CorEnergy Infrastructure Trust, Inc.
Form 10-Q
August 11, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 001-33292

CORENERGY INFRASTRUCTURE TRUST, INC.
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	20-3431375 (IRS Employer Identification No.)
1100 Walnut, Ste. 3350 Kansas City, MO (Address of Principal Executive Offices)	64106 (Zip Code)

(816) 875-3705
(Registrant's telephone number, including area code)

n/a
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act)
Yes ¨ No x

As of July 31, 2014, the registrant had 31,640,158 common shares outstanding.

CorEnergy Infrastructure Trust, Inc.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2014
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This report should be read in its entirety. No one section of the report deals with all aspects of the subject matter. It should be read in conjunction with the consolidated financial statements, related notes and with the Management's Discussion & Analysis ("MD&A") included within, as well as provided in the 2013 Annual Report on Form 10-K, as amended.

The condensed consolidated unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ended December 31, 2014. For further information, refer to the consolidated financial statements and footnotes thereto included in the CorEnergy Infrastructure Trust, Inc. Annual Report on Form 10-K, as amended, for the year ended December 31, 2013.

PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
CorEnergy Infrastructure Trust, Inc.
CONSOLIDATED BALANCE SHEETS

	June 30, 2014	December 31, 2013
Assets	(Unaudited)	
Leased property, net of accumulated depreciation of $18,949,516 and $12,754,588	$270,189,704	$232,220,618
Other equity securities, at fair value	25,786,785	23,304,321
Financing note and related accrued interest receivable, net	4,299,356	—
Cash and cash equivalents	18,986,616	17,963,266
Property and equipment, net of accumulated depreciation of $2,179,305 and $2,037,685	3,176,863	3,318,483
Lease receivable	1,099,264	711,229
Accounts receivable	1,116,161	2,068,193
Intangible lease asset, net of accumulated amortization of $875,816 and $729,847	218,955	364,924
Deferred debt issuance costs, net of accumulated amortization of $862,512 and $572,830	935,842	1,225,524
Deferred lease costs, net of accumulated amortization of $93,955 and $63,272	826,507	857,190
Hedged derivative asset	294,607	680,968
Income tax receivable	412,495	834,382
Prepaid expenses and other assets	483,614	326,561
Total Assets	$327,826,769	$283,875,659
Liabilities and Equity		
Current maturities of long-term debt	$3,528,000	$2,940,000
Long-term debt (net of current maturities)	65,296,000	67,060,000
Accounts payable and other accrued liabilities	2,961,460	2,920,267
Unearned revenue	2,133,686	—
Deferred tax liability	5,734,405	5,332,087
Line of credit	—	81,935
Total Liabilities	$79,653,551	$78,334,289
Equity		
Warrants, no par value; 0 and 945,594 issued and outstanding at June 30, 2014 and December 31, 2013, respectively (5,000,000 authorized)	$—	$1,370,700
Capital stock, non-convertible, $0.001 par value; 31,640,158 shares issued and outstanding at June 30, 2014 and 24,156,163 shares issued and outstanding at December 31, 2013 (100,000,000 shares authorized)	31,640	24,156
Additional paid-in capital	220,080,751	173,441,019
Accumulated retained earnings	—	1,580,062
Accumulated other comprehensive income	435,945	777,403
Total CorEnergy Equity	220,548,336	177,193,340
Non-controlling interest	27,624,882	28,348,030
Total Equity	248,173,218	205,541,370
Total Liabilities and Equity	$327,826,769	$283,875,659

See accompanying Notes to Consolidated Financial Statements.

CorEnergy Infrastructure Trust, Inc.
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Revenue				
Lease revenue	$7,065,677	$5,638,244	$13,828,085	$11,276,488
Sales revenue	1,813,607	1,929,772	5,073,137	4,445,345
Financing revenue	139,728	—	165,347	—
Total Revenue	9,019,012	7,568,016	19,066,569	15,721,833
Expenses				
Cost of sales (excluding depreciation expense)	1,384,998	1,476,348	4,092,356	3,479,987
Management fees	761,265	646,394	1,545,133	1,290,208
Asset acquisition expenses	20,732	53,394	36,949	85,211
Professional fees	265,514	431,508	664,642	885,691
Depreciation expense	3,204,911	2,857,412	6,336,548	5,714,448
Amortization expense	15,342	15,342	30,683	30,621
Operating expenses	213,533	303,480	436,274	510,384
Directors' fees	63,276	32,557	128,310	50,557
Other expenses	224,173	151,312	392,881	274,018
Total Expenses	6,153,744	5,967,747	13,663,776	12,321,125
Operating Income	$2,865,268	$1,600,269	$5,402,793	$3,400,708
Other Income (Expense)				
Net distributions and dividend income	$5,988	$2,701	$11,044	$15,825
Net realized and unrealized gain on trading securities	—	—	—	316,063
Net realized and unrealized gain on other equity securities	2,084,026	(30,976)	3,378,208	2,395,010
Interest expense	(819,360)	(907,275)	(1,646,337)	(1,644,656)
Total Other Income	1,270,654	(935,550)	1,742,915	1,082,242
Income before income taxes	4,135,922	664,719	7,145,708	4,482,950
Taxes				
Current tax expense	—	581,757	854,075	867,648
Deferred tax expense (benefit)	742,879	(340,003)	402,317	395,050
Income tax expense, net	742,879	241,754	1,256,392	1,262,698
Net Income	3,393,043	422,965	5,889,316	3,220,252
Less: Net income attributable to non-controlling interest	387,135	352,893	778,249	737,427
Net Income attributable to CORR Stockholders	$3,005,908	$70,072	$5,111,067	$2,482,825
Net income	$3,393,043	$422,965	$5,889,316	$3,220,252
Other comprehensive income (expense):				
Changes in fair value of qualifying hedges attributable to CORR Stockholders	(270,838)	921,442	(341,458)	921,442
Changes in fair value of qualifying hedges attributable to non-controlling interest	(63,324)	215,439	(79,835)	215,439
Net Change in Other Comprehensive Income	$(334,162)	$1,136,881	$(421,293)	$1,136,881
Total Comprehensive Income	3,058,881	1,559,846	5,468,023	4,357,133
Less: Comprehensive income attributable to non-controlling interest	323,811	568,332	698,414	952,866
	$2,735,070	$991,514	$4,769,609	$3,404,267

Comprehensive Income attributable to CORR Stockholders				
Earnings Per Common Share:				
Basic and Diluted	$0.10	$—	$0.17	$0.10
Weighted Average Shares of Common Stock Outstanding:				
Basic and Diluted	31,637,568	24,147,958	30,810,060	24,144,856
Dividends declared per share	$0.129	$0.125	$0.254	$0.250

See accompanying Notes to Consolidated Financial Statements.

