

Edgar Filing: CorEnergy Infrastructure Trust, Inc. - Form 10-Q

CorEnergy Infrastructure Trust, Inc.  
Form 10-Q  
August 09, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

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

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

Maryland  
(State or other jurisdiction of incorporation or  
organization)  
4200 W. 115<sup>th</sup> Street, Suite 210  
Leawood, Kansas 66211  
(Address of Principal Executive Offices) (ZIP Code)

20-3431375  
(IRS Employer Identification No.)

(913) 387-2790  
(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  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  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   
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

As of July 31, 2013, the registrant had 24,151,870 common shares outstanding.



CorEnergy Infrastructure Trust, Inc.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2013

TABLE OF CONTENTS

**PART I. FINANCIAL INFORMATION**

Item 1.	<u>Financial Statements (unaudited)</u>	<u>3</u>
	<u>Consolidated Balance Sheets</u>	<u>3</u>
	<u>Consolidated Statements of Income</u>	<u>4</u>
	<u>Consolidated Statements of Equity</u>	<u>5</u>
	<u>Consolidated Statements of Cash Flows</u>	<u>6</u>
	<u>Notes to Consolidated Financial Statements</u>	<u>7</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>40</u>
Item 4.	<u>Controls and Procedures</u>	<u>40</u>

**PART II. OTHER INFORMATION**

Item 1.	<u>Legal Proceedings</u>	<u>42</u>
Item 1A.	<u>Risk Factors</u>	<u>42</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>42</u>
Item 3.	<u>Defaults Upon Senior Securities</u>	<u>42</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>42</u>
Item 5.	<u>Other Information</u>	<u>42</u>
Item 6.	<u>Exhibits</u>	<u>43</u>

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 2012 Annual Report on Form 10-K.

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, 2013 are not necessarily indicative of the results that may be expected for the year ended December 31, 2013. 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 for the year ended November 30, 2012.

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

CorEnergy Infrastructure Trust, Inc.

## CONSOLIDATED BALANCE SHEETS

	June 30, 2013 (Unaudited)	November 30, 2012
Assets		
Leased property, net of accumulated depreciation of \$7,180,903, and \$1,131,680, respectively	\$237,512,375	\$12,995,169
Other equity securities, at fair value	21,239,935	19,866,621
Cash and cash equivalents	21,109,551	14,333,456
Trading securities, at fair value	—	55,219,411
Property and equipment, net of accumulated depreciation of \$1,896,009 and \$1,751,202, respectively	3,460,158	3,589,022
Escrow receivable	—	698,729
Accounts receivable	1,274,931	1,570,257
Intangible lease asset, net of accumulated amortization of \$583,878 and \$413,580, respectively	510,893	681,191
Deferred debt issuance costs, net of accumulated amortization of \$273,324 and \$0, respectively	1,275,029	—
Deferred lease costs, net of accumulated amortization of \$32,588 and \$0, respectively	887,874	—
Hedged derivative asset	823,773	—
Prepaid expenses and other assets	567,434	2,477,977
Total Assets	\$288,661,953	\$111,431,833
Liabilities and Equity		
Long-term debt	\$70,000,000	\$—
Accounts payable and other accrued liabilities	2,928,749	2,885,631
Dividends payable to shareholders	3,018,495	—
Distributions payable to non-controlling interest	1,690,413	—
Lease obligation	—	27,522
Deferred tax liability	2,791,093	7,172,133
Line of credit	—	120,000
Unearned revenue	711,228	2,370,762
Total Liabilities	\$81,139,978	\$12,576,048
Equity		
Warrants, no par value; 945,594 issued and outstanding at June 30, 2013 and November 30, 2012 (5,000,000 authorized)	\$1,370,700	\$1,370,700
Capital stock, non-convertible, \$0.001 par value; 24,147,958 shares issued and outstanding at June 30, 2013 and 9,190,667 shares issued and outstanding at November 30, 2012 (100,000,000 shares authorized)	24,148	9,191
Additional paid-in capital	169,269,731	91,763,475
Accumulated retained earnings	6,691,848	5,712,419
Accumulated other comprehensive income	921,442	—
Total CorEnergy Equity	178,277,869	98,855,785
Non-controlling Interest	29,244,106	—
Total Equity	207,521,975	98,855,785
Total Liabilities and Equity	\$288,661,953	\$111,431,833

See accompanying Notes to Consolidated Financial Statements.



Edgar Filing: CorEnergy Infrastructure Trust, Inc. - Form 10-Q

CorEnergy Infrastructure Trust, Inc.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2013	May 31, 2012	June 30, 2013	May 31, 2012
Revenue				
Lease revenue	\$5,638,244	\$638,244	\$11,276,488	\$1,276,488
Sales revenue	1,929,772	1,439,958	4,445,345	3,877,268
Total Revenue	7,568,016	2,078,202	15,721,833	5,153,756
Expenses				
Cost of sales (excluding depreciation expense)	1,476,348	1,031,114	3,479,987	3,035,786
Management fees, net of expense reimbursements	646,394	254,965	1,290,208	502,346
Asset acquisition expenses	53,394	94,699	85,211	94,699
Professional fees	431,508	268,935	885,691	377,513
Depreciation expense	2,857,412	246,828	5,714,448	493,633
Amortization expense	15,342	—	30,621	—
Operating expenses	303,480	189,165	510,384	361,806
Directors' fees	32,557	14,730	50,557	29,311
Other expenses	151,312	78,402	274,018	135,662
Total Expenses	5,967,747	2,178,838	12,321,125	5,030,756
Operating Income (Loss)	\$1,600,269	\$(100,636)	\$3,400,708	\$123,000
Other Income (Expense)				
Net distributions and dividend income	\$2,701	\$55,462	\$15,825	\$140,724
Net realized and unrealized gain (loss) on trading securities—		(3,600,082)	316,063	(737,810)
Net realized and unrealized gain (loss) on other equity securities	(30,976)	6,837,407	2,395,010	12,906,601
Interest expense	(907,275)	(25,229)	(1,644,656)	(52,638)
Total Other Income (Expense)	(935,550)	3,267,558	1,082,242	12,256,877
Income before income taxes	664,719	3,166,922	4,482,950	12,379,877
Taxes				
Current tax expense	581,757	—	867,648	10,000
Deferred tax expense (benefit)	(340,003)	1,190,162	395,050	4,646,076
Income tax expense, net	241,754	1,190,162	1,262,698	4,656,076
Net Income	422,965	1,976,760	3,220,252	7,723,801
Less: Net Income attributable to non-controlling interest	352,893	—	737,427	—
Net Income attributable to CORR Stockholders	\$70,072	\$1,976,760	\$2,482,825	\$7,723,801
Net income	\$422,965	\$1,976,760	\$3,220,252	\$7,723,801
Other comprehensive income:				
Changes in fair value of qualifying hedges attributable to CORR Stockholders	921,442	—	921,442	—
Changes in fair value of qualifying hedges attributable to non-controlling interest	215,439	—	215,439	—
Other Comprehensive Income	\$1,136,881	—	\$1,136,881	—
Total Comprehensive Income	1,559,846	1,976,760	4,357,133	7,723,801
Less: Comprehensive income attributable to non-controlling interest	568,332	—	952,866	—
Comprehensive income attributable to CORR Stockholders	\$991,514	\$1,976,760	\$3,404,267	\$7,723,801

Edgar Filing: CorEnergy Infrastructure Trust, Inc. - Form 10-Q

Earnings Per Common Share:

Basic and Diluted	\$0.00	\$0.22	\$0.10	\$0.84
Weighted Average Shares of Common Stock Outstanding:				
Basic and Diluted	24,147,958	9,180,935	24,144,856	9,178,923
Dividends declared per share	\$0.125	\$0.110	\$0.250	\$0.220

See accompanying Notes to Consolidated Financial Statements.

4

---

CorEnergy Infrastructure Trust, Inc.  
CONSOLIDATED STATEMENTS OF EQUITY

	Capital Stock			Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings (Accumulated Deficit)	Non-Controlling Interest	Total
	Shares	Amount	Warrants					
Balance at November 30, 2011	9,176,889	\$9,177	\$1,370,700	\$95,682,738	\$—	\$(6,636,302)	\$—	\$90,426,313
Net Income	—	—	—	—	—	12,348,721	—	12,348,721
Distributions to stockholders sourced as return of capital	—	—	—	(4,040,273 )	—	—	—	(4,040,273 )
Reinvestment of distributions to stockholders	13,778	14	—	121,010	—	—	—	121,024
Balance at November 30, 2012	9,190,667	9,191	1,370,700	91,763,475	—	5,712,419	—	98,855,785
Net Loss	—	—	—	—	—	(1,503,396 )	(18,347 )	(1,521,743 )
Net offering proceeds	14,950,000	14,950	—	83,493,200	—	—	—	83,508,150
Non-controlling interest contribution	—	—	—	—	—	—	30,000,000	30,000,000
Balance at December 31, 2012 (Unaudited)	24,140,667	24,141	1,370,700	175,256,675	—	4,209,023	29,981,653	210,842,192
Net Income	—	—	—	—	—	2,482,825	737,427	3,220,252
Dividends	—	—	—	(6,036,078 )	—	—	—	(6,036,078 )
Distributions to Non-controlling interest	—	—	—	—	—	—	(1,690,413 )	(1,690,413 )
Reinvestment of dividends paid to stockholders	7,291	7	—	49,134	—	—	—	49,141
Net change in cash flow hedges	—	—	—	—	921,442	—	215,439	1,136,881
Balance at June 30, 2013 (Unaudited)	24,147,958	\$24,148	\$1,370,700	\$169,269,731	\$921,442	\$6,691,848	\$29,244,106	\$207,521,975

See accompanying Notes to Consolidated Financial Statements.



## CorEnergy Infrastructure Trust, Inc.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Six Months Ended	
	June 30, 2013	May 31, 2012
Operating Activities		
Net Income	\$3,220,252	\$7,723,801
Adjustments to reconcile net income to net cash provided by operating activities:		
Distributions received from investment securities	—	2,243,539
Deferred income tax, net	395,050	4,646,076
Depreciation	5,714,448	493,633
Amortization	433,386	77,540
Realized and unrealized (gain) loss on trading securities	(316,063	) 737,810
Realized and unrealized gain on other equity securities	(2,395,010	) (12,906,601 )
Changes in assets and liabilities:		
Increase in accounts receivable	(352,037	) (207,221 )
(Increase) decrease in prepaid expenses and other assets	31,321	(791,312 )
Decrease in accounts payable and other accrued liabilities	(1,217,791	) (247,054 )
Increase in dividends payable to shareholders	3,018,495	—
Increase in distributions to non-controlling interest	1,690,413	—
Net change in derivative contracts, not designated as hedges	64,123	—
Decrease in current income tax liability	(3,855,947	) —
Decrease in unearned revenue	(1,422,457	) —
Net cash provided by operating activities	\$5,008,183	\$1,770,211
Investing Activities		
Proceeds from sale of long-term investment of trading and other equity securities	5,563,865	—
Deferred lease costs	(5,620	) —
Purchases of property and equipment	(42,242	) (30,321 )
Proceeds from sale of property and equipment	—	3,076
Return of capital on distributions received	631,524	—
Net cash provided by (used in) investing activities	\$6,147,527	\$(27,245 )
Financing Activities		
Payments on lease obligation	(20,698	) (39,590 )
Debt financing costs	(10,999	) —
Net change in derivative contracts, designated as hedges	(17,895	) —
Dividends	(6,036,078	) (975,062 )
Distributions to non-controlling interest	(1,690,413	) —
Advances on revolving line of credit	139,397	1,045,000
Payments on revolving line of credit	(139,397	) (205,000 )
Payments on long-term debt	—	(1,283,000 )
Dividend reinvestment	49,141	—
Net cash used in financing activities	\$(7,726,942	) \$(1,457,652 )
Net Change in Cash and Cash Equivalents	\$3,428,768	\$285,314
Cash and Cash Equivalents at beginning of period	17,680,783	2,793,326
Cash and Cash Equivalents at end of period	\$21,109,551	\$3,078,640
Supplemental Disclosure of Cash Flow Information		
Interest paid	\$1,242,441	\$142,584
Income taxes paid	\$4,776,354	\$96,000
Non-Cash Financing Activities		
Reinvestment of distributions by common stockholders in additional common shares	\$—	\$34,391

See accompanying Notes to Consolidated Financial Statements.

6

---

CorEnergy Infrastructure Trust, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2013

## 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. Prior to December 3, 2012, our name was Tortoise Capital Resources Corporation. 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.

Our assets are generally leased to energy companies via long-term triple net participating leases. The 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.

