, there was no depreciation expense During the period from April 9, 2024 to December 31, 2024.

Minimum lease payments

The future minimum lease payments as of December 31, 2024, for the periods shown, are as follows:

	Finance Leases
2025	$ 1,592
2026	1,592
2027	1,592
2028	1,194
Total minimum lease payments	5,970
Less: amount representing interest	(815)
Carrying amount of minimum lease payments	5,155
Less: current portion of leases	(1,230)
Long-term portion of leases	$ 3,925

Supplemental balance sheet information

	December 31, 2024
Net book value of equipment under finance leases	$ 2,600
Weighted-average remaining lease term (in years)	
Finance leases	3.8
Weighted-average discount rate:	
Finance leases	7.9%

The Company has entered into a short-term lease agreement for office space located at 2024 Dove Street. The lease commenced on May 11, 2024 and is set to expire on May 11, 2025. The lease requires monthly payments of $2,700 payable at the beginning of each month. The lease does not include any renewal options, and the Company does not expect to renew the lease at the end of the term. The lease will be terminated on May 11, 2025.

In accordance with ASC 842-20-25-2, the lease qualifies for the short-term lease exception. As a result, no Right-of-Use (ROU) asset or lease liability has been recognized on the balance sheet. Lease payments are recognized as lease expense on a straight-line basis over the lease term. For the year ended December 31, 2024, the total short-term lease expense recognized was $70,727 which includes expense on leases which expired during 2024 and were not renewed.

NOTE 22—INCOME TAXES

ECC Capital Corporation is a C-corporation which is subject to federal and state taxes on their income.

The components of the Company income tax provision, all of which has been allocated to continuing operations, are as follows for the year ended December 31, 2024 (in thousands):

Income tax expense (benefit):		
Current tax expense (benefit)		
Federal	$	-
State		26
Deferred tax (benefit)		
Federal		(3,247)
State		11,735
Change in valuation allowance		(8,488)
	$	26

Deferred taxes and deferred tax liabilities are recognized for temporary differences between the basis of assets and liabilities for financial statements and income tax purposes. The components of the deferred tax liabilities and assets as of December 31, 2024 are as follows (in thousands):

Deferred tax assets/(liabilities):		
Net operating loss carryforward	$	73,577
Depreciation and depletion		(3,088)
Servicing rights		36
Bad debt reserve		(182)
Accretion		711
Mine closing costs		(1,445)
Accrued vacation		336
Other		11
Total deferred tax asset		69,956
Deferred tax asset valuation allowance		(69,956)
Net deferred tax asset	$	-

For the year ended December 31, 2024, the effective tax rate approximated the federal statutory rate of 21%.

As of December 31, 2024, the Company has approximately $340 million in estimated federal net operating loss carryforwards and a total of $215 million in state net operating loss carryforwards available to reduce future taxable income, which begins to expire in 2027. Such losses may not be fully deductible due to the uncertainty of taxable income in future periods.

The Company is required to record a valuation allowance to reduce its deferred tax assets to the amount that it believes is more likely than not to be realized. In assessing the need for a valuation allowance, the Company considered all positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance. As a result of the operating losses of the Company in the current and prior years, management concluded that a full valuation allowance of $70.0 million, against the deferred tax asset was appropriate. In view of the recent losses, there is no assurance that there will be sufficient future taxable income to realize the benefit of the deferred tax asset.

NOTE 23 – RISK AND UNCERTAINTIES

Concentration of major customers

Concentration of major customers existed at the date of these consolidated financial statements.

During the period from April 9, 2024 to December 31, 2024, KOL earned approximately 95% of its revenue from four customers. At December 31, 2024, 93% of KOL's trade accounts receivable belongs to four customers in 2024. A change in the financial condition of these customers could result in a decline in future revenues or collection of accounts receivable. The coal supply agreements end on December 31, 2025, for one customer, and ends for the remaining two customers in 2026. A fourth contract ended December 31, 2024.

Risk management

The Company is exposed to interest rate and credit risks associated with its financial instruments. Overall, the Company's Member has responsibility for oversight of the Company's risk management policies.

Interest rate risk

The Company is exposed to interest rate risk from the possibility that changes in interest rates will affect future cash flows of its financial instruments. Interest expense on the Asset-backed Loan varies as market interest rates change. At December 31, 2024, the Company held $2.2 million of floating rate debt pertaining to this credit facility.

Until a July 3, 2024, amendment, the fair value of the Term Loan with fixed interest rates fluctuated with changes in market interest rates. However, these fluctuations did not affect earnings, as the Company's debt was carried at amortized cost, and the carrying value did not change as interest rates changed. Following this amendment, interest expense varies as market interest rates change. At December 31, 2024, the Company held $12.2 million of floating rate debt pertaining to the Term Loan.

Credit risk

Credit risk is the risk that financial loss to the Company may be incurred: (1) if a customer or counterparty to a financial instrument fails to meet its contractual obligations; (2) as a result of holding cash balances with financial institutions; and (3) through collection of its accounts receivable.

Currently, there are no financial instruments outstanding, nor have there been in 2024. With respect to its cash balances, the Company holds its funds with what it believes to be a reputable financial institution. Credit risk for trade and other accounts receivables are managed through established credit monitoring activities, and the predecessor owners of the Kemmerer Business have done business with those customers for many years.

Loans originated in the state of California comprise approximately 32% of the Company's total outstanding loan balance held for investment portfolio as reported on the Consolidated Balance Sheet.

NOTE 24 – OFF-BALANCE-SHEET ARRANGEMENTS

Other than our surety bonds for reclamation, we have no material off-balance-sheet arrangements. See Commitments and Contingencies, Note 25 to the consolidated financial statements, for details on surety bonds.

NOTE 25 – COMMITMENTS AND CONTINGENCIES

Coal sales contracts

We are committed under long-term contracts to sell coal that meets certain quality requirements at specified prices. Many of these prices are subject to cost pass-through or cost adjustment provisions that mitigate some risk from rising costs. Quantities sold under some of these contracts may vary from year to year within certain limits at the option of the customer. As of December 31, 2024, the remaining terms of our long-term contracts range from one to two years.

Surety bonds

As of December 31, 2024, the Company had $62.8 million in surety bonds outstanding to secure certain reclamation obligations which were collateralized by restricted investments of $58.6 million.

Litigation

During the normal course of the Company's operations, various disputes, legal, and tax matters are pending. In the opinion of management involving the use of significant judgement and estimates, these matters are not expected to have a material effect on the Company's consolidated financial statements.

NOTE 26 – SUBSEQUENT EVENTS

Management evaluated subsequent events through April 14, 2025, the date the consolidated financial statements were available to be issued. No material subsequent events requiring recognition or disclosure were identified.