CorEnergy Infrastructure Trust, Inc.
CONSOLIDATED STATEMENTS OF EQUITY

	Capital Stock							
	Shares	Amount	Warrants	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings (Accumulated Deficit)	Non-Controlling Interest	Total
Balance at December 31, 2012	24,140,667	$24,141	$1,370,700	$175,256,675	$—	$4,209,023	$29,981,653	$210,842,192
Net income	—	—	—	—	—	4,502,339	1,466,767	5,969,106
Net change in cash flow hedges	—	—	—	—	777,403	—	181,762	959,165
Total comprehensive income	—	—	—	—	777,403	4,502,339	1,648,529	6,928,271
Dividends	—	—	—	(1,923,760)	—	(7,131,300)	—	(9,055,060)
Distributions to non-controlling interest	—	—	—	—	—	—	(3,282,152)	(3,282,152)
Reinvestment of dividends paid to stockholders	15,496	15	—	108,104	—	—	—	108,119
Balance at December 31, 2013	24,156,163	$24,156	$1,370,700	$173,441,019	$777,403	$1,580,062	$28,348,030	$205,541,370
Net income	—	—	—	—	—	5,111,067	778,249	5,889,316
Net change in cash flow hedges	—	—	—	—	(341,458)	—	(79,835)	(421,293)
Total comprehensive income	—	—	—	—	(341,458)	5,111,067	698,414	5,468,023
Net offering proceeds	7,475,000	7,475	—	45,617,088	—	—	—	45,624,563
Dividends	—	—	—	(409,376)	—	(6,691,129)	—	(7,100,505)
Distributions to non-controlling interest	—	—	—	—	—	—	(1,421,562)	(1,421,562)
Reinvestment of dividends paid to stockholders	8,995	9	—	61,320	—	—	—	61,329
Warrant expiration	—	—	(1,370,700)	1,370,700	—	—	—	—
Balance at June 30, 2014 (Unaudited)	31,640,158	$31,640	$—	$220,080,751	$435,945	$—	$27,624,882	$248,173,218

See accompanying Notes to Consolidated Financial Statements.

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CorEnergy Infrastructure Trust, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Six Months Ended	
	June 30, 2014	June 30, 2013
Operating Activities		
Net income	$5,889,316	$3,220,252
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred income tax, net	402,318	395,050
Depreciation	6,336,548	5,714,448
Amortization	466,334	433,386
Realized and unrealized gain on trading securities	—	(316,063)
Realized and unrealized gain on other equity securities	(3,378,208)	(2,395,010)
Unrealized (gain) loss on derivative contract	(34,932)	46,228
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	952,032	(352,037)
(Increase) in lease receivable	(388,035)	—
(Increase) decrease in prepaid expenses and other assets	(94,053)	31,321
Decrease in accounts payable and other accrued liabilities	(366,777)	(1,217,791)
Increase in dividends payable to shareholders	—	3,018,495
Increase in distributions payable to non-controlling interest	—	1,690,413
Increase (decrease) in current income tax liability	421,887	(3,855,947)
Increase (decrease) in unearned revenue	2,133,686	(1,422,457)
Net cash provided by (used in) operating activities	$12,340,116	$4,990,288
Investing Activities		
Proceeds from sale of long-term investment of trading and other equity securities	—	5,563,865
Deferred lease costs	—	(5,620)
Acquisition of leased assets	(43,536,044)	—
Purchases of property and equipment	—	(42,242)
Issuance of financing note receivable	(4,299,356)	—
Return of capital on distributions received	832,744	631,524
Net cash (used in) provided by investing activities	$(47,002,656)	$6,147,527
Financing Activities		
Payments on lease obligation	—	(20,698)
Debt financing costs	(220,000)	(10,999)
Net offering proceeds	45,624,563	—
Dividends paid	(7,039,176)	(5,986,937)
Distributions to non-controlling interest	(1,421,562)	(1,690,413)
Advances on revolving line of credit	2,535,671	139,397
Payments on revolving line of credit	(2,617,606)	(139,397)
Principal payment on credit facility	(1,176,000)	—
Net cash provided by (used in) financing activities	$35,685,890	$(7,709,047)
Net change in cash and cash equivalents	$1,023,350	$3,428,768
Cash and cash equivalents at beginning of period	17,963,266	17,680,783
Cash and cash equivalents at end of period	$18,986,616	$21,109,551
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$1,399,619	$1,242,441
Net Income taxes paid (refunds received)	$432,187	$4,776,354

Non-Cash Investing Activities		
Change in accounts payable and accrued expenses related to acquisition expenditures	$627,970	$—
Non-Cash Financing Activities		
Reinvestment of distributions by common stockholders in additional common shares	$61,329	$49,141
Change in accounts payable and accrued expenses related to debt financing costs	$(220,000)	$—

See accompanying Notes to Consolidated Financial Statements.

CorEnergy Infrastructure Trust, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
June 30, 2014

1. INTRODUCTION AND BASIS OF PRESENTATION

Introduction

CorEnergy Infrastructure Trust, Inc. ("CorEnergy"), was organized as a Maryland corporation and commenced operations on December 8, 2005. The Company's shares are listed on the New York Stock Exchange under the symbol “CORR.” As used in this report, the terms "we", "us", "our" and the "Company" refer to CorEnergy and its subsidiaries. We are primarily focused on acquiring and financing midstream and downstream real estate assets within the U.S. energy infrastructure sector and concurrently entering into long-term triple net participating leases with energy companies. We also may provide other types of capital, including loans secured by energy infrastructure assets. We intend to acquire assets that are accretive to our shareholders and allow us to remain a diversified energy infrastructure real estate investment trust (REIT). Targeted assets include pipelines, storage tanks, transmission lines and gathering systems, among others. These sale-leaseback or real property mortgage transactions provide the energy company with a source of capital that is an alternative to sources such as corporate borrowing, bond offerings, or equity offerings. We expect to receive participation features in the financial performance or value of the underlying infrastructure real property asset. The triple net lease structure requires that the tenant pay all operating expenses of the business conducted by the tenant, including real estate taxes, insurance, utilities, and expenses of maintaining the asset in good working order.