Our long-term participating lease structures provide us base rents that are fixed and determinable, with escalators dependent upon increases in the Consumer Price Index. Leases may also include features that allow us to participate in the financial performance and/or value of the energy infrastructure asset.

The assets we own and seek to acquire include pipelines, storage tanks, transmission lines and gathering systems, among others. We intend to acquire assets that are accretive to our shareholders and allow us to become a diversified energy infrastructure real estate investment trust (REIT).

The Company's consolidated financial statements include the Company's direct or indirect wholly-owned subsidiaries. In our December 2012 restructuring, we created taxable REIT subsidiaries to hold our remaining securities portfolio (Corridor Public Holdings, Inc. and its wholly-owned subsidiary Corridor Private Holdings, Inc.) and to hold 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. Also consolidated as a wholly-owned subsidiary is Pinedale GP, Inc., owner of the general partner interest in the entity that owns the Pinedale LGS. All significant inter-company balances and transactions have been eliminated in consolidation. The Company's financial statements also present minority interests in the case of entities that are not wholly-owned subsidiaries of the Company.

### Change in Fiscal Year End

On February 5, 2013, the Board of Directors of the Company approved a change in the Company's fiscal year end from November 30 to December 31. This change to the calendar year reporting cycle began January 1, 2013. As a result of the change, the Company reported a December 2012 fiscal month transition period, which was reported in the Quarterly Report on Form 10-Q for the calendar quarter ending March 31, 2013 and will be in the Company's Annual Report of Form 10-K for the calendar year ending December 31, 2013.

Financial information for the three and six months ended June 30, 2012 has not been included in this Form 10-Q for the following reasons: (i) the three and six months ended May 31, 2012 provide a meaningful comparison for the three and six months ended June 30, 2013; (ii) there are no significant factors, seasonal or other, that would impact the comparability of information if the results for the three and six months ended June 30, 2012 were presented in lieu of results for the three and six months ended May 31, 2012; and (iii) it was not practicable or cost justified to prepare this information.

### 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.

7

---

Operating results for the three-month periods ended June 30, 2013 and May 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. 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 for the year ended November 30, 2012 filed with the SEC on February 13, 2013.

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 income 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/or 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, 2013 and May 31, 2012.

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 are classified as trading securities and are reported at fair value as of November 30, 2012 because the Company intended to sell these securities in order to acquire real

asset investments. As of June 30, 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, 2013 and May 31, 2012 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, 2013	May 31, 2012	June 30, 2013	May 31, 2012
Net unrealized gain (loss) on trading securities	\$—	\$(3,600,082 )	\$751,004	\$(737,810 )
Net realized gain (loss) on trading securities	—	—	(434,941 )	—
Total net realized and unrealized gain (loss) on trading securities	\$—	\$(3,600,082 )	\$316,063	\$(737,810 )

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 of the entire company. 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. An independent valuation firm has been engaged by the Company to provide independent, 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.

9

---



The Investment Committee of the Board of Directors reviews the valuations and supporting analysis, prior to approving the valuations.

G. 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, 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.

H. 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.

I. 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

is 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.

The following section describes the valuation methodologies used by the Company for estimating fair value for financial instruments not recorded at fair value, but fair value is included for disclosure purposes only, as required under disclosure guidance related to the fair value of financial instruments.

**Cash and Cash Equivalents** — The carrying value of cash, amounts due from banks, federal funds sold and securities purchased under resale agreements approximates fair value.

**Escrow Receivable** — The escrow receivable due the Company as of November 30, 2012, which relates to the sale of International Resource Partners, LP, was settled during the second quarter of 2013 upon satisfaction of certain post-closing obligations. The fair value of the escrow receivable reflected a discount for the potential that the full amount due to the Company would not be realized. The actual payment received in the amount of \$1.006 million exceeded the balance recorded of \$699 thousand, resulting in a gain of approximately \$308 thousand.

**Long-term Debt** — The fair value of the Company's long-term debt is calculated, for disclosure purposes, by discounting future debt service requirements by a rate equal to the Company's current expected rate for an equivalent transaction.

**Line of Credit** — The carrying value of the line of credit approximates the fair value due to its short term nature.

**J. 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 on the Pinedale LGS leased property are typically received on a monthly basis. Prior to November 1, 2012 rental payments on the EIP leased property were typically received on a semi-annual basis and were included as lease revenue within the accompanying Consolidated Statements of Income. Upon the November 1, 2012 execution of the Purchase Agreement related to the EIP leased property (the "Purchase Agreement"), rental payments on the leased property are to be received in advance and are classified as unearned income and included in liabilities within the Consolidated Balance Sheets. Unearned income is amortized ratably over the lease period as revenue recognition criteria are met.

**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.

**K. 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.

**L. Asset Acquisition Expenses** – Costs in connection with the research of real property acquisitions 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.

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

**N. Debt Issuance Costs** – Costs in connection with the issuance of new debt are capitalized and amortized over the debt term. See Note 11 for further discussion.

**O. Distributions to Stockholders** – The amount of any quarterly distributions to stockholders will be determined by the Board of Directors. Distributions to stockholders are recorded on the ex-dividend date.



P. 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/or 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/or 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/or 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.

Q. Federal and State Income Taxation – We intend to elect to be treated as a REIT for federal income tax purposes (which we refer to as the “REIT Election”) for the calendar and tax year ended December 31, 2013. We anticipate that the Company will satisfy the annual income test and the quarterly assets tests necessary for us to qualify and elect to be taxed as a REIT for 2013. Because certain of our assets may not produce REIT-qualifying income or be treated as interests in real property, during the fourth quarter of 2012 we contributed those assets into wholly-owned Taxable REIT Subsidiaries (“TRSs”). This was done in 2012 in order to limit the potential that such assets and income would prevent us from qualifying as a REIT for 2013. Due to the REIT Election, we changed our fiscal year end from November 30 to December 31.

As to the six months ended May 31, 2012, the Company is treated as a C corporation and is 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. 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'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 the restructuring in December 2012, it is expected that for the three and six months ended June 30, 2013 and future periods, any deferred tax liability or asset will be related entirely to the assets and activities of the Company's TRSs.

In 2013, the Company intends to be taxed as a REIT rather than a C corporation and generally will not pay federal income tax on taxable income 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 has accumulated C corporation earnings and profits from the periods prior to 2013, we will distribute such earnings and profits in 2013, which will be treated as QDI.

The restructuring done in December 2012 causes us to hold and operate certain of our assets through one or more wholly-owned TRS. 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.

If we fail to qualify to be a REIT for 2013, 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.

R. Recent Accounting Pronouncements – 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 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. 2013-10 "Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes". ASU No. 2013-10 amends FASB ASC Topic 815 Derivatives and Hedging, to permit Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR. The amendment also removes the restriction on using different benchmark rates for similar hedges. ASU No. 2013-10 is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. Management is evaluating this amendment and does not expect adoption to have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05 "Presentation of Comprehensive Income". ASU No. 2011-05 amends FASB ASC Topic 220, Presentation of Comprehensive Income, to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. ASU No. 2011-05 is effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The Company has adopted this amendment and has elected to present a single continuous statement of comprehensive income.

In December 2011, the FASB issued ASU No. 2011-12 "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05". ASU No. 2011-12 amends FASB ASC Topic 220, Presentation of Comprehensive Income, to defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments. ASU No. 2011-12 is effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The adoption of this amendment did not have a material impact on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02 "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income". ASU No. 2013-02 amends FASB ASC Topic 220, Presentation of Comprehensive Income, to improve the reporting of reclassifications out of accumulated other comprehensive income. ASU No. 2013-02 is effective prospectively for reporting periods beginning after December 15, 2012. Management has adopted this amendment and this did not have a material impact on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-11 "Disclosure about Offsetting Assets and Liabilities". ASU No. 2011-11 amends FASB ASC Topic 210, Balance Sheet, to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. ASU No. 2011-11 is effective for fiscal years beginning after January 1, 2013 and for interim periods within those fiscal years.

In January 2013, the FASB issued ASU No. 2013-01 "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities". ASU No. 2013-01 amends FASB ASC Topic 210, Balance Sheet, to address implementation issues about the scope of ASU No. 2011-11. The amendment, which clarifies the scope of Update 2011-11, applies to derivatives accounted for in accordance with FASB ASC Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or are subject to an enforceable master netting arrangement or similar agreement. ASU No. 2013-01 is effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of these

amendments did not have a material impact on the Company's consolidated financial statements.



### 3. LEASED PROPERTIES

#### Pinedale LGS

On December 20, 2012, our subsidiary, Pinedale Corridor, LP ("Pinedale LP"), closed on a Purchase and Sale Agreement with an indirect wholly-owned subsidiary of Ultra Petroleum Corp. ("Ultra Petroleum"). Pinedale LP acquired 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 (the "Acquisition") for \$205 million in cash and certain investment securities having an approximate market value of \$23 million. The asset purchase price was funded in part by the issuance of 13 million shares of common stock with net proceeds of \$73.6 million after the underwriters discount.

#### Physical Assets

Construction of the Pinedale LGS was completed by Ultra Petroleum in 2010. It consists of more than 150 miles of pipelines with 107 receipt points and four above-ground central gathering facilities. The system is used by 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 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 the three and six months ended June 30, 2013 was \$2.2 million and \$4.4 million, respectively.

See Note 4 for further information regarding the Pinedale Lease Agreement.

#### Non-Controlling Interest Partner

Prudential Financial, Inc. ("Prudential") funded a portion of the Acquisition by investing \$30 million in cash in Pinedale LP. Pinedale GP, a wholly-owned subsidiary of CorEnergy, funded a portion of the Acquisition by contributing approximately \$108.3 million in cash and certain equity securities to Pinedale LP. Those investments were made on December 20, 2012. As a limited partner, Prudential holds 18.95 percent of the economic interest in Pinedale LP, while the general partner, Pinedale GP, holds the remaining 81.05 percent of the economic interest.

#### Debt

On December 20, 2012, 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 11 for further information regarding the credit facility.

#### Eastern Interconnect Project (EIP)

##### Physical Assets

The EIP transmission assets 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 of leased property reflected during the three and six months ended June 30, 2013 and May 31, 2012 was \$570 thousand, \$177 thousand, \$1.1 million and \$353 thousand, respectively. The three and six months ended June 30, 2013 amounts include incremental depreciation of approximately \$393 thousand and \$786 thousand, respectively.

See Note 4 for further information regarding the PNM Lease Agreement.

14

---

## Debt

The Company assumed a note with an outstanding principal balance of \$3.4 million. The debt was collateralized by the EIP transmission assets. The note, which accrued interest at an annual rate of 10.25 percent, and had principal and interest payments due on a semi-annual basis, was paid in full on October 1, 2012.

## 4. LEASES

As of June 30, 2013 the Company had two significant leases. The table below displays the impact of each lease on total leased properties and total lease revenues for the periods presented. As of May 31, 2012, the Company's only lease was with the Public Service Company of New Mexico, which therefore comprised 100 percent of the Company's leased properties and lease revenues.

	As a Percentage of		
	Leased Properties	Lease Revenues	
	As of June 30, 2013	For the Three Months ended June 30, 2013	For the Six Months Ended June 30, 2013
Pinedale LGS	94.20%	88.68%	88.68%
Public Service of New Mexico	5.80%	11.32%	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, another indirect wholly-owned subsidiary of Ultra Petroleum ("Ultra Newco"). Ultra Newco will utilize the Pinedale LGS to gather and transport a commingled stream of oil, natural gas and water, then further utilize the Pinedale LGS to separate this stream into its separate components. Ultra Newco's obligations under the Pinedale Lease Agreement will be guaranteed by Ultra Petroleum and Ultra Petroleum's operating subsidiary, Ultra Resources, Inc. ("Ultra Resources"), pursuant to the terms of a Parent Guaranty (the "Guaranty"). Annual rent for the initial term under the Pinedale Lease Agreement will be 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) and a maximum of \$27.5 million, 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.

As of June 30, 2013, approximately \$888 thousand of net deferred lease costs were included in the accompanying Consolidated Balance Sheets. The deferred costs are amortized over the 15 year life of the new Pinedale LGS lease. For the three and six months ended June 30, 2013, \$15 thousand and \$31 thousand, respectively, is included in amortization expense within the Consolidated Statements of Income. Approximately \$2.5 million in asset acquisition costs related to the Pinedale LGS acquisition is included in Leased Property within the Consolidated Balance Sheets. The asset acquisition costs will be depreciated over the anticipated 26 year life of the newly acquired asset and will be included in depreciation expense within the Consolidated Statements of Income.