The Company's consolidated financial statements include the Company's direct and indirect wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The Company's financial statements also present non-controlling interests in the case of entities that are not wholly-owned subsidiaries of the Company.

The Company consolidates certain entities when it is deemed to be the primary beneficiary in a variable interest entity ("VIE"), as defined in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic on Consolidation. The Topic on Consolidation requires the consolidation of VIEs in which an enterprise has a controlling financial interest. A controlling financial interest will have both of the following characteristics: (1) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, and (2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. This topic requires an ongoing reassessment. The equity method of accounting is applied to entities in which the Company is not the primary beneficiary as defined in the Consolidation Topic of FASB ASC, or does not have effective control, but can exercise influence over the entity with respect to its operations and major decisions.

Taxable REIT subsidiaries hold our securities portfolio (Corridor Public Holdings, Inc. and its wholly-owned subsidiary Corridor Private Holdings, Inc.) and our operating business (Mowood Corridor, Inc. and its wholly-owned subsidiary, Mowood, LLC ("Mowood"), which is the holding company for Omega Pipeline Company, LLC (“Omega”)). Omega owns and operates a natural gas distribution system in Fort Leonard Wood, Missouri. Omega is responsible for purchasing and coordinating delivery of natural gas to Fort Leonard Wood, as well as performing maintenance and expansion of the pipeline. In addition, Omega provides gas-marketing services to local commercial end users.

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information set forth in the Accounting Standards Codification (“ASC”), as published by the Financial Accounting Standards Board (“FASB”), and with the Securities and Exchange Commission (“SEC”) instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The accompanying consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the Company's financial position, results of operations and cash flows for the interim period presented. There were no adjustments that, in the opinion of management, were not of a normal and recurring nature.

Operating results for the three and six months ended June 30, 2014 and June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. These consolidated financial statements and

Management's Discussion and Analysis of the Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K, as amended, for the year ended December 31, 2013, filed with the SEC on March 19, 2014.

The financial statements included in this report are based on the selection and application of critical accounting policies, which require management to make significant estimates and assumptions. Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management's most difficult, complex or subjective judgments. Note 2 to the Consolidated Financial Statements, included in this report, further details information related to our significant accounting policies.

2. SIGNIFICANT ACCOUNTING POLICIES

A. Use of Estimates – The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, recognition of distribution income and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates.

B. Leased Property – The Company includes assets subject to lease arrangements within Leased property, net of accumulated depreciation, in the Consolidated Balance Sheets. Lease payments received are reflected in lease revenue on the Consolidated Statements of Income, net of amortization of any off-market adjustments. Costs in connection with the creation and execution of a lease are capitalized and amortized over the lease term. See Note 4 for further discussion.

C. Cash and Cash Equivalents – The Company maintains cash balances at financial institutions in amounts that regularly exceed FDIC insured limits. The Company's cash equivalents are comprised of short-term, liquid money market instruments.

D. Long-Lived Assets and Intangibles – Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the asset. Expenditures for repairs and maintenance are charged to operations as incurred, and improvements, which extend the useful lives of assets, are capitalized and depreciated over the remaining estimated useful life of the asset.

The Company initially records long-lived assets at their acquisition cost, unless the transaction is accounted for as a business combination. If the transaction is accounted for as a business combination, the Company allocates the purchase price to the acquired tangible and intangible assets and liabilities based on their estimated fair values. The Company determines the fair values of assets and liabilities based on discounted cash flow models using current market assumptions, appraisals, recent transactions involving similar assets or liabilities and other objective evidence, and depreciates the asset values over the estimated remaining useful lives.

The Company may acquire long-lived assets that are subject to an existing lease contract with the seller or other lessee party and the Company may assume outstanding debt of the seller as part of the consideration paid. If, at the time of acquisition, the existing lease or debt contract is not at current market terms, the Company will record an asset or liability at the time of acquisition representing the amount by which the fair value of the lease or debt contract differs from its contractual value. Such amount is then amortized over the remaining contract term as an adjustment to the related lease revenue or interest expense. The Company periodically reviews its long-lived assets, primarily real estate, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Company's review involves comparing current and future operating performance of the assets, the most significant of which is undiscounted operating cash flows, to the carrying value of the assets. Based on this analysis, a provision for possible loss is recognized, if any. No impairment write-downs were recognized during the three and six months ended June 30, 2014 and June 30, 2013.

Costs in connection with the direct acquisition of a new asset are capitalized as a component of the purchase price and depreciated over the life of the asset. See Note 4 for further discussion.

E. Investment Securities – The Company's investments in securities are classified as either trading or other equity securities:

- Trading securities – The Company's publicly traded equity securities were classified as trading securities and were historically reported at fair value. The Company liquidated its trading securities in order to acquire real asset investments. As of March 31, 2013, all trading securities had been sold.
- Other equity securities – The Company's other equity securities represent interests in private companies which the Company has elected to report at fair value under the fair value option.
- Realized and unrealized gains and losses on trading securities and other equity securities – Changes in the fair values of the Company's securities during the period reported and the gains or losses realized upon sale of securities during the

period are reflected as other income or expense within the accompanying Consolidated Statements of Income.

F. Security Transactions and Fair Value – Security transactions are accounted for on the date the securities are purchased or sold (trade date). Realized gains and losses are reported on an identified cost basis.

For equity securities that are freely tradable and listed on a securities exchange or over-the-counter market, the Company values those securities at their last sale price on that exchange or over-the-counter market on the valuation date. If the security is listed on more than one exchange, the Company will use the price from the exchange that it considers to be the principal, which may not necessarily represent the last sale price. If there has been no sale on such exchange or over-the-counter market on such day, the security will be valued at the mean between the last bid price and last ask price on such day.

The major components of net realized and unrealized gain or loss on trading securities for the three and six months ended June 30, 2014 and June 30, 2013 are as follows:

Major Components of Net Realized and Unrealized Gain (Loss) on Trading Securities

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Net unrealized gain on trading securities	$—	$—	$—	$—
Net realized gain on trading securities	—	—	—	316,063
Total net realized and unrealized gain on trading securities	$—	$—	$—	$316,063

The Company holds investments in illiquid securities including debt and equity securities of privately-held companies. These investments generally are subject to restrictions on resale, have no established trading market and are valued on a quarterly basis. Because of the inherent uncertainty of valuation, the fair values of such investments, which are determined in accordance with procedures approved by the Company's Board of Directors, may differ materially from the values that would have been used had a ready market existed for the investments.