The assets which comprise the 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. The land rights are being amortized over the life of the related land lease and amortization expense is expected to be approximately \$8.8 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 "1934 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](http://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 not to believe 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.

15

---

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

	June 30, 2013	December 31, 2012	
Current assets	\$ 120,814	\$ 125,848	
Non-current assets	1,942,064	1,881,497	
Total Assets	\$ 2,062,878	\$ 2,007,345	
Current liabilities	387,404	514,092	
Non-current liabilities	2,116,587	2,071,120	
Total Liabilities	\$ 2,503,991	\$ 2,585,212	
Shareholder's (deficit)	(441,113	) (577,867	)
Total Liabilities and Shareholder's Equity	\$ 2,062,878	\$ 2,007,345	

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,		
	2013	2012	2013	2012	
Revenues	\$ 261,376	\$ 170,270	\$ 487,003	\$ 396,413	
Expenses	143,002	2,055,200	282,996	2,248,740	
Operating Income (Loss)	118,374	(1,884,930	) 204,007	(1,852,327	)
Other Income (Expense), net	(506	) (56,694	) (68,337	) 40,452	
Income (Loss) before income tax provision (benefit)	117,868	(1,941,624	) 135,670	(1,811,875	)
Income tax provision (benefit)	1,491	(754,642	) 2,859	(709,152	)
Net Income (Loss)	\$ 116,377	\$ (1,186,982	) \$ 132,811	\$ (1,102,723	)

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. Under the terms of the PNM Lease Agreement, the Company was to receive semi-annual lease payments.

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 10 below for further information as to the intangible asset.

Upon the execution of the Purchase Agreement on November 1, 2012, the schedule of the rental payments under the Lease Agreement was changed so that the last scheduled semi-annual lease payment was received by the Company on October 1, 2012. In accordance with the Purchase Agreement, PNM's remaining basic rent payments due to the Company were accelerated. The semi-annual payments of approximately \$1.4 million that were originally scheduled to be due on April 1, and October 1, 2013, respectively, were received by the Company on November 1, 2012. Therefore, as of June 30, 2013 and November 30, 2012, PNM had paid \$711 thousand and \$2.4 million in future minimum rental payments in advance. The amount is reported as an unearned income liability within the Consolidated

Balance Sheets.

In view of the fact that the PNM 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, have a considerable impact on the results of operation.

On November 1, 2012 the Company entered into the definitive Purchase Agreement with PNM to sell the Company's 40 percent undivided interest in the EIP upon termination of the Lease Agreement on April 1, 2015 for \$7.68 million. Per the Purchase Agreement, PNM also accelerated its remaining lease payments to the Company. Both lease payments due in 2013 were paid to the Company upon execution of the Purchase Agreement on November 1, 2012. The three remaining lease payments due April 1, 2014, October 1, 2014 and April 1, 2015 will be paid in full on January 1, 2014.

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 incremental depreciation amounts to approximately \$393 thousand per quarter.

PNM Resources is currently subject to the reporting requirements of the 1934 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](http://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 not to believe 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, 2013 are as follows:

Future Minimum Lease Receipts

Years Ending December 31,	Amount
2013	\$10,000,000
2014	24,267,371
2015	20,000,000
2016	20,000,000
2017	20,000,000
Thereafter	199,354,839
Total	\$293,622,210

5. 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, 2013 and

November 30, 2012 are as follows:

Deferred Tax Assets and Liabilities

	June 30, 2013	November 30, 2012
Deferred Tax Assets:		
Organization costs	\$—	\$(17,668)
Net operating loss carryforwards	(40,912)	(6,411,230)
Net unrealized loss on investment securities	(1,166,612)	—
Cost recovery of leased and fixed assets	(1,354,659)	(36,443)
Asset acquisition costs	—	(134,415)
AMT and State of Kansas credit	—	(196,197)
Sub-total	\$(2,562,183)	\$(6,795,953)
Deferred Tax Liabilities:		
Basis reduction of investment in partnerships	\$5,353,276	\$11,655,817
Net unrealized gain on investment securities	—	2,312,269
Sub-total	5,353,276	13,968,086
Total net deferred tax liability	\$2,791,093	\$7,172,133





For the period ended June 30, 2013, all deferred tax liability presented above relates to assets held in the Company's Taxable REIT Subsidiaries. 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, 2013, 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, 2013 and May 31, 2012 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, 2013	May 31, 2012	June 30, 2013	May 31, 2012
Application of statutory income tax rate	\$ 109,139	\$ 1,108,421	\$ 1,310,934	\$ 4,332,956
State income taxes, net of federal tax benefit	9,568	82,974	71,839	324,353
Dividends received deduction	—	(1,233 )	—	(1,233 )
Income of Real Estate Investment Trust	123,047	—	(120,075 )	—
Total income tax expense	\$ 241,754	\$ 1,190,162	\$ 1,262,698	\$ 4,656,076

Total income taxes are computed by applying the federal statutory rate of 35 percent plus a blended state income tax rate, which was approximately 2.26 percent for the periods presented above. The restructuring done in December 2012 causes us to hold and operate certain of our assets through one or more Taxable REIT Subsidiaries ("TRSs"). A TRS is a subsidiary of a REIT that is subject to applicable corporate income tax. For the periods ended June 30, 2013, 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, 2013	May 31, 2012	June 30, 2013	May 31, 2012
Current tax expense				
Federal	\$ 546,816	\$—	\$ 815,021	\$—
State (net of federal tax benefit)	34,941	—	52,627	—
AMT expense	—	—	—	10,000
Total current tax expense	581,757	—	867,648	10,000
Deferred tax expense				
Federal	(314,630 )	1,107,275	375,838	4,322,506
State (net of federal tax benefit)	(25,373 )	82,887	19,212	323,570
Total deferred tax expense (benefit)	(340,003 )	1,190,162	395,050	4,646,076
Total income tax expense, net	\$ 241,754	\$ 1,190,162	\$ 1,262,698	\$ 4,656,076

As of November 30, 2012, the Company had a net operating loss for federal income tax purposes of approximately \$17.2 million. The net operating loss may be carried forward for 20 years. If not utilized, this net operating loss will expire as follows: \$8 thousand, \$4.0 million, \$3.4 million, \$24 thousand and \$9.8 million in the years ending November 30, 2028, 2029, 2030, 2031 and 2032 respectively. In the period ending December 31, 2012, all Net Operating Losses of the Company were utilized to reduce the Company's current tax liability. A Net Operating Loss of \$41 thousand has been incurred by a TRS for the Six months ended June 30, 2013. As of November 30, 2012, an alternative minimum tax credit of \$194 thousand was available, which was fully utilized as of December 31, 2012.

The aggregate cost of securities for federal income tax purposes and securities with unrealized appreciation and depreciation, were as follows:

Aggregate Cost of Securities for Income Tax Purposes

	June 30, 2013	November 30, 2012
Aggregate cost for federal income tax purposes	\$10,003,584	\$41,995,195
Gross unrealized appreciation	11,236,351	33,892,176
Gross unrealized depreciation	—	(801,340 )
Net unrealized appreciation	\$11,236,351	\$33,090,836

6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Property and Equipment

	June 30, 2013	November 30, 2012
Natural gas pipeline	\$5,215,424	\$5,215,424
Vehicles and trailers	125,117	110,782
Computers	15,626	14,018
Gross property and equipment	5,356,167	5,340,224
Less: accumulated depreciation	(1,896,009 )	(1,751,202 )
Net property and equipment	\$3,460,158	\$3,589,022

The amounts of depreciation of property and equipment recognized for the three and six months ended June 30, 2013 and May 31, 2012 were \$71 thousand, \$70 thousand, \$141 thousand, and \$140 thousand, respectively.

7. CONCENTRATIONS

The Company has historically invested in securities of privately-held and publicly-traded companies in the midstream and downstream segments of the U.S. energy infrastructure sector. As of June 30, 2013, investments in securities of energy infrastructure companies represented approximately 7.36 percent of the Company's total assets. The Company is now focused on identifying and acquiring real property assets in the U.S. energy infrastructure sector that are REIT-qualified.

Mowood, the Company's wholly-owned subsidiary, has a ten-year contract, expiring in 2015, with the Department of Defense ("DOD") to provide natural gas and gas distribution services to Fort Leonard Wood. Revenue related to the DOD contract accounted for 85 percent and 87 percent of our sales revenue for the three and six months ended June 30, 2013, respectively, as compared to 85 percent and 89 percent for the three and six months ended May 31, 2012, respectively. Mowood, through its wholly-owned subsidiary Omega, performs management and supervision services related to the expansion of the natural gas distribution system used by the DOD. The amount due from the DOD accounts for 85 percent and 84 percent of the consolidated accounts receivable balances at June 30, 2013 and November 30, 2012, respectively.

Mowood's contracts for its supply of natural gas are concentrated among select providers. Purchases from its largest supplier of natural gas accounted for 52 percent and 31 percent, of our cost of sales for the three and six months ended June 30, 2013, respectively. This compares to 18 percent and 41 percent for the three and six months ended May 31, 2012, respectively.

8. MANAGEMENT AGREEMENT

On December 1, 2011, the Company executed a Management Agreement with Corridor InfraTrust Management, LLC ("Corridor"). The Management Agreement was modified in certain respects subsequent to the date of these financial statements. See Note 15 for further details on the new Management Agreement. The terms of the Management Agreement include a quarterly management fee equal to 0.25 percent (1.00 percent annualized) of the value of the Company's average monthly Managed Assets for such quarter. For purposes of the Management Agreement, "Managed Assets" means all of the securities of the Company and all of the real property assets of the Company (including any securities or real property assets purchased with or attributable to any borrowed funds) minus all of the accrued liabilities other than (1) deferred taxes and (2) debt entered into for the purpose of leverage. For purposes of the definition of Managed Assets, "securities" includes the Company's security portfolio, valued at then current market value. For purposes of the definition of Managed Assets, "real property assets" includes the assets of the Company

invested,

19

---

directly or indirectly, in equity interests in or loans secured by real estate and personal property owned in connection with such real estate (including acquisition related costs and acquisition costs that may be allocated to intangibles or are unallocated, valued at the aggregate historical cost, before reserves for depreciation, amortization, impairment charges or bad debts or other similar noncash reserves.) The Management Agreement also includes a quarterly incentive fee of 10 percent of the increase in distributions paid over a threshold distribution equal to \$0.125 per share per quarter. The Management Agreement also requires at least half of any incentive fees to be reinvested in the Company's common stock.

During the fourth quarter of 2012, Corridor assumed the Company's Administrative Agreement, retroactive to August 7, 2012. Tortoise Capital Advisors, L.L.C. ("TCA") served as the Company's administrator until that date. The Company pays the administrator a fee equal to an annual rate of 0.04 percent of aggregate average daily managed assets, with a minimum annual fee of \$30 thousand.

On December 1, 2011, we entered into an Advisory Agreement by and among the Company, TCA and Corridor, under which TCA provided certain securities focused investment services necessary to evaluate, monitor and liquidate the Company's remaining securities portfolio ("Designated Advisory Services"), and also provides the Company with certain operational (i.e. non-investment) services ("Designated Operational Services"). Effective December 21, 2012, that agreement was replaced by an Amended Advisory Agreement pursuant to which TCA provides investment services related to the monitoring and disposition of our current securities portfolio.

U.S. Bancorp Fund Services, LLC serves as the Company's fund accounting services provider. The Company pays the provider a monthly fee computed at an annual rate of \$24 thousand on the first \$50 million of the Company's Net Assets, 0.0125 percent on the next \$200 million of Net Assets, 0.0075 percent on the next \$250 million of Net Assets and 0.0025 percent on the balance of the Company's Net Assets.

#### 9. FAIR VALUE OF OTHER SECURITIES

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following tables provide the fair value measurements of applicable Company assets and liabilities by level within the fair value hierarchy as of June 30, 2013, and November 30, 2012. These assets and liabilities are measured on a recurring basis.

June 30, 2013

	June 30, 2013	Fair Value Level 1	Level 2	Level 3
Investments:				
Trading securities	\$—	\$—	\$—	\$—
Other equity securities	21,239,935	—	—	21,239,935
Total Assets	\$21,239,935	\$—	\$—	\$21,239,935

November 30, 2012

	November 30, 2012	Fair Value Level 1	Level 2	Level 3
Assets:				
Trading securities	\$55,219,411	\$27,480,191	\$27,739,220	\$—
Other equity securities	19,866,621	—	—	19,866,621
Total Assets	\$75,086,032	\$27,480,191	\$27,739,220	\$19,866,621

The changes for all Level 3 securities measured at fair value on a recurring basis using significant unobservable inputs for the six months ended June 30, 2013 are as follows:

	For the Six Months Ended	
	June 30, 2013	May 31, 2012
Fair value beginning balance	\$19,707,126	\$41,856,730
Total realized and unrealized gains included in net income	2,087,251	12,906,601
Return of capital adjustments impacting cost basis of securities	(554,442 )	(1,448,742 )
Fair value ending balance	\$21,239,935	\$53,314,589
Changes in unrealized gains, included in net income, relating to securities still held (1)	\$2,087,251	\$12,906,601

(1) Located in Net realized and unrealized gain (loss) on other equity securities in the Consolidated Statements of Income

As of May 31, 2012, the Company's other equity securities, which represented equity interests in private companies, and were classified as Level 3 assets, included High Sierra Energy, LP. On June 19, 2012, NGL Energy Partners, LP and certain of its affiliates (collectively "NGL") acquired High Sierra Energy, LP and High Sierra Energy GP, LLC (collectively "High Sierra") pursuant to which NGL, a New York Stock Exchange listed company, paid to the limited partners of High Sierra approximately \$9.4 million in cash and approximately 1.2 million newly issued units of NGL. A realized gain of \$15.8 million was recognized during the third quarter of 2012 upon the sale. These NGL units are classified as a Level 2 Trading security above as of November 30, 2012.

The Company utilizes the beginning of reporting period method for determining transfers between levels. There were no transfers between levels 1, 2 or 3 for the three and six-month periods ended June 30, 2013 and May 31, 2012.

#### Valuation Techniques and Unobservable Inputs

An equity security of a publicly traded company acquired in a private placement transaction without registration under the Securities Act of 1933, as amended (the "1933 Act"), is subject to restrictions on resale that can affect the security's liquidity (and hence its fair value). If the security has a common share counterpart trading in a public market, the Company generally determines an appropriate percentage discount for the security in light of the restrictions that apply to its resale (taking into account, for example, whether the resale restrictions of Rule 144 under the 1933 Act apply). This pricing methodology applies to the Company's Level 2 trading securities.

The Company's other equity securities, which represent securities issued by private companies, are classified as Level 3 assets. Valuation of these investments is determined by weighting various valuation metrics for each security.

Significant judgment is required in selecting the assumptions used to determine the fair values of these investments. See Note 2, Significant Accounting Policies.

The Company's investments in private companies are typically valued using one of or a combination of the following valuation techniques: (i) analysis of valuations for publicly traded companies in a similar line of business ("public company analysis"), (ii) analysis of valuations for comparable M&A transactions ("M&A analysis") and (iii) discounted cash flow analysis. The table entitled "Quantitative Table for Valuation Techniques" outlines the valuation technique(s) used for each asset category.

The public company analysis utilizes valuation multiples for publicly traded companies in a similar line of business as the portfolio company to estimate the fair value of such investment. Typically, the Company's analysis focuses on the ratio of enterprise value to earnings before interest expense, income tax expense, depreciation and amortization ("EBITDA") which is commonly referred to as an EV/EBITDA multiple. The Company selects a range of multiples given the trading multiples of similar publicly traded companies and applies such multiples to the portfolio company's EBITDA to estimate the portfolio company's trailing, proforma, projected or average (as appropriate) EBITDA to estimate the portfolio company's enterprise value and equity value. The Company also selects a range of trading market yields of similar public companies and applies such yields to the portfolio company's estimated distributable cash flow. When calculating these values, the Company applies a discount, when applicable, to the portfolio company's estimated equity value for the size of the company and the lack of liquidity in the portfolio company's securities.

The M&A analysis utilizes valuation multiples for historical M&A transactions for companies or assets in a similar line of business as the portfolio company to estimate the fair value of such investment. Typically, the Company's

analysis focuses on EV/EBITDA multiples. The Company selects a range of multiples based on EV/EBITDA multiples for similar M&A transactions or similar

21

---

companies and applies such ranges to the portfolio company's analytical EBITDA to estimate the portfolio company's enterprise value.

The discounted cash flow ("DCF") analysis is used to estimate the equity value for the portfolio company based on estimated DCF of such portfolio company. Such cash flows include an estimate of terminal value for the portfolio company. A present value of these cash flows is determined by using estimated discount rates (based on the Company's estimate for weighted average cost of capital for such portfolio company).

Under all of these valuation techniques, the Company estimates operating results of its portfolio companies (including EBITDA). These estimates utilize unobservable inputs such as historical operating results, which may be unaudited, and projected operating results, which will be based on expected operating assumptions for such portfolio company. The Company also consults with management of the portfolio companies to develop these financial projections. These estimates will be sensitive to changes in assumptions specific to such portfolio company as well as general assumptions for the industry. Other unobservable inputs utilized in the valuation techniques outlined above include: possible discounts for lack of marketability, selection of publicly-traded companies, selection of similar M&A transactions, selected ranges for valuation multiples, selected range of yields and expected required rates of return and weighted average cost of capital. The various inputs will be weighted as appropriate, and other factors may be weighted into the valuation, including recent capital transactions of the Company.

Changes in EBITDA multiples, or discount rates may change the fair value of the Company's portfolio investments. Generally, a decrease in EBITDA multiples or DCF multiples, or an increase in discount rates, when applicable, may result in a decrease in the fair value of the Company's portfolio investments.

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Company's investments may fluctuate from period to period. Additionally, the fair value of the Company's investments may differ from the values that would have been used had a ready market existed for such investments and may differ materially from the values that the Company may ultimately realize.

The following table summarizes the significant unobservable inputs that the Company uses to value its portfolio investments categorized as Level 3 as of June 30, 2013.

Quantitative Table for Valuation Techniques

Significant Unobservable Inputs Used To Value Portfolio Investments

Assets at Fair Value	Fair Value	Valuation Technique	Unobservable Inputs	Range Low	High	Weighted Average
Other equity securities, at fair value	\$21,239,935	Public company historical EBITDA analysis	Historical EBITDA Valuation Multiples	9.4x	13.2x	11.3x
		Public company projected EBITDA analysis	Projected EBITDA Valuation Multiples	8.8x	11.5x	10.15x
		M&A company analysis	EV/LTM 2012 EBITDA	8.8x	10.6x	9.7x
		Discounted cash flow	Weighted Average Cost of Capital	9.5%	14.0%	11.8%

As of June 30, 2013 and November 30, 2012, the Company held a 6.7% equity interest in Lightfoot Capital Partners LP and an 11.1% equity interest in VantaCore Partners LP.

The following section describes the valuation methodologies used by the Company for estimating fair value for financial instruments not recorded at fair value, but fair value is included for disclosure purposes only, as required under disclosure guidance related to the fair value of financial instruments.

Cash and Cash Equivalents — The carrying value of cash, amounts due from banks, federal funds sold and securities purchased under resale agreements approximates fair value.

Escrow Receivable — The escrow receivable due to the Company as of November 30, 2012, which relates to the sale of International Resource Partners, LP, was anticipated to be released upon satisfaction of certain post-closing obligations and/or the expiration of certain time periods (the shortest of which was to be 14 months from the April 2011 closing date of the sale). As of November 30, 2012, the fair value of the escrow receivable reflects a discount for the potential that the full amount due to the Company will be

22

---



realized. No clear agreement had been reached as to the remaining escrow balance and Management anticipated that it may take more than a year to satisfy other post-closing obligations, prior to receiving the approximately \$699 thousand escrow balance remaining. As of June 30, 2013, the final payment from the sale had been received resulting in the fair value of the receivable to be reduced to \$0.

Long-term Debt — The fair value of the Company's long-term debt is calculated, for disclosure purposes, by discounting future cash flows by a rate equal to the Company's current expected rate for an equivalent transaction.

Line of Credit — The carrying value of the line of credit approximates the fair value due to its short term nature.

Carrying and Fair Value Amounts

	Level within fair value hierarchy	June 30, 2013 Carrying Amount	Fair Value	November 30, 2012 Carrying Amount	Fair Value
Financial Assets:					
Cash and cash equivalents	Level 1	\$21,109,551	\$21,109,551	\$14,333,456	\$14,333,456
Escrow receivable	Level 2			\$698,729	\$698,729
Financial Liabilities:					
Long-term debt	Level 2	\$70,000,000	\$70,000,000	\$—	\$—
Line of credit	Level 1			\$120,000	\$120,000

10. INTANGIBLES

The Company has recorded an intangible lease asset, related to the PNM lease, for the fair value of the amount by which the remaining contractual lease payments exceed market lease rates at the time of acquisition. The intangible lease asset is being amortized on a straight-line basis over the life of the lease term, which expires on April 1, 2015. Quarterly amortization of the intangible lease asset totaling \$73 thousand for the three months ended June 30, 2013 and May 31, 2012, and \$146 thousand for the six months ended June 30, 2013 and May 31, 2012, is reflected in the accompanying Consolidated Statements of Income as a reduction to lease revenue. These same amounts are included in Amortization expense in the accompanying Consolidated Statements of Cash Flows.

Intangible Lease Asset

	June 30, 2013	November 30, 2012
Intangible lease asset	\$1,094,771	\$1,094,771
Accumulated amortization	(583,878	) (413,580
Net intangible lease asset	\$510,893	\$681,191

Remaining Estimated Amortization On Intangibles

Year ending December 31,	Amount
2013	\$145,969
2014	291,939
2015	72,985
Total	\$510,893

11. CREDIT FACILITIES

On December 20, 2012, Pinedale LP closed on a \$70 million secured term credit facility with KeyBank serving as a lender and as administrative agent on behalf of other lenders participating in the credit facility. Funding of the credit facility was conditioned on our contribution of the proceeds of the stock issuance to Pinedale LP and the receipt by Pinedale LP of the 30 million co-investment funds from Prudential. Outstanding balances under the credit facility will generally accrue interest at a variable annual rate equal to LIBOR plus 3.25 percent. 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 Pinedale LGS. Pinedale LP is obligated to pay all accrued interest quarterly and is further obligated to make monthly principal payments, beginning March 7, 2014, in the amount of \$292 thousand or 0.42 percent of the principal balance as of March 1, 2014. The credit agreement contains, among other restrictions, specific financial covenants including the maintenance of certain financial coverage ratios and a minimum net worth requirement. As of June 30, 2013, Pinedale LP was in compliance with all of the financial covenants of the secured term credit facility.



As of June 30, 2013 approximately \$1.5 million in debt issuance costs are included in the accompanying Consolidated Balance Sheets. The deferred costs will be amortized over the anticipated three-year term of the newly acquired debt. For the three and six months ended June 30, 2013, \$128 thousand and \$257 thousand, respectively, are included in interest expense within the accompanying Consolidated Statements of Income.

We have executed interest rate swap derivatives to add stability to our interest expense and to manage our exposure to interest rate movements on our LIBOR based borrowings. Interest rate swaps involve the receipt of variable-rate amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. See Note 12 for further information regarding interest rate swap derivatives.

On May 8, 2013, the Company entered into a \$20 million revolving line of credit with KeyBank. The primary term of the facility is three years with the option for a one-year extension. Outstanding balances under the revolving credit facility (the "Revolver") will accrue interest at a variable annual rate equal to LIBOR plus 4.0 percent or the Prime Rate plus 2.75 percent. We intend to use the facility to fund general working capital needs and if necessary, to provide short-term financing for the acquisition of additional real property assets. The amount available to be drawn under this facility is subject to a borrowing base limitation. If we were to use the Revolver to provide short-term financing for an acquisition, we would expect the assets acquired to be taken into consideration in determining the borrowing base. As of June 30, 2013 there had been no borrowings against the Revolver.

On October 29, 2010, Mowood entered into a Revolving Note Payable Agreement ("Note Payable Agreement") with a financial institution with a maximum borrowing base of \$1.3 million. The Note Payable Agreement was amended and restated on October 29, 2011 and was again amended and restated on October 29, 2012. Borrowings on the Note Payable are secured by all of Mowood's assets. Interest accrues at LIBOR, plus 4 percent (4.20 percent at June 30, 2013), is payable monthly, with all outstanding principal and accrued interest payable on the termination date of October 29, 2013. As of June 30, 2013 there were no outstanding borrowings under this Note Payable Agreement. The Note Payable Agreement contains various restrictive covenants, with the most significant relating to minimum consolidated fixed charge ratio, the incidence of additional indebtedness, member distributions, extension of guaranties, future investments in other subsidiaries and change in ownership. Mowood was in compliance with the various covenants of the Note Payable Agreement as of June 30, 2013.