The Company determines fair value to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company has determined the principal market, or the market in which the Company exits its private portfolio investments with the greatest volume and level of activity, to be the private secondary market. Typically, private companies are bought and sold based on multiples of EBITDA, cash flows, net income, revenues, or in limited cases, book value.

For private company investments, value is often realized through a liquidity event. Therefore, the value of the company as a whole (enterprise value) at the reporting date often provides the best evidence of the value of the investment and is the initial step for valuing the Company's privately issued securities. For any one company, enterprise value may best be expressed as a range of fair values, from which a single estimate of fair value will be derived. In determining the enterprise value of a portfolio company, an analysis is prepared consisting of traditional valuation methodologies including market and income approaches. The Company considers some or all of the traditional valuation methods based on the individual circumstances of the portfolio company in order to derive its estimate of enterprise value.

The fair value of investments in private portfolio companies is determined based on various factors, including enterprise value, observable market transactions, such as recent offers to purchase a company, recent transactions involving the purchase or sale of the equity securities of the company, or other liquidation events. The determined equity values may be discounted when the Company has a minority position, or is subject to restrictions on resale, has specific concerns about the receptivity of the capital markets to a specific company at a certain time, or other comparable factors exist.

The Company undertakes a multi-step valuation process each quarter in connection with determining the fair value of private investments. We have retained an independent valuation firm to provide third party valuation consulting services based on procedures that the Company has identified and may ask them to perform from time to time on all or a selection of private investments as determined by the Company. The multi-step valuation process is specific to the level of assurance that the Company requests from the independent valuation firm. For positive assurance, the process is as follows:

- The independent valuation firm prepares the valuations and the supporting analysis.
- The valuation report is reviewed and approved by senior management.

- The Audit Committee of the Board of Directors reviews the supporting analysis and accepts the valuations.

G. Financing Notes Receivable – Financing notes receivable are presented at face value plus accrued interest receivable and deferred loan origination fees and net of related direct loan origination costs. The financing note receivable is discussed more fully in Note 5.

H. Accounts Receivable – Accounts receivable are presented at face value net of an allowance for doubtful accounts. Accounts are considered past due based on the terms of sale with the customers. The Company reviews accounts for collectibility based on an analysis of specific outstanding receivables, current economic conditions and past collection experience. At June 30, 2014 and June 30, 2013, Management determined that an allowance for doubtful accounts related to our leases was not required. Lease payments by our tenants, as discussed within Note 4, have remained timely and without lapse.

I. Derivative Instruments and Hedging Activities – FASB ASC 815, Derivatives and Hedging (“ASC 815”), provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company's objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments. Accordingly, the Company's derivative assets and liabilities are presented on a gross basis.

As required by ASC 815, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

FASB ASC 820, Fair Value Measurements and Disclosure ("ASC 820"), defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In accordance with ASC 820, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

J. Fair Value Measurements – Various inputs are used in determining the fair value of the Company’s assets and liabilities. These inputs are summarized in the three broad levels listed below:

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments, market corroborated inputs, etc.)
- Level 3 – significant unobservable inputs (including the Company’s own assumptions in determining the fair value of investments)

ASC 820 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

K. Revenue Recognition – Specific recognition policies for the Company's revenue items are as follows:

- Lease Revenue – Income related to the Company's leased property is recognized on a straight-line basis over the term of the lease when collectibility is reasonably assured. Rental payments received in advance are classified as unearned revenue and included in liabilities within the Consolidated Balance Sheets. Unearned revenue is amortized ratably over the lease period as revenue recognition criteria are met. Rental payments received in arrears are accrued and classified as Lease Receivable and included in assets within the Consolidated Balance Sheets.
- Sales Revenue – Revenues related to natural gas distribution and performance of management services are recognized in accordance with GAAP upon delivery of natural gas and upon the substantial performance of management and supervision services related to the expansion of the natural gas distribution system. Omega, acting as a principal, provides for transportation services and natural gas supply for its customers on a firm basis. In addition, Omega is paid fees for the operation and maintenance of its natural gas distribution system, including any necessary expansion of the distribution system. Omega is responsible for the coordination, supervision and quality of the expansions while actual construction is generally performed by third party contractors. Revenues from expansion efforts are recognized in accordance with GAAP using either a completed contract or percentage of completion method based on the level and volume of estimates utilized, as well as the certainty or uncertainty of our ability to collect those revenues.
- Financing Revenue – Our financing notes receivable are considered a core product offering and therefore the related income is presented as a component of operating income in the revenue section. For increasing rate loans, base interest income is recorded ratably over the life of the loan, using the effective interest rate. The net amount of deferred loan origination fees and costs are amortized on a straight-line basis over the life of the loan and reported as an adjustment to yield in financing revenue. Participating financing revenues are recorded when specific performance criteria have been met.

L. Cost of Sales – Included in the Company's cost of sales are the amounts paid for gas and propane, along with related transportation, which are delivered to customers, as well as the cost of material and labor related to the expansion of the natural gas distribution system.

M. Asset Acquisition Expenses – Costs in connection with the research of real property acquisitions not expected to be accounted for as business combinations are expensed as incurred until determination that the acquisition of the real property is probable. Upon such determination, costs in connection with the acquisition of the property are capitalized as described in paragraph (D) above. Deferred costs related to an an acquisition that we have determined, based on our judgment, not to pursue are expensed in the period in which such determination is made.

N. Offering Costs – Offering costs related to the issuance of common stock are charged to additional paid-in capital when the stock is issued.

O. Debt Issuance Costs – Costs in connection with the issuance of new debt are capitalized and amortized over the debt term. See Note 13 for further discussion.

P. Distributions to Stockholders – Distributions to stockholders are determined by the Board of Directors and are recorded on the ex-dividend date.

Q. Other Income Recognition – Specific policies for the Company's other income items are as follows:

- Securities Transactions and Investment Income Recognition – Securities transactions are accounted for on the date the securities are purchased or sold (trade date). Realized gains and losses are reported on an identified cost basis. Distributions received from our equity investments are generally comprised of ordinary income, capital gains and distributions received from investment securities from the portfolio company. The Company records investment income and return of capital based on estimates made at the time such distributions are received. Such estimates are based on information available from each portfolio company and other industry sources. These estimates may subsequently be revised based on information received from the portfolio companies after their tax reporting periods are concluded, as the actual character of these distributions are not known until after our fiscal year end.

Dividends and distributions from investments – Dividends and distributions from investments are recorded on their ex-dates and are reflected as other income within the accompanying Consolidated Statements of Income. Distributions received from the Company's investments are generally characterized as ordinary income, capital gains and distributions received from investment securities. The portion characterized as return of capital is paid by our investees from their cash flow from operations. The Company records investment income, capital gains and distributions received from investment securities based on estimates made at the time such distributions are received. Such estimates are based on information available from each company and other industry sources. These estimates may subsequently be revised based on information received from the entities after their tax reporting periods are concluded, as the actual character of these distributions is not known until after the fiscal year end of the Company.

R. Federal and State Income Taxation – In 2013 we qualified, and in January 2014 elected (effective as of January 1, 2013), to be treated as a REIT for federal income tax purposes (which we refer to as the "REIT Election"). Because certain of our assets may not produce REIT-qualifying income or be treated as interests in real property, those assets are held in wholly-owned Taxable REIT Subsidiaries ("TRSs") in order to limit the potential that such assets and income could prevent us from qualifying as a REIT.

For years ended in 2012 and before, the distributions we made to our stockholders from our earnings and profits were treated as qualified dividend income ("QDI") and return of capital. QDI is taxed to our individual shareholders at the maximum rate for long-term capital gains, which through tax year 2012 was 15 percent and beginning in tax year 2013 will be 20 percent. The Company has elected to be taxed as a REIT for 2013 rather than a C corporation and generally will not pay federal income tax on taxable income of the REIT that is distributed to our stockholders. As a REIT, our distributions from earnings and profits will be treated as ordinary income and a return of capital, and generally will not qualify as QDI. To the extent that the REIT had accumulated C corporation earnings and profits from the periods prior to 2013, we have distributed such earnings and profits in 2013. A portion of our normal distribution was characterized for federal income tax purposes as a distribution of those earnings and profits from non-REIT years and have been treated as QDI.

As a REIT, the Company holds and operates certain of our assets through one or more wholly-owned TRSs. A TRS is a subsidiary of a REIT that is subject to applicable corporate income tax. Our use of TRSs enables us to continue to engage in certain businesses while complying with REIT qualification requirements and also allows us to retain income generated by these businesses for reinvestment without the requirement of distributing those earnings. In the future, we may elect to reorganize and transfer certain assets or operations from our TRSs to the Company or other subsidiaries, including qualified REIT subsidiaries.

The Company's trading securities and other equity securities are limited partnerships or limited liability companies which are treated as partnerships for federal and state income tax purposes. As a limited partner, the Company reports its allocable share of taxable income in computing its own taxable income. The Company's tax expense or benefit is included in the Consolidated Statements of Income based on the component of income or gains and losses to which such expense or benefit relates. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income tax asset will not be realized. Due to our decision to structure ourselves as a REIT in December 2012, it is expected that for the year ended December 31, 2013 and future periods, any deferred tax liability or asset will be related entirely to the assets and activities of the Company's TRSs.

If we cease to qualify as a REIT, the Company, as a C corporation, would be obligated to pay federal and state income tax on its taxable income. Currently, the highest regular marginal federal income tax rate for a corporation is 35 percent. The Company may be subject to a 20 percent federal alternative minimum tax on its federal alternative minimum taxable income to the extent that its alternative minimum tax exceeds its regular federal income tax.

S. Recent Accounting Pronouncements – In May 2014, the FASB issued ASU No. 2014-09 "Revenue from Contracts with Customers." ASU No. 2014-09 adds to the FASB ASC by detailing new guidance in order to make a more clarified set of principles for recognizing revenue from customer contracts. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Management is evaluating this amendment and does not expect adoption to have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11 "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." ASU No. 2013-11 amends FASB ASC Topic 740 Income taxes, to include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. ASU No. 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Management has adopted this amendment and it did not have a material impact on the Company's consolidated financial statements.

3. LEASED PROPERTIES

Pinedale LGS

Our subsidiary, Pinedale Corridor, LP ("Pinedale LP"), owns a system of gathering, storage, and pipeline facilities (the "Liquids Gathering System" or "Pinedale LGS"), with associated real property rights in the Pinedale Anticline in Wyoming.

Physical Assets

The Pinedale LGS consists of more than 150 miles of pipelines with 107 receipt points and four above-ground central gathering facilities. The system is leased to and used by Ultra Petroleum Corp. ("Ultra Petroleum") as a method of separating water, condensate and associated flash gas from a unified stream and subsequently selling or treating and disposing of the separated products. Prior to entering the Pinedale LGS, a commingled hydrocarbon stream is separated into wellhead natural gas and a liquids stream. The wellhead natural gas is transported to market by a third party. The remaining liquids, primarily water, are transported by the Pinedale LGS to one of its four central gathering facilities where they pass through a three-phase separator which separates condensate, water and associated natural gas. Condensate is a valuable hydrocarbon commodity that is sold by Ultra Petroleum; water is transported to disposal wells or a treatment facility for re-use; and the natural gas is sold or otherwise used by Ultra Petroleum for fueling on-site operational equipment. To date, no major operational issues have been reported with respect to the Pinedale LGS.

The asset is depreciated for book purposes over an estimated useful life of 26 years. The amount of depreciation recognized for the leased property for each of the three-month periods ended June 30, 2014 and 2013 was $2.2 million, and for each of the six-month periods ended June 30, 2014 and 2013 was $4.4 million.

See Note 4 for further information regarding the Pinedale Lease Agreement (as defined therein).

Non-Controlling Interest Partner

Prudential Financial, Inc. ("Prudential") funded a portion of the Pinedale LGS acquisition and, as a limited partner, holds 18.95 percent of the economic interest in Pinedale LP. The general partner, Pinedale GP, holds the remaining 81.05 percent of the economic interest.

Debt

Pinedale LP borrowed $70 million pursuant to a secured term credit facility with KeyBank National Association ("KeyBank") serving as a lender and the administrative agent on behalf of other lenders participating in the credit facility. The credit facility will remain in effect through December 2015, with an option to extend through December 2016. The credit facility is secured by the LGS. See Note 13 for further information regarding the credit facility.

Portland Terminal Facility

On January 21, 2014, we completed a follow-on equity offering of 7,475,000 shares of common stock, raising approximately $49 million in gross proceeds at $6.50 per share (net proceeds of approximately $46 million after underwriters' discount). Concurrently, our subsidiary, LCP Oregon, used the net proceeds from the offering to close on a Purchase and Sale Agreement to acquire a petroleum products terminal facility and certain associated real property rights located in Portland, Oregon ("Portland Terminal Facility") for $40 million in cash. LCP Oregon also entered into a long-term triple net Lease Agreement relating to the use of the Portland Terminal Facility (the “Portland Lease Agreement”) with Arc Terminals Holdings LLC ("Arc Terminals"), an indirect wholly-owned subsidiary of Arc Logistics Partners LP ("Arc Logistics").