On November 30, 2011, the Company entered into a 180-day rolling evergreen Margin Loan Facility Agreement ("Margin Loan Agreement") with Bank of America, N.A. The terms of the Margin Loan Agreement provided for a \$10 million facility that was secured by certain of the Company's assets. Outstanding balances generally accrued interest at a variable rate equal to one-month LIBOR plus 0.75 percent and unused portions of the facility accrued a fee equal to an annual rate of 0.25 percent. In December of 2012, the assets which secured this facility were sold, and as a result, this Margin Loan Agreement was terminated effective December 20, 2012.

## 12. INTEREST RATE HEDGE SWAPS

### Derivative financial instruments

Currently, the Company uses interest rate swaps to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including forward interest rate curves. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate forward curves.

To comply with the provisions of ASC 820, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. In conjunction with the FASB's fair value measurement guidance in 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.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of June 30, 2013, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions

and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as well as their classification on the Consolidated Balance Sheets as of June 30, 2013, aggregated by the level in the fair value hierarchy within which those measurements fall. Hedges that are valued as receivable by the Company are considered Asset Derivatives and those that are valued as payable by the Company are considered Liability Derivatives. There were no outstanding derivative financial instruments as of November 30, 2012.

Derivative Financial Instruments Measured At Fair Value on a Recurring Basis

Balance Sheet Line Item	Balance Sheet Classification	Fair Value Hierarchy		
		Level 1 June 30, 2013	Level 2	Level 3
Hedged derivative asset	Assets	\$—	\$823,773	\$—
Accounts payable and other accrued liabilities	Liabilities	\$—	\$—	\$—

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)

Risk Management Objective of Using Derivatives

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's investments and borrowings.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps and caps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an upfront premium.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income ("AOCI") and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The Company elected to designate its interest rate swaps as cash flow hedges in April 2013. During the three and six-months ended June 30, 2013, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and six-months ended June 30, 2013 there was ineffectiveness of approximately \$7,000 (gain) recorded in earnings resulting from interest rate swaps that did not have a fair value of zero at inception of the hedging relationship. The Company did not have any derivatives designated as Cash Flow Hedges during the three and six months ended May 31, 2012.

Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. Over the next 12 months, the Company estimates that an additional \$249

thousand will be reclassified as an increase to interest expense.

25

---

Edgar Filing: CorEnergy Infrastructure Trust, Inc. - Form 10-Q

As of June 30, 2013, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

Outstanding Derivatives Designated as Cash Flow Hedges of Interest Rate Risk

Interest Rate Derivative	Number of Instruments	Notional Amount Outstanding	Effective Date	Termination Date	Floating Rate Received	Fixed Rate Paid
Interest Rate Swap	2	\$52,500,000	February 5, 2013	December 5, 2017	1-month US Dollar LIBOR	0.865%

Non-Designated Hedges

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements and other identified risks. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and were equal to a net loss of approximately \$72 thousand and \$75 thousand for the three and six months ended June 30, 2013, respectively. The Company did not have any derivatives not designated as hedges during the three and six-months ended May 31, 2012.

As the Company elected to designate its interest rate swaps in cash flow hedging relationships in April 2013 (see Cash Flow Hedges of Interest Rate Risk above), the Company did not have any non-designated hedges as of June 30, 2013.

Tabular Disclosure of the Effect of Derivative Instruments on the Income Statement

The tables below present the effect of the Company's derivative financial instruments on the Income Statement for the three and six months ended June 30, 2013 and May 31, 2012.

Effect of Derivative Financial Instruments on Income Statement

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative *		Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion, Amounts Excluded from Effectiveness Testing)	
	June 30, 2013	May 31, 2012		June 30, 2013	May 31, 2012		June 30, 2013	May 31, 2012
For the three months ended:								
Interest Rate Products	\$1,136,881	\$—	Interest Expense	\$(69,993)	\$—	Interest Expense	\$7,160	\$—
For the six months ended:								
Interest Rate Products	\$1,136,881	\$—	Interest Expense	\$(69,993)	\$—	Interest Expense	\$7,160	\$—
Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative		Amount of Gain (Loss) Recognized in Income on Derivative *					
			For the Three Months Ended		For the Six Months Ended			
			June 30, 2013	May 31, 2012	June 30, 2013	May 31, 2012		
Interest rate contracts	Interest Expense		\$(71,850)	—	\$(75,200)	—		

\* The gain or (loss) recognized in income on derivatives includes changes in fair value of the derivatives as well as the periodic cash settlements and interest accruals for derivatives not designated as hedging instruments



Tabular Disclosure of Offsetting Derivatives

The table below presents a gross presentation, the effects of offsetting, and a net presentation of the Company's derivatives as of June 30, 2013. The net amounts of derivative assets or liabilities can be reconciled to the tabular disclosure of fair value. The tabular disclosure of fair value provides the location that derivative assets and liabilities are presented on the Balance Sheet.

Offsetting Derivatives

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position Financial Instruments	Cash Collateral Received	Net Amount
Offsetting Derivative Assets as of June 30, 2013	\$823,773	\$—	\$823,773	\$—	\$—	\$823,773
Offsetting Derivative Liabilities as of June 30, 2013	\$—	\$—	\$—	\$—	\$—	\$—

Credit-Risk Related Contingent Features

The Company has agreements with some of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the company could also be declared in default on its derivative obligations.

As of June 30, 2013, the Company did not have any derivatives that were in a net liability position. Therefore, the credit risk-related contingent features discussed above would not apply as of June 30, 2013.

13. WARRANTS

At June 30, 2013 and May 31, 2012, the Company had 945,594 warrants issued and outstanding. The warrants were issued to stockholders who invested in the Company's initial private placements and became exercisable on February 7, 2007 (the closing date of the Company's initial public offering of common shares), subject to a lock-up period with respect to the underlying common shares. As of November 30, 2012, each warrant entitles the holder to purchase one common share at the exercise price of \$11.41 per common share. Warrants were issued as separate instruments from the common shares and are permitted to be transferred independently from the common shares. The warrants have no voting rights and the common shares underlying the unexercised warrants have no voting rights until such common shares are received upon exercise of the warrants. All warrants expire on February 6, 2014.

14. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

Earnings Per Share

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2013	May 31, 2012	June 30, 2013	May 31, 2012
Net income attributable to CORR Stockholders	\$70,072	\$1,976,760	\$2,482,825	\$7,723,801
Basic and diluted weighted average shares <sup>(1)</sup>	24,147,958	9,180,935	24,144,856	9,178,923
Basic and diluted earnings per share attributable to CORR Stockholders	\$—	\$0.22	\$0.10	\$0.84

Warrants to purchase shares of common stock were outstanding during the periods reflected in the table above, but (1) were not included in the computation of diluted earnings per share because the warrants' exercise price was greater than the average market value of the common shares and, therefore, the effect would be anti-dilutive.

The decrease in earnings per share for the three and six months ended June 30, 2013 as compared to the three and six months ended May 31, 2012 reflects the overall change in the business structure as the Company transitions out of securities-based transactions and into ownership and leasing of real property assets. Additionally, 14,950,000 shares

were issued in the one-month transition period ended December 31, 2012.

27

---

## 15. SUBSEQUENT EVENTS

The Company performed an evaluation of subsequent events through the date of the issuance of these financial statements and determined that no additional items require recognition or disclosure, except for the following:

On May 29, 2013, the Board of Directors declared a quarterly dividend of \$0.125 per share, payable on July 5, 2013 to shareholders of record on June 28, 2013. The dividend was recorded on our balance sheet as a liability as of June 30, 2013, and was paid to shareholders on July 5, 2013. The Company paid cash dividends in the amount of \$2,988,879. Additionally, as part of the dividend reinvestment plan the Company issued 3,912 new shares of common stock.

The Board of Directors of the Company approved a new Management Agreement between the Company and Corridor InfraTrust Management, LLC (the "Manager"). That new agreement became effective as of July 1, 2013. The new agreement does not change in any respect the terms for determination or payment of compensation for the Manager, does not have a specific term, and will remain in place unless terminated by the Company or the Manager in the manner permitted pursuant to the agreement.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements included or incorporated by reference in this Quarterly Report on Form 10-Q may be deemed "forward looking statements" within the meaning of the federal securities laws. In many cases, these forward looking statements may be identified by the use of words such as "will," "may," "should," "could," "believes," "expects," "anticipates," "estimates," "intends," "projects," "goals," "objectives," "targets," "predicts," "plans," "seeks," or similar expressions. Any forward-looking statement speaks only as of the date on which it is made and is qualified in its entirety by reference to the factors discussed throughout this report.

Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumptions, forward-looking statements are not guarantees of future performance or results and we can give no assurance that these expectations will be attained. Our actual results may differ materially from those indicated by these forward-looking statements due to a variety of known and unknown risks and uncertainties. In addition to the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended November 30, 2012, such known risks and uncertainties include, without limitation:

- the ability of our tenants to make payments under their respective leases, our reliance on certain major tenants and our ability to re-lease properties that become vacant;
- our ability to obtain suitable tenants for our properties;
- changes in general economic conditions;
- the inherent risks associated with owning real estate, including local real estate market conditions, governing laws and regulations and illiquidity of real estate investments;
- our ability to sell properties at an attractive price;
- our ability to repay debt financing obligations;
- our ability to refinance amounts outstanding under our credit facilities at maturity on terms favorable to us;
- the loss of any member of our management team;
- our ability to comply with certain debt covenants;
- our ability to integrate acquired properties and operations into existing operations;
- our continued ability to access the debt or equity markets;
- the availability of other debt and equity financing alternatives;
- market conditions affecting our debt and equity securities;
- changes in interest rates under our current credit facility and under any additional variable rate debt arrangements that we may enter into in the future;
- our ability to successfully implement our selective acquisition strategy;
- our ability to maintain internal controls and processes to ensure all transactions are accounted for properly, all relevant disclosures and filings are timely made in accordance with all rules and regulations, and any potential fraud or embezzlement is thwarted or detected;
- changes in federal or state tax rules or regulations that could have adverse tax consequences;
- declines in the market value of our investment securities; and
- our ability to qualify as a real estate investment trust for federal income tax purposes.

This list of risks and uncertainties is only a summary and is not intended to be exhaustive. We disclaim any obligation to update or revise any forward-looking statements to reflect actual results or changes in the factors affecting the forward-looking information.

### BUSINESS OBJECTIVE

Our business objective is to provide shareholders with an attractive risk-adjusted return, with an emphasis on distributions and long-term distribution growth of 1-3%. We expect our portfolio of midstream and downstream U.S. energy infrastructure real property assets to provide 8-10% total return over the long-term.

Our assets are generally leased to energy companies via long-term triple net participating leases. The 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.

Our long-term participating lease structures provide us base rents that are fixed and determinable, with escalators dependent upon increases in the Consumer Price Index. Leases may also include features that allow us to participate in the financial performance and/or value of the energy infrastructure asset.

The assets we own and seek to acquire include pipelines, storage tanks, transmission lines and gathering systems, among others. We intend to acquire assets that will enhance the stability of our dividend through diversification, while offering the potential for long term distribution growth.

## RESULTS OF OPERATIONS

Following is a comparison of revenues, expenses, operating income (loss), other income and expense, and income (loss) before income taxes for the three and six months ended June 30, 2013 and May 31, 2012:

### Results of Operations

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2013	May 31, 2012	June 30, 2013	May 31, 2012
<b>Revenue:</b>				
Lease revenue	\$5,638,244	\$638,244	\$11,276,488	\$1,276,488
Sales revenue	1,929,772	1,439,958	4,445,345	3,877,268
Total revenue	7,568,016	2,078,202	15,721,833	5,153,756
Expenses	5,967,747	2,178,838	12,321,125	5,030,756
Operating Income	1,600,269	(100,636 )	3,400,708	123,000
<b>Other Income (Expense):</b>				
Net distributions and dividend income on securities	2,701	55,462	15,825	140,724
Net realized and unrealized gain (loss) on securities	(30,976 )	3,237,325	2,711,073	12,168,791
Interest Expense, net	(907,275 )	(25,229 )	(1,644,656 )	(52,638 )
Total Other Income (Expense), net	(935,550 )	3,267,558	1,082,242	12,256,877
Income before Income Taxes	664,719	3,166,922	4,482,950	12,379,877
Income Tax Expense	241,754	1,190,162	1,262,698	4,656,076
Net Income (Loss)	422,965	1,976,760	3,220,252	7,723,801
Less: Income attributable to non-controlling interest	352,893	—	737,427	—
Income (Loss) attributable to CORR stockholders	\$70,072	\$1,976,760	\$2,482,825	\$7,723,801
Net earnings per share (basic and diluted)	\$0.00	\$0.22	\$0.10	\$0.84
Weighted Average Shares	24,147,958	9,180,935	24,144,856	9,178,923

### Revenues from Operations:

The Company's results of operations are reflective of our recent election to operate as a REIT. In 2013, our revenues are primarily derived from leases of real property assets, while realized and unrealized gains and losses from our remaining portfolio of equity investments are reported in Other Income (Expense). Total revenue from operations for the three and six months ended June 30, 2013 was approximately \$7.6 million and \$15.7 million, respectively. This represents lease revenue from the Pinedale Liquids Gathering System ("Pinedale LGS") as well as our investment in Public Service Company of New Mexico ("PNM"). Sales revenue is generated by our wholly-owned subsidiary, Omega Pipeline Company, a natural gas distributor.