The Portland Terminal Facility is a rail and marine facility adjacent to the Willamette River in Portland, Oregon. The 39-acre site has 84 tanks with a total storage capacity of approximately 1,500,000 barrels. The Portland Terminal Facility is capable of receiving, storing and delivering crude oil and refined petroleum products. Products are received and delivered via railroad or marine (up to Panamax size vessels). The marine facilities are accessed through a neighboring terminal facility via an owned pipeline. The Portland Terminal Facility offers heating systems, emulsions and an on-site product testing laboratory as ancillary services.

We anticipate funding an additional $10 million of terminal-related improvement projects in support of Arc Terminals' commercial strategy to optimize the Portland Terminal Facility and generate stable cash flows, including: i) upgrade a portion of the existing storage assets; ii) enhance existing terminal infrastructure; and iii) develop, design, engineer and construct throughput expansion opportunities. As of June 30, 2014, additional spending on terminal-related projects totaled approximately $2.8 million.

The asset is depreciated for book purposes over an estimated useful life of 30 years. The amount of depreciation recognized for the leased property for each of the three months ended June 30, 2014 and 2013 was $347 thousand and $0, respectively. The amount

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of depreciation recognized for the leased property for each of the six months ended June 30, 2014 and 2013, was $621 thousand and $0, respectively.

See Note 4 for further information regarding the Portland Lease Agreement related to the Portland Terminal Facility assets.

Eastern Interconnect Project (EIP)

Physical Assets

The EIP transmission assets are utilized by the lessee to move electricity across New Mexico between Albuquerque and Clovis. The physical assets include 216 miles of 345 kilovolt transmission lines, towers, easement rights, converters and other grid support components. Originally, the assets were depreciated for book purposes over an estimated useful life of 20 years. Pursuant to the Purchase Agreement discussed in Note 4, the Company reevaluated the residual value used to calculate its depreciation of the EIP, and determined that a change in estimate was necessary. The change in estimate resulted in higher depreciation expenses beginning in November of 2012 through the expiration of the lease in April 2015.

The amount of depreciation expense related to the EIP leased property for each of the three-month periods ended June 30, 2014 and 2013 was $570 thousand. The amount of depreciation expense related to the EIP leased property for each of the six-month periods ended June 30, 2014 and 2013 was $1.1 million.

See Note 4 for further information regarding the PNM Lease Agreement related to the EIP transmission assets.

4. LEASES

As of June 30, 2014 the Company had three significant leases. The table below displays the impact of each lease on total leased properties and total lease revenues for the periods presented.

	As a Percentage of Leased Properties		Lease Revenues			
	As of	As of	For the Three Months Ended		For the Six Months Ended	
	June 30, 2014	December 31, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Pinedale LGS	80.32%	94.23%	71.85%	88.68%	73.42%	88.68%
Portland Terminal Facility	16.21%	—	19.12%	—	17.35%	—
Public Service of New Mexico	3.47%	5.77%	9.03%	11.32%	9.23%	11.32%

Pinedale LGS

Pinedale LP entered into a long-term triple net Lease Agreement on December 20, 2012, relating to the use of the Pinedale LGS (the “Pinedale Lease Agreement”) with Ultra Wyoming LGS, LLC ("Ultra Wyoming"), an indirect wholly-owned subsidiary of Ultra Petroleum. Ultra Wyoming utilizes the Pinedale LGS to gather and transport a commingled stream of oil, natural gas and water, then further utilizes the Pinedale LGS to separate this stream into its separate components. Ultra Wyoming's obligations under the Pinedale Lease Agreement are guaranteed by Ultra Petroleum and Ultra Petroleum's operating subsidiary, Ultra Resources, Inc. (“Ultra Resources”), pursuant to the terms of a Parent Guaranty. Annual rent for the initial term under the Pinedale Lease Agreement is a minimum of $20 million (as adjusted annually for changes based on the Consumer Price Index (“CPI”), subject to annual maximum adjustments of 2 percent), with the exact rental amount determined by the actual volume of the components handled by the Pinedale LGS, subject to Pinedale LP not being in default under the Pinedale Lease Agreement. For 2014, the increase in quarterly rent is $76 thousand, based on the CPI adjustment as specified in the lease terms. Total annual rent may not exceed $27.5 million.

As of June 30, 2014 and December 31, 2013, approximately $827 thousand and $857 thousand, respectively, of net deferred lease costs are included in the accompanying Consolidated Balance Sheets. The deferred costs are amortized over the 15 year life of the Pinedale LGS lease. For each of the three months ended June 30, 2014 and 2013, $15 thousand is included in amortization expense within the Consolidated Statements of Income. For each of the six months ended June 30, 2014 and 2013, $31 thousand, is included in amortization expense within the Consolidated

Statements of Income. Approximately $2.6 million in gross asset acquisition costs related to the Pinedale LGS acquisition is included in Leased Property within the Consolidated Balance Sheets. The asset acquisition costs are being depreciated over the anticipated 26 year life of the asset and are included in depreciation expense within the Consolidated Statements of Income.

The assets, which comprise the Pinedale LGS, include real property and land rights to which the purchase consideration was allocated based on relative fair values and equaled $122.3 million and $105.7 million, respectively, at the time of acquisition. The land rights are being depreciated over the 26 year life of the related land lease with associated depreciation expense expected to be approximately $4.1 million for each of the next five years.

In view of the fact that Ultra Petroleum leases a substantial portion of the Company's net leased property, which is a significant source of revenues and operating income, its financial condition and ability and willingness to satisfy its obligations under its lease with the Company are expected to have a considerable impact on the results of operation going forward.
Ultra Petroleum is currently subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and is required to file with the SEC annual reports containing audited financial statements and quarterly reports containing unaudited financial statements. The audited financial statements and unaudited financial statements of Ultra Petroleum can be found on the SEC's website at www.sec.gov. The Company makes no representation as to the accuracy or completeness of the audited and unaudited financial statements of Ultra Petroleum, but has no reason to doubt the accuracy or completeness of such information. In addition, Ultra Petroleum has no duty, contractual or otherwise, to advise the Company of any events that might have occurred subsequent to the date of such financial statements which could affect the significance or accuracy of such information. Summary Consolidated Balance Sheets and Consolidated Statements of Operations for Ultra Petroleum are provided below.