The increase in lease revenues over 2012 stems directly from the December 2012 acquisition of the Pinedale LGS. The \$20 million annual minimum rents, as required under the Pinedale Lease Agreement, accounts for the \$5 million and \$10 million increases for the three and six months ended June 30, 2013, as compared to the three and six months ended May 31, 2012.

Sales revenue related to Omega's natural gas sales for the three and six months ended June 30, 2013 was \$1.9 million and \$4.4 million respectively. This represents an increase over the prior year comparable period of \$490 thousand and \$568 thousand, respectively. The increase is attributable to an increase in the market price of gas combined with increased usage due to consistently cooler temperatures during the first six months of 2013 as compared to the six months ended May 31, 2012.



## Expenses from Operations:

Total expenses from operations for the three and six months ended June 30, 2013 were \$6 million and \$12.3 million, respectively. The acquisition of the Pinedale LGS and other acquisition efforts drove the increase in costs, depreciation expense accounting for 69 percent and 72 percent of the total increase for the three and six months ended June 30, 2013, respectively. The most significant components of the variance from the prior year are outlined in the following table:

## Expenses from Operations

	For the Three Months Ended			For the Six Months Ended		
	June 30, 2013	May 31, 2012	Increase/(Decrease)	June 30, 2013	May 31, 2012	Increase/(Decrease)
Cost of sales	\$1,476,348	\$1,031,114	\$ 445,234	\$3,479,987	\$3,035,786	\$ 444,201
Management fees, net of expense reimbursements	646,394	254,965	391,429	1,290,208	502,346	787,862
Asset acquisition expense	53,394	94,699	(41,305 )	85,211	94,699	(9,488 )
Depreciation expense	2,857,412	246,828	2,610,584	5,714,448	493,633	5,220,815
Amortization expense	15,342	—	15,342	30,621	—	30,621
Operating expenses	303,480	189,165	114,315	510,384	361,806	148,578
Professional fees/directors' fees/other	615,377	362,067	253,310	1,210,266	542,486	667,780
Total	\$5,967,747	\$2,178,838	\$ 3,788,909	\$12,321,125	\$5,030,756	\$ 7,290,369

The increase in cost of sales for the Omega Pipeline Company of \$445 thousand and \$444 thousand for the three and six months ended June 30, 2013, respectively, corresponds to the increase in sales volume which was attributable to overall cooler temperatures for the first half of 2013 as compared to the three and six months ended May 31, 2012.

For the three months ended June 30, 2013, depreciation of the newly acquired Pinedale LGS asset and related acquisition costs accounted for \$2.2 million of the \$2.6 million increase as compared to the three months ended May 31, 2012. For the six months ended June 30, 2013, Pinedale LGS depreciation accounted for \$4.4 million of the \$5.2 million increase over prior year. PNM depreciation increased by \$393 thousand and \$786 thousand for the three and six months ended June 30, 2013, respectively, due to a change in accounting estimate, which is further discussed in Footnote 4 of the Notes to the Consolidated Financial Statements. Mowood's depreciation remained relatively flat between the three and six-month periods at approximately \$70 thousand and \$141 thousand as there were no major acquisitions or disposals of property, plant or equipment.

Operating expenses for our wholly-owned subsidiary, Mowood, amounted to \$303 thousand and \$510 thousand, for the three and six months ended June 30, 2013, respectively. This represents an increase over the three and six months ended May 31, 2012 of \$114 thousand and \$149 thousand, respectively and was primarily driven by nonrecurring personnel costs. We expect Mowood earnings to exceed budget sufficiently to cover these costs over the remainder of 2013.

Management fees for the three and six months ended June 30, 2013 were \$646 thousand and \$1.3 million, respectively. The increase for both periods as compared to the three and six months ended May 31, 2012 is primarily due to the December 2012 acquisition of the Pinedale LGS asset.

Asset acquisition expense represents costs incurred throughout the year as we pursue potential opportunities to expand our REIT-qualified asset portfolio. The timing of these costs can fluctuate as is evidenced by the comparison of our expenses incurred for the three and six months ended June 30, 2013 as compared to the costs incurred during the three and six months ended May 31, 2012. Second quarter costs for 2013 are \$41 thousand lower than the second quarter of 2012. However for the six months ended June 30, 2013, total costs were only \$9 thousand lower than the six months ended May 31, 2012. Costs incurred during the three months ended May 31, 2012 correspond to the early stages of acquiring the Pinedale LGS asset. Generally, we expect asset acquisition expenses to be repaid over time from income generated by acquisitions. However, any particular quarter may reflect significant expenses arising from third party legal, engineering and consulting fees that are incurred in the early stages of due diligence.

The remaining expenses, which include professional and directors' fees and other expenses, totaled \$615 thousand and \$1.2 million for the three and six months ended June 30, 2013, respectively. The increase of \$253 thousand and \$668



thousand, as compared to the three and six months ended May 31, 2012, respectively, is primarily due to incremental costs related to the Pinedale LGS, as well as additional costs associated with transitioning to a REIT, such as legal, financial audit and tax costs and other professional fees and services.

Other Income and Expense:

Total other income, net, for the three and six months ended June 30, 2013 decreased \$4.2 million and \$11.2 million, respectively, as compared to the three and six months ended May 31, 2012. Other income and expense consists of three primary components: Distributions and Dividend Income; Realized and Unrealized Gains and Losses from Securities; and Interest Expense. The largest contributor to the decrease from prior year is the decrease in realized and unrealized gains and losses on securities, resulting from the wind-down of our business development activities as we establish ourselves as a REIT. The following discussion expands on the impact of each of the three components on other income and expense.

Net Realized and Unrealized Gains and Losses on Securities

The decrease in realized and unrealized gains and losses from trading and other equity securities for the three and six months ended June 30, 2013 totaled \$3.3 million and \$9.5 million, respectively, as compared to the three and six months ended May 31, 2012. During 2012, our income was still primarily derived from our portfolio of trading and other equity securities. By the beginning of 2013, we had liquidated nearly all of our trading securities and had acquired the Pinedale LGS, now our largest source of revenue. For the three months ended June 30, 2013, the Company recognized an unrealized loss on the fair value adjustment of our other equity securities of \$339 thousand which was offset by a realized gain of \$308 thousand on the final settlement of the IRP Escrow receivable (as discussed in Footnote 2 of the Notes to the Consolidated Financial Statements). The gain of \$2.7 million for the six months ended June 30, 2013 is attributable to activity in the first quarter of 2013 which included the sale of the Company's remaining trading securities and the fair value adjustment of other equity securities which remain in our investment portfolio.

Interest Expense

Interest expense was approximately \$907 thousand and \$1.6 million for the three and six months ended June 30, 2013, respectively as compared to \$25 thousand and \$53 thousand for the three and six months ended May 31, 2012, respectively. The increase is primarily attributable to the \$70 million credit facility which was used to partially fund the Pinedale LGS acquisition, resulting in additional interest costs of approximately \$610 thousand and \$1.2 million for the three and six months ended June 30, 2013. In connection with the credit facility, we executed interest rate swap derivatives to add stability to our interest expense and to manage our exposure to interest rate movements on our LIBOR-based borrowings. Interest rate swaps involve the receipt of variable-rate amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. (See Note 12 of the Notes to the Consolidated Financial Statements for further information regarding interest rate swap derivatives.) Also, a mark-to-market adjustment to the value of the derivatives resulted in noncash charges to interest expense of \$72 thousand and \$75 thousand for the three and six-months ended June 30, 2013, respectively. The remaining increase is related to cash settlements in connection with the derivatives, amortization of debt issuance costs and a one-time fee of \$30 thousand related to the execution of the \$20 million revolving credit facility. Interest expense for the three and six months ended May 31, 2012 consisted of interest on PNM debt and margin loan fees on the company's line of credit and Mowood's credit facility. The PNM debt and margin loan were both extinguished during 2012.

Distributions and Dividend Income

The following table shows the gross distributions and dividend income received from our investment securities on a cash basis, less the amounts that were comprised of distributions and dividends not reported in income received from investment securities (return of capital):

Gross Distributions and Dividend Income Received From Investment Securities

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2013	May 31, 2012	June 30, 2013	May 31, 2012
Distributions and dividend income received from investment securities	\$ 319,884	\$ 1,245,993	\$ 647,348	\$ 2,384,262
Less: distributions and dividends not reported in income (recorded as a cost reduction)	317,183	1,190,531	631,523	2,243,538
Net distributions and dividends reported as income	\$ 2,701	\$ 55,462	\$ 15,825	\$ 140,724

Net Income:

Income before income taxes for the three and six months ended June 30, 2013 was \$665 thousand and \$4.5 million, respectively. This compares to \$3.2 million and \$12.4 million for the three and six months ended May 31, 2012, respectively. The decrease in income is primarily related to the operational changes inherent during the transition from a business development company to a

32

---

REIT. The decrease in net realized and unrealized gains on securities as well as the change in composition of our investment portfolio accounts for the majority of the fluctuation from the prior year. At the time we sold certain securities in the first quarter of 2013, we estimated their tax characteristics. Final tax information was provided during the second quarter of 2013, and we recognized additional tax expense related to gains on the sale. Net income attributable to common stockholders was \$70 thousand, or \$.003 per common share for the three months ended June 30, 2013 and \$2.5 million or \$.103 per common share for the six months ended June 30, 2013.

#### FEDERAL AND STATE INCOME TAXATION

We intend to elect to be treated as a REIT for federal income tax purposes (which we refer to as the "REIT Election") for the calendar and tax year ended December 31, 2013. We anticipate that the Company will satisfy the annual income test and the quarterly assets tests necessary for us to qualify and elect to be taxed as a REIT for 2013. Because certain of our assets may not produce REIT-qualifying income or be treated as interests in real property, during December 2012 we contributed those assets into wholly-owned Taxable REIT Subsidiaries ("TRSs"). This was done in 2012 in order to limit the potential that such assets and income would prevent us from qualifying as a REIT for 2013. Due to the anticipated REIT Election, we changed our fiscal year end from November 30 to December 31. For tax years ended December 31, 2012 or earlier, the Company is treated as a C corporation and is 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. 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 prior to 2013 was 15 percent and after 2012 will be 20 percent.

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 the restructuring in December 2012, it is expected that for the six months ended June 30, 2013 and future periods, any deferred tax liability or asset will be related entirely to the assets and activities of the Company's TRSs.

In 2013, the Company intends to be taxed as a REIT rather than a C corporation and generally will not pay federal income tax on taxable income 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 has accumulated C corporation earnings and profits from the periods prior to 2013, we will distribute such earnings and profits in 2013, which will be treated as QDI. Currently, we do not expect to need to make such a distribution.

We hold and operate certain of our assets through one or more wholly-owned taxable REIT subsidiaries. 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.

If we fail to qualify as a REIT for 2013, 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.

#### SEASONALITY

The Company's wholly-owned subsidiary, Mowood, experiences a substantial amount of seasonality in gas sales. As a result, overall sales and operating income are generally higher in the first and fourth quarters and lower during the second and third quarters of each year. Due to the seasonal nature of Mowood, operating results for the interim periods are not necessarily indicative of the results that may be expected for the full year.

## PORTFOLIO UPDATES

Asset descriptions and related operations performed within our portfolio of assets are described in Notes 3 and 4 to the financial statements included in this report. This section provides updates on those operations.

## Pinedale LGS

The Lease Agreement with Ultra Newco, a subsidiary of Ultra Petroleum, has a fifteen year initial term and may be extended for additional five-year terms at the sole discretion of Ultra Newco. During the initial fifteen-year term, Pinedale LP will receive a fixed minimum annual rent of \$20 million, adjusted annually for changes based on the consumer price index ("CPI"). The annual adjustment for changes in the CPI commences January 1, 2014 (subject to a 2 percent annual cap). Starting in January 2014 we become eligible for a variable rent component based on the volume of liquid hydrocarbons and water that flowed through the LGS in a prior month. On April 1, 2014 the Variable Rent is due depending on the increase in volumes, if any, over the base amount. The maximum annual rental payments under the Lease Agreement during the initial fifteen year term are \$27.5 million.

## Eastern Interconnect Project

On November 1, 2012, we entered into the Purchase Agreement with PNM to sell our 40 percent undivided interest in the Eastern Interconnect Project ("EIP") upon lease termination on April 1, 2015 for \$7.7 million. PNM will also accelerate its remaining lease payments to us. Both lease payments due in 2013 were paid upon execution of the definitive Purchase Agreement on November 1, 2012. The three remaining lease payments due April 1, 2014, October 1, 2014 and April 1, 2015, will be paid in full on January 1, 2014.

The Company reevaluated the residual value used to calculate its depreciation of EIP and determined that a change in estimate was necessary. The change in estimate resulted in higher depreciation expense through the expiration of the lease in April 2015 of approximately \$393 thousand per quarter.

## Mowood, LLC, A Wholly-Owned Subsidiary

Mowood Corridor, Inc is a wholly-owned taxable REIT subsidiary of the Company. Mowood, LLC ("Mowood") is wholly-owned by Mowood Corridor, Inc, and is the holding company of Omega Pipeline Company, LLC ("Omega"). Omega is a natural gas service provider located primarily on the Fort Leonard Wood military post in south-central Missouri. Omega serves the natural gas needs of Fort Leonard Wood and other customers in the surrounding area. We indirectly hold 100 percent of the equity interests in Omega and Mowood. The Company provides a revolving line of credit to Mowood which allows for a maximum principal balance of \$5.3 million. At November 30, 2012, the principal balance outstanding was \$3.8 million. At June 30, 2013, the principal balance outstanding was \$5.3 million. Omega's operating results for the six months ended June 30, 2013 were as expected and on plan. In contrast, operating results for the comparable period in 2012 were approximately 5 percent higher due to higher margins from several construction projects that were completed. Little to no impact is expected to Omega's business plan as a result of any governmental spending cuts, related to the Budget Control Act of 2011 (aka budget sequestration).

## Private Security Assets

Following is a summary of the fair values of the other equity securities that we held at June 30, 2013 as they compare to the fair values at March 31, 2013.

## Fair Value of Other Equity Securities

Portfolio Company	Fair Value at June 30, 2013	Fair Value at March 31, 2013	\$ Change	% Change
Lightfoot	\$9,546,440	\$9,509,002	\$37,438	0.39 %
VantaCore	\$11,693,495	\$12,386,852	\$(693,357)	(5.60)%
Lightfoot Capital Partners LP and Lightfoot Capital Partners GP LLC				

The Company holds a direct investment in Lightfoot Capital Partners LP (6.7 percent) and Lightfoot Capital Partners GP (1.5 percent) (collectively "Lightfoot"). Lightfoot's assets consist of an 83.5 percent interest in Arc Terminals ("Arc") and a minority position in a Liquefied Natural Gas facility located in Mississippi. Arc is an independent terminal company with a shell capacity of 3.5 million barrels from eleven terminal assets. Arc provides storage and delivery services for gasoline, diesel and bio-diesel fuel, aviation gas, and ethanol, as well as other petroleum products. We hold observation rights on Lightfoot's Board of Directors.



The fair value of Lightfoot as of June 30, 2013 increased \$37 thousand, or 0.39 percent, as compared to the valuation at March 31, 2013, primarily due to market value changes in the MLP comparable companies. For its last two quarters, Arc had sufficient distributable cash flow to pay a distribution, but instead retained cash for capital expenditures and potential future acquisitions. Arc continues to concentrate a majority of its capital expenditures on projects that increase revenue and reduce operating expenses. Arc is also analyzing various strategic alternatives and acquisitions that would be expected to provide incremental earnings.

VantaCore Partners LP (“VantaCore”)

VantaCore is a private company focused on acquiring and operating competitively advantaged aggregate and related businesses in the domestic U.S. market. VantaCore's operations consist of an integrated limestone quarry (with permitted surface reserves of about 80 million tons), a dock facility, two asphalt plants and a commercial asphalt lay down business located in Clarksville, Tennessee, a limestone quarry located in Todd County, Kentucky, a sand and gravel business (with approximately 38 million tons of gravel reserves) located near Baton Rouge, Louisiana serving the south central Louisiana market and a surface and underground limestone quarry (with approximately 197 million tons of reserves) located in Pennsylvania serving energy and construction businesses in Pennsylvania, West Virginia and Ohio. We hold observation rights on VantaCore's Board of Directors.

The fair value of VantaCore as of June 30, 2013 decreased \$693 thousand, or approximately 5.6 percent, as compared to the fair value at March 31, 2013. The decrease is attributable to changes in VantaCore's debt during the second quarter 2013. Enterprise value remained relatively flat, however, VantaCore increased their borrowings against their revolving credit facility to begin funding capital expenditures during the quarter, which we expect to benefit earnings in the future. VantaCore was again unable to meet its minimum quarterly distribution in cash for its quarter ended March 31, 2013. Therefore, the common and preferred unit holders elected to receive their distributions as a combination of \$0.254 per unit in cash and the remainder in preferred units. The Company received approximately \$317 thousand in cash and an additional 15,479 preferred units during the three-month period ended June 30, 2013. Formerly Owned High Sierra Energy, LP and High Sierra Energy, GP (“High Sierra”)

On June 19, 2012, NGL Energy Partners, LP and certain of its affiliates (collectively “NGL”) acquired High Sierra. By March 31, 2013, the Company had liquidated all its NGL holdings. Tax expense related to the sale was recognized in the second quarter.

Formerly Owned International Resource Partners, LP

The escrow receivable due the Company as of November 30, 2012, which relates to the sale of International Resource Partners, LP, was settled during the second quarter of 2013 upon satisfaction of certain post-closing obligations. The fair value of the escrow receivable reflected a discount for the potential that the full amount due to the Company would not be realized. The actual payment received in the amount of \$1.0 million exceeded the balance recorded of \$699 thousand, resulting in a gain of approximately \$308 thousand.

#### LIQUIDITY AND CAPITAL RESOURCES

At quarter end, we had approximately \$13 million, net of near-term obligations, available for future investment. There are opportunities that are in preliminary stages of review, and consummation of any of these opportunities depends on a number of factors beyond our control. There can be no assurance that any of these acquisition opportunities will result in consummated transactions. As part of our disciplined investment philosophy, we plan to use a moderate level of leverage, approximately 25 percent to 50 percent of assets. We may invest in assets which are subject to greater leverage, but which would be expected to be non-recourse to us.

Pinedale LP has a \$70 million secured term credit facility with KeyBank that provides for monthly payments of principal and interest. Outstanding balances under the credit facility generally accrue interest at a variable annual rate equal to LIBOR plus 3.25%. The credit facility is secured by the Pinedale LGS. Pinedale LP is obligated to pay all accrued interest quarterly and is further obligated to pay monthly, beginning March 7, 2014, 0.42% of the amount outstanding on the loan on March 1, 2014.

In December of 2012 we executed interest rate swap derivatives covering \$52.5 million of notional value, to add stability to our interest expense and to manage our exposure to interest rate movements on our LIBOR based borrowings. Interest rate swaps involve the receipt of variable-rate amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.



Our registration statement covering a proposed maximum aggregate offering price of \$300 million of securities was declared effective on June 8, 2012. The common equity offering conducted on December 13, 2012 reduced the total available shelf by the gross proceeds of the offering and subsequent exercise of the underwriter's over-allotment option on December 24, 2012. The remaining availability is \$210.3 million of maximum aggregate offering price of securities.

On May 8, 2013, the Company entered into a \$20 million revolving line of credit with KeyBank. The primary term of the facility is three years with the option for a one-year extension. Outstanding balances under the revolving credit facility (the "Revolver") will accrue interest at a variable annual rate equal to LIBOR plus 4.0 percent or the Prime Rate plus 2.75 percent. We intend to use the facility to fund general working capital needs and if necessary, to provide short-term financing for the acquisition of additional real property assets. The amount available to be drawn under this facility is subject to a borrowing base limitation. If we were to use the Revolver to provide short-term financing for an acquisition, we would expect the assets acquired to be taken into consideration in determining the borrowing base. As of June 30, 2013 there had been no borrowings against the Revolver.

As of June 30, 2013 the securities in our portfolio only included illiquid securities issued by privately-held companies. During the three-month period ended March 31, 2013, we liquidated approximately \$4.3 million of our remaining publicly traded securities, and generated cash of approximately \$4.6 million. We reported the gains on the securities transactions as Other Income and separate from Income from Operations.

On October 29, 2010, Mowood entered into the Note Payable Agreement with a financial institution with a maximum borrowing base of \$1.3 million. The Note Payable Agreement was amended and restated on October 29, 2011 and again amended and restated on October 29, 2012. Borrowings on the Note Payable are secured by all of Mowood's assets. Interest accrues at LIBOR, plus 4 percent (4.19465 percent at June 28, 2013), is payable monthly, with all outstanding principal and accrued interest payable on the termination date of October 29, 2013. As of June 30, 2013, there were no outstanding borrowings under this agreement. The Note Payable Agreement contains various restrictive covenants, with the most significant relating to minimum consolidated fixed charge ratio, the incidence of additional indebtedness, member distributions, extension of guaranties, future investments in other subsidiaries and change in ownership. Mowood was in compliance with the various covenants of the Note Payable Agreement as of June 30, 2013.

On November 30, 2011, the Company entered into a 180-day rolling evergreen Margin Loan Agreement with Bank of America, N.A. In December of 2012, the assets which secured this facility were sold, and as a result, this Margin Loan Agreement was terminated effective December 20, 2012.

We do not plan to make additional investments in securities (other than short-term, highly liquid investments to be held pending acquisition of real property assets) and intend to liquidate our remaining securities portfolio in an orderly manner.

#### CONTRACTUAL OBLIGATIONS

The following table summarizes our significant contractual payment obligations as of June 30, 2013.

##### Contractual Obligations

	Notional Value	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt	\$70,000,000	\$1,166,666	\$6,999,999	\$61,833,335	\$—
Interest payments on long-term debt		2,439,610	4,579,933	3,112,277	—
Totals		\$3,606,276	\$11,579,932	\$64,945,612	\$—

The Mowood Note Payable is not included in the above table because the timing of repayment is uncertain.

In December of 2012, Pinedale LP entered into a \$70 million secured term credit facility with KeyBank to finance a portion of the Acquisition. The primary term of the credit facility is three years, with an option for a one-year extension. Under the KeyBank credit facility, Pinedale LP is obligated to make monthly principal payments, which are to begin in the second year of the term, equal to 0.42 percent of the \$70 million loan outstanding. Interest accrues at a variable annual rate equal to LIBOR plus 3.25 percent. For purposes of the above presentation, interest payments were calculated using the LIBOR rate in effect at June 28, 2013.

#### OFF-BALANCE SHEET ARRANGEMENTS

We do not have, and are not expected to have, any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.



## MAJOR TENANTS

As of June 30, 2013, the Company had two significant leases. The table below displays the impact of each lease on total leased properties as of June 30, 2013 and total lease revenues for the three and six months ended June 30, 2013. Significant Leases

	As a Percentage of Leased Properties As of June 30, 2013	Lease Revenues	
		For the Three Months Ended June 30, 2013	For the Six Months Ended June 30, 2013
Pinedale LGS	94.20%	88.68%	88.68%
Public Service of New Mexico	5.80%	11.32%	11.32%

Pinedale LGS. In December of 2012, the Company entered into a lease guaranteed by Ultra Petroleum, which is material to the Company. 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. As of June 30, 2013, approximately 94.2 percent of the Company's leased property, based on the gross book value of real estate investments, was leased to Ultra Petroleum. Approximately 88.68 percent of the Company's total revenue for the three and six-months ended June 30, 2013 was derived from Ultra Petroleum.

Ultra Petroleum is currently subject to the reporting requirements of the 1934 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](http://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 not to believe 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.

EIP. The Company's investment in EIP is leased under net operating leases with various terms. As of June 30, 2013, approximately 5.80 percent of the Company's leased property, based on the gross book value of real estate investments, was leased to PNM. Approximately 11.32 percent of the Company's total revenue for the three and six-months ended June 30, 2013 was derived from PNM.

In view of the fact that PNM 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, have a considerable impact on the results of operation.

PNM is a subsidiary of PNM Resources Inc. ("PNM Resources"), which is currently subject to the reporting requirements of the 1934 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 website at [www.sec.gov](http://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 not to believe 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 part of this filing.

## DIVIDENDS

Our portfolio of real property assets and investment securities generate cash flow to us from which we pay distributions to stockholders. For the period ended June 30, 2013, the sources of our stockholder distributions were lease income from our real property assets and distributions from our investment securities. The amount of any distribution to the Company is recorded by the Company on the ex-dividend date.