Ultra Petroleum Corp.
Summary Consolidated Balance Sheets
(in thousands)

	June 30, 2014	December 31, 2013
	(Unaudited)	
Current assets	$144,778	$128,631
Non-current assets	2,813,355	2,656,688
Total Assets	$2,958,133	$2,785,319
Current liabilities	497,704	407,476
Non-current liabilities	2,583,954	2,709,333
Total Liabilities	$3,081,658	$3,116,809
Shareholder's (deficit)	(123,525)	(331,490)
Total Liabilities and Shareholder's Equity	$2,958,133	$2,785,319

Ultra Petroleum Corp.
Summary Consolidated Statements of Operations (Unaudited)
(in thousands)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2014	2013	2014	2013
Revenues	$296,063	$261,376	$622,361	$487,003
Expenses	150,850	143,002	305,680	282,996
Operating Income (Loss)	145,213	118,374	316,681	204,007
Other Income (Expense), net	(39,708)	(506)	(109,459)	(68,337)
Income (Loss) before income tax provision (benefit)	105,505	117,868	207,222	135,670
Income tax provision (benefit)	(544)	1,491	(541)	2,859
Net Income (Loss)	$106,049	$116,377	$207,763	$132,811

Portland Terminal Facility

LCP Oregon entered into the Portland Lease Agreement on January 21, 2014. Arc Logistics has guaranteed the obligations of Arc Terminals under the Portland Lease Agreement. The Portland Lease Agreement grants Arc Terminals substantially all authority to operate the Portland Terminal Facility. During the initial term, Arc Terminals will make base monthly rental payments and variable rent payments based on the volume of liquid hydrocarbons that flowed through the Portland Terminal Facility in the prior month.

The base rent in the initial year of the Portland Lease Agreement increases to approximately $418 thousand per month starting with August 2014 and each month thereafter. The base rent is also expected to increase during the initial year of the Portland Lease Agreement based on a percentage of specified construction costs at the Portland Terminal Facility incurred by LCP Oregon, estimated at $10 million. Variable rent is capped at 30 percent of total rent, which would be the equivalent of the Portland Terminal Facility’s expected throughput capacity.

Arc Logistics is a fee-based, growth-oriented Delaware limited partnership formed by Lightfoot to own, operate, develop and acquire a diversified portfolio of complementary energy logistics assets. In November 2013, Arc Logistics completed its initial public offering ("IPO"). Arc Logistics’ public disclosures filed with the SEC indicate that Arc Logistics is principally engaged in the terminaling, storage, throughput and transloading of crude oil and petroleum products with energy logistics assets strategically located in the East Coast, Gulf Coast and Midwest regions of the U.S. It is focused on growing its business through the optimization, organic development and acquisition of terminaling, storage, rail, pipeline and other energy logistics assets that generate stable cash flows and offer customers multiple supply and delivery modes via pipelines, rail, marine and truck. Arc Logistics indicated in its 2013 Form 10-K that it had approximately 5.0 million barrels of crude oil and petroleum product storage capacity. Arc Terminals is a wholly-owned subsidiary of Arc Logistics.

Arc Logistics is currently subject to the reporting requirements of the Exchange Act and is required to file with the SEC annual reports containing audited financial statements and quarterly reports containing unaudited financial statements. The audited financial statements and unaudited financial statements of Arc Logistics can be found on the SEC's web site at www.sec.gov. The Company makes no representation as to the accuracy or completeness of the audited and unaudited financial statements of Arc Logistics but has no reason to doubt the accuracy or completeness of such information. In addition, Arc Logistics has no duty, contractual or otherwise, to advise the Company of any events that might have occurred subsequent to the date of such financial statements which could affect the significance or accuracy of such information. None of the information in the public reports of Arc Logistics that are filed with the SEC is incorporated by reference into, or in any way form, a part of this filing.

Public Service Company of New Mexico ("PNM")

EIP is leased on a triple net basis through April 1, 2015 (the "PNM Lease Agreement") to PNM, an independent electric utility company serving approximately 500 thousand customers in New Mexico. PNM is a subsidiary of PNM Resources Inc. (NYSE: PNM) ("PNM Resources"). Per the PNM Lease Agreement, at the time of expiration of the PNM Lease Agreement, the Company could choose to renew the PNM Lease Agreement with the lessee, the lessee could offer to repurchase the EIP, or the PNM Lease Agreement could be allowed to expire and the Company could find another lessee.

At the time of acquisition, the rate of the PNM Lease Agreement was determined to be above market rates for similar leased assets and the Company recorded an intangible asset of $1.1 million for this premium which is being amortized as a reduction to lease revenue over the remaining lease term. See Note 12 below for further information as to the intangible asset.

On November 1, 2012 the Company entered into a definitive Purchase Agreement with PNM to sell the Company’s 40 percent undivided interest in the EIP upon termination of the PNM Lease Agreement on April 1, 2015 for $7.68 million. Upon execution of the Agreement, the schedule of the lease payments under the PNM Lease Agreement was changed so that the last scheduled semi-annual lease payment was received by the Company on October 1, 2012. Additionally, PNM's remaining basic lease payments due to the Company were accelerated. The semi-annual payments of approximately $1.4 million that were originally scheduled to be paid on April 1, and October 1, 2013, were received by the Company on November 1, 2012. The three remaining lease payments due April 1, 2014, October 1, 2014 and April 1, 2015 were paid in full on January 2, 2014, a portion of which is reported as an unearned revenue liability within the Consolidated Balance Sheets.

PNM Resources is currently subject to the reporting requirements of the Exchange Act and is required to file with the SEC annual reports containing audited financial statements and quarterly reports containing unaudited financial statements. The audited financial statements and unaudited financial statements of PNM Resources can be found on the SEC's web site at www.sec.gov. The Company makes no representation as to the accuracy or completeness of the audited and unaudited financial statements of PNM Resources but has no reason to doubt the accuracy or completeness of such information. In addition, PNM Resources has no duty, contractual or otherwise, to advise the

Company of any events that might have occurred subsequent to the date of such financial statements which could affect the significance or accuracy of such information. None of the information in the public reports of PNM Resources that are filed with the SEC is incorporated by reference into, or in any way form, a part of this filing.