The character of distributions made during the year may differ from their ultimate characterization for federal income tax purposes. The Board of Directors declared a quarterly distribution of \$0.125 per share for the quarter ended

June 30, 2013. The dividend was recorded on our balance sheet as a payable as of June 30, 2013 and was paid to shareholders on July 5, 2013. Although, there

37

---

is no assurance that we will continue to make regular distributions, we continue to believe that our investments should support sustainable 2013 distributions of \$0.125 on a quarterly basis.

During 2013, we intend to make publicly available standard performance measures utilized by REITs, including Funds from Operations (“FFO”) and Adjusted Funds from Operations (“AFFO”). A REIT is generally required to distribute during the taxable year an amount equal to at least 90 percent of the REIT taxable income (determined under IRC section 857(b)(2), without regard to the deduction for dividends paid). We intend to adhere to this requirement in order to qualify as a REIT. The Board of Directors will continue to determine the amount of any distribution that we expect to pay our stockholders.

#### IMPACT OF INFLATION AND DEFLATION

Deflation can result in a decline in general price levels, often caused by a decrease in the supply of money or credit. The predominant effects of deflation are high unemployment, credit contraction and weakened consumer demand. Restricted lending practices could impact our ability to obtain financings or to refinance our properties and our tenants' ability to obtain credit. During inflationary periods, we intend for substantially all of our tenant leases to be designed to mitigate the impact of inflation. Generally our leases include rent escalators that are based on the Consumer Price Index, or other agreed upon metrics that increase with inflation.

#### PERFORMANCE MEASUREMENT

In the past, we have provided investors with a measure of cash flow from operations, labeled distributable cash flow. Prospectively, and with this pro forma information, we intend to provide standard performance measures utilized by REITs, including FFO and AFFO.

#### FFO

As defined by the National Association of Real Estate Investment Trusts, FFO represents net income (loss) before allocation to minority interests (computed in accordance with GAAP, excluding gains (or losses) from sales of depreciable operating property, real estate-related depreciation and amortization (excluding amortization of deferred financing costs or loan origination costs)) and after adjustments for unconsolidated partnerships and joint ventures. FFO is a supplemental, non-GAAP financial measure.

We present FFO because we consider it an important supplemental measure of our operating performance and believe that it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. FFO is a key measure used by Corridor in assessing performance and in making resource allocation decisions.

FFO is intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions, and that may also be the case with the energy infrastructure assets which we expect to acquire. Because FFO excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in base and participating rent, company operating costs, development activities and interest costs, thereby providing perspective not immediately apparent from net income.

We calculate FFO in accordance with standards established by the Board of Governors of the National Association of Real Estate Investment Trusts, in its March 1995 White Paper (as amended in November 1999 and April 2002), which may differ from the methodology for calculating FFO utilized by other equity REITs and, accordingly may not be comparable to such other REITs. FFO does not represent amounts available for management's discretionary use because of needed capital for replacement or expansion, debt service obligations or other commitments and uncertainties. FFO should not be considered as an alternative to net income (loss) (computed in accordance with GAAP), as an indicator of our financial performance or to cash flow from operating activities (computed in accordance with GAAP), as an indicator of our liquidity, or as an indicator of funds available for our cash needs, including our ability to make distributions or to service our indebtedness.

#### AFFO

We define AFFO as FFO plus transaction costs, amortization of debt issuance costs, deferred leasing costs, above market rent, and certain costs of a nonrecurring nature less maintenance, capital expenditures (if any), amortization of debt premium and adjustments to lease revenue resulting from the EIP sale. Management uses AFFO as a measure of long-term sustainable operations measurement.



We target a total return of 8% to 10% per annum on the infrastructure assets that we own, measured over the long term. We intend to generate this return from the base rent of our leases plus growth through acquisitions and participating portions of our rent. If we are successful growing our AFFO per share of common stock, we anticipate being able to increase distributions to our stockholders. In addition, the increase in our AFFO per share of common stock should result in capital appreciation. For our business as a whole, a key performance measure is AFFO yield, defined as AFFO divided by invested capital, which measures the sustainable return on capital that we have deployed. AFFO does not represent amounts available for management's discretionary use because such amounts are needed for capital replacement or expansion, debt service obligations or other commitments and uncertainties. AFFO should not be considered as an alternative to net income (loss) (computed in accordance with GAAP), as an indicator of our financial performance or to cash flow from operating activities (computed in accordance with GAAP), as an indicator of our liquidity, or as an indicator of funds available for our cash needs, including our ability to make distributions or service our indebtedness.

In light of the per share AFFO growth that we foresee in our operations, we are targeting 1% to 3% annual dividend growth. We can provide no assurances regarding our total return or annual dividend growth. See our Risk Factors as disclosed in the Annual Report on Form 10-K for the calendar year ending November 30, 2012 for a discussion of the many factors that may affect our ability to make distributions at targeted rates, or at all.

The following table presents a comparison of FFO and AFFO for the three and six months ended June 30, 2013:  
FFO and AFFO Reconciliation

	For the Three Months Ended June 30, 2013	For the Six Months Ended June 30, 2013
Net Income (attributable to CorEnergy Stockholders):	\$70,072	\$2,482,825
Add:		
Depreciation and amortization attributable to CorEnergy Stockholders	2,446,028	4,891,686
Distributions received from investment securities	317,184	644,648
Income tax expense, net	241,754	1,262,698
Less:		
Net realized and unrealized gain on trading securities	—	316,063
Net realized and unrealized gain (loss) on other equity securities	(30,976	) 2,395,010
Funds from operations (FFO)	3,106,014	6,570,784
Add:		
Transaction costs attributable to CorEnergy Stockholders	91,679	123,496
Amortization of debt issuance costs attributable to CorEnergy Stockholders	104,662	209,449
Amortization of deferred lease costs attributable to CorEnergy Stockholders	12,687	25,323
Amortization of above market leases	72,985	145,970
Noncash costs associated with derivative instruments	58,234	60,950
Nonrecurring personnel costs	113,232	113,232
Less:		
EIP Lease Adjustment	542,809	1,085,618
Adjusted funds from operations (AFFO)	\$3,016,684	\$6,163,586

FFO for the three and six months ended June 30, 2013 totals approximately \$3.1 million and \$6.6 million, respectively. FFO was calculated in accordance with the National Association of Real Estate Investment Trust's definition, above. In addition, we have made adjustments for noncash items impacting net income for the three and six months ended June 30, 2013 by eliminating a net realized and unrealized gain (loss) on other equity securities of approximately \$(31.0) thousand and \$2.4 million, respectively; eliminating net realized and unrealized gain on trading securities of zero and approximately \$316 thousand, respectively; adding distributions received from investment securities of approximately \$317 thousand and \$645 thousand, respectively; and adding back income tax expense of approximately \$242 thousand and \$1.3 million, respectively.





#### AFFO

AFFO for the three and six months ended June 30, 2013 total approximately \$3.0 million and \$6.2 million, respectively. In addition to the adjustments outlined in the AFFO definition above, we have included an adjustment to back out lease income associated with the EIP investment. Based on the economic return to CorEnergy resulting from the sale of our 40 percent undivided interest in EIP, we determined that it was appropriate to eliminate the portion of EIP lease income attributable to return of capital, as a means to more accurately reflect EIP lease income contribution to CorEnergy-sustainable FFO. CorEnergy believes that the portion of the EIP lease income attributable to return of capital, unless adjusted, overstates CorEnergy's distribution-paying capabilities and is not representative of sustainable EIP income over the life of the lease.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our business activities contain elements of market risk. We consider fluctuations in the value of our securities portfolio to be our principal market risk. There were no material changes to our market risk exposure at June 30, 2013 as compared to the end of our preceding fiscal period of November 30, 2012.

Our equity and debt securities are reported at fair value in the current period, as determined by our Board of Directors. The fair value of securities is determined using readily available market quotations from the principal market if available. The fair value of securities that are not publicly traded or whose market price is not readily available is determined in good faith by our Board of Directors. Because there are no readily available market quotations for many of the securities in our portfolio, we value a large portion of our securities at fair value as determined in good faith by our Board of Directors under a valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of securities that do not have readily available market quotations, the fair value of our securities may differ significantly from the fair values that would have been used had a ready market quotation existed for such securities, and these differences could be material.

As of June 30, 2013, the fair value of our securities portfolio (excluding short-term investments) totaled approximately \$21.2 million. We estimate that the impact of a 10 percent increase or decrease in the fair value of these securities, net of related deferred taxes, would increase or decrease net assets applicable to common shareholders by approximately \$1.3 million.

Long term debt used to finance our acquisitions may be based on floating or fixed rates. As of June 30, 2013, we had \$70 million in long term debt. The Company uses interest rate swaps to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including forward interest rate curves. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate forward curves. We consider the management of risk essential to conducting our businesses. Accordingly, our risk management systems and procedures are designed to identify and analyze our risks, to set appropriate policies and limits and to continually monitor these risks and limits by means of reliable administrative and information systems and other policies and programs.

#### ITEM 4. CONTROLS AND PROCEDURES

The Company carried out an evaluation of its disclosure controls and procedures as defined in rule 13a-15(e) or 15d-15(e) under the Exchange Act. This evaluation was conducted under the supervision and with the participation of the Company's Management including the Chief Executive Officer and the Chief Accounting Officer (the Company's principal financial officer) and the Company's disclosure committee. Based upon this evaluation, the Chief Executive Officer and Chief Accounting Officer of the Company have concluded as of the end of the period covered by this report that the disclosure controls and procedures of the Company were effective at a reasonable assurance level. Changes in internal control over financial reporting

There has been no change in the Company's internal control over financial reporting, as defined in rule 13a-15(f) and 15d-15(f) of the Exchange Act that occurred during the quarterly period ending June 30, 2013 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting



### Oversight and Monitoring

As part of our internal control processes; we monitor, on an ongoing basis, compliance by tenants with their lease obligations and other factors that could affect the financial performance of any of our properties. Monitoring involves receiving assurances that each tenant has paid real estate taxes, assessments and other expenses relating to the properties it occupies and confirming that appropriate insurance coverage is being maintained by the tenant. We review financial statements of tenants and undertake regular physical inspections of the condition and maintenance of properties. Additionally, we periodically analyze each tenant's financial condition, the industry in which each tenant operates and each tenant's relative strength in its industry. In addition, monitoring may be accomplished by attendance at Board of Directors meetings, the review of periodic operating and financial reports, an analysis of capital expenditure plans as they relate to the owned assets, and periodic consultations with engineers, geologists and other experts. The performance of each asset will be periodically compared to performance of similarly sized companies with comparable assets and businesses to assess performance relative to peers. Other monitoring activities are expected to provide the necessary access to monitor compliance with existing covenants, enhance ability to make qualified valuation decisions, and assist in the evaluation of the nature of the risks involved in the various components of the portfolio.

**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We are not currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us.

**ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended November 30, 2012, which could materially affect our business, financial condition or future results. The risks described in this report and in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

We did not sell any securities during the six months ended June 30, 2013 that were not registered under the 1933 Act.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

The Board of Directors of the Company approved a new Management Agreement between the Company and Corridor InfraTrust Management, LLC (the "Manager"). That new agreement became effective as of July 1, 2013. The new agreement does not change in any respect the terms for determination or payment of compensation for the Manager, does not have a specific term, and will remain in place unless terminated by the Company or the Manager in the manner permitted pursuant to the agreement.

ITEM 6. EXHIBITS

Exhibit Description

- 3.1 Second Amended and Restated Bylaws (1)
- 10.1 Management Agreement dated August 7, 2013 between CorEnergy Infrastructure Trust, Inc. and Corridor InfraTrust Management, LLC
- 31.1 Certification by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, is filed herewith.
- 31.2 Certification by Chief Accounting Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, is filed herewith.
- 32.1 Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, is furnished herewith.
- 101 The following materials from CorEnergy Infrastructure Trust, Inc.'s Quarterly Report on Form 10-Q for the three months ended June 30, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Cash Flows and (iv) the Notes to Condensed Consolidated Financial Statements.
- (1) Incorporated by reference to the Company's current report on Form 8-K, filed July 31, 2013

COREENERGY INFRASTRUCTURE TRUST, INC.  
SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COREENERGY INFRASTRUCTURE TRUST, INC.  
(Registrant)

By: /s/ Rebecca M. Sandring  
Rebecca M. Sandring  
Chief Accounting Officer  
(Principal Accounting and Principal Financial Officer)

August 9, 2013

By: /s/ David J. Schulte  
David J. Schulte  
Chief Executive Officer and Director  
(Principal Executive Officer)

August 9, 2013