The future contracted minimum rental receipts for all net leases as of June 30, 2014 are as follows:

Future Minimum Lease Receipts

Years Ending December 31,	Amount
2014	$12,470,427
2015	25,010,264
2016	25,010,264
2017	25,010,264
2018	25,010,264
Thereafter	236,375,660
Total	$348,887,143

5. FINANCING NOTE RECEIVABLE

On March 13, 2014, our wholly-owned subsidiary, Corridor Bison, LLC ("Corridor Bison") entered into a Loan Agreement with Black Bison Water Services, LLC ("Black Bison WS"). Black Bison WS's initial Loan draw in the amount of $4.3 million was used to acquire real property in Wyoming and to pay Loan transaction expenses. Corridor Bison agreed to loan Black Bison WS up to $11.5 million (the "Loan") to finance the acquisition and development of real property that will provide water sourcing, water disposal, or water treating and recycling services for the oil and natural gas industry.

Interest will initially accrue on the outstanding principal amount of the Loan at an annual base rate of 12 percent, which base rate will increase by 2 percent of the current base rate per year. In addition, starting in April 2015 and continuing for each month thereafter, the outstanding principal of the Loan will bear variable interest calculated as a function of the increase in volume of water treated by Black Bison WS during the particular month. The base interest plus variable interest, paid monthly, is capped at 19 percent per annum. The Loan matures on March 31, 2024 and is to be amortized by quarterly payments beginning March 31, 2015 and annual prepayments based upon free cash flows of the Borrower and its affiliates commencing in April 2015. The Loan is secured by the real property and equipment held by Black Bison WS and the outstanding equity in Black Bison WS and its affiliates. The Loan is also guarantied by all affiliates of Black Bison WS. The Company believes the note receivable balance is fully collectible as of June 30, 2014.

As a condition to the Loan, Corridor Bison acquired a Warrant to purchase up to 15 percent of the outstanding equity of Black Bison Intermediate Holdings, LLC ("Intermediate Holdings"). Corridor Bison paid $34 thousand for the Warrant, which amount was determined to represent the fair value of the Warrant as of the date of purchase. The exercise price of the Warrant, $3.16 per unit, was determined based on the value of 15 percent of the contributed capital of Intermediate Holdings as of the date of purchase. The exercise price increases at a rate of 12 percent per annum. The Warrant grants to Corridor Bison certain rights with respect to the management of Intermediate Holdings and Black Bison WS. See Note 17, Subsequent Events, for information concerning a further expansion of these financing arrangements in July 2014.

6. VARIABLE INTEREST ENTITIES

The Company's variable interest in Variable Interest Entities ("VIE" or "VIEs") currently are in the form of equity ownership and loans provided by the Company to a VIE. The Company examines specific criteria and uses its judgment when determining if the Company is the primary beneficiary of a VIE and is therefore required to consolidate the investments. Factors considered in determining whether the Company is the primary beneficiary include risk- and reward-sharing, experience and financial condition of the other partner(s), voting rights, involvement in day-to-day capital and operating decisions, representation on a VIE's executive committee or Board of Directors, whether or not the Company has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, existence of unilateral kick-out rights or voting rights, and level of economic disproportionality between the Company and the other partner(s).

Consolidated VIEs

As of June 30, 2014, the Company does not have any investments in VIEs that qualify for consolidation.

Unconsolidated VIE

At June 30, 2014, the Company's recorded investment in Black Bison WS and Intermediate Holdings, collectively a VIE that is unconsolidated, was $4.4 million. The Company's maximum exposure to loss associated with the investment is limited to the Company's outstanding note receivable, related accrued interest receivable and the Warrant, discussed in Note 5, totaling $4.4

million. While this entity is a VIE, the Company has determined that the power to direct the activities of the VIE that most significantly impact the VIE's economic performance is not held by the Company, therefore the VIE is not consolidated.

7. INCOME TAXES

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting and tax purposes. Components of the Company’s deferred tax assets and liabilities as of June 30, 2014 and December 31, 2013 are as follows:

Deferred Tax Assets and Liabilities

	June 30, 2014	December 31, 2013
Deferred Tax Assets:		
Net operating loss carryforwards	$(147,650)	$(65,248)
Cost recovery of leased and fixed assets	(891,550)	(966,914)
Sub-total	$(1,039,200)	$(1,032,162)
Deferred Tax Liabilities:		
Basis reduction of investment in partnerships	$5,481,732	$6,335,805
Net unrealized gain on investment securities	1,291,873	28,444
Sub-total	6,773,605	6,364,249
Total net deferred tax liability	$5,734,405	$5,332,087

For the period ended June 30, 2014, the total deferred tax liability presented above relates to assets held in the Company's TRSs. The Company recognizes the tax benefits of uncertain tax positions only when the position is “more likely than not” to be sustained upon examination by the tax authorities based on the technical merits of the tax position. The Company’s policy is to record interest and penalties on uncertain tax positions as part of tax expense. As of June 30, 2014, the Company had no uncertain tax positions and no penalties and interest were accrued. Tax years subsequent to the year ending November 30, 2006 remain open to examination by federal and state tax authorities.

Total income tax expense differs from the amount computed by applying the federal statutory income tax rate of 35 percent for the three and six months ended June 30, 2014 and June 30, 2013 to income or loss from operations and other income and expense for the years presented, as follows:

Income Tax Expense (Benefit)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Application of statutory income tax rate	$1,310,265	$109,139	$2,228,611	$1,310,934
State income taxes, net of federal tax benefit	59,790	9,568	102,769	71,839
Federal Tax Attributable to Income of Real Estate Investment Trust	(627,176)	123,047	(1,074,988)	(120,075)
Total income tax expense	$742,879	$241,754	$1,256,392	$1,262,698

Total income taxes are computed by applying the federal statutory rate of 35 percent plus a blended state income tax rate, which was approximately 3.11 percent for the three and six months ended June 30, 2014 and 2.26 percent for the three and six months ended June 30, 2013. Because Mowood operates only in the state of Missouri, a blended state income tax rate of 5 percent was used for the operations of our Mowood TRS for the three and six months ended June 30, 2014 and 2013. The restructuring done in December 2012 causes us to hold and operate certain of our assets through one or more TRSs. A TRS is a subsidiary of a REIT that is subject to applicable corporate income tax. For the three and six months ended June 30, 2014, all of the income tax expense presented above relates to the assets and activities held in the Company's TRSs. The components of income tax expense include the following for the periods presented:

Components of Income Tax Expense (Benefit)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Current tax expense (benefit)				
Federal	$—	$546,816	$784,377	$815,021
State (net of federal tax benefit)	—	34,941	69,698	52,627
Total current tax expense (benefit)	—	581,757	854,075	867,648
Deferred tax expense (benefit)				