CorEnergy Infrastructure Trust, Inc.
Form 10-Q
August 10, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-33292

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨.
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act)
Yes ¨ No x
As of July 31, 2015, the registrant had 59,616,067 common shares outstanding.

CorEnergy Infrastructure Trust, Inc.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2015
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This report should be read in its entirety. No one section of the report deals with all aspects of the subject matter. It should be read in conjunction with the consolidated financial statements, related notes and with the Management's Discussion & Analysis ("MD&A") included within, as well as provided in the Annual Report on Form 10-K, for the year ended December 31, 2014.

The 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 six months ended June 30, 2015, are not necessarily indicative of the results that may be expected for the year ended December 31, 2015. 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 December 31, 2014.

GLOSSARY OF DEFINED TERMS

Certain of the defined terms used in this report are set forth below:

Administrative Agreement: The Administrative Agreement dated December 1, 2011, as amended effective August 7, 2012, between the Company and Corridor.

Arc Logistics: Arc Logistics Partners LP (NYSE: ARCX)

Arc Terminals: Arc Terminals Holdings LLC, an indirect wholly-owned operating subsidiary of Arc Logistics

ASC: Accounting Standards Codification

Bbls: Standard barrel containing 42 U.S. gallons

BOEM: U.S. Federal Bureau of Ocean Management

BSEE: U.S. Federal Bureau of Safety and Environmental Enforcement

Code: the Internal Revenue Code of 1986, as amended

CorEnergy: CorEnergy Infrastructure Trust, Inc. (NYSE: CORR)

CorEnergy BBWS: CorEnergy BBWS, Inc., a wholly-owned subsidiary of CorEnergy

Convertible Notes: the Company's 7.00% Convertible Senior Notes Due 2020

Corridor Bison: Corridor Bison, LLC a wholly-owned subsidiary of CorEnergy

Corridor Private: Corridor Private Holdings, Inc., an indirect wholly-owned subsidiary of CorEnergy

Corridor: Corridor InfraTrust Management, LLC, the Company's external manager pursuant to the Management Agreement

Corridor MoGas: Corridor MoGas, Inc., a wholly-owned subsidiary of CorEnergy and the holding company of MoGas and UPS

CPI: Consumer Price Index

EIP: the Eastern Interconnect Project

Exchange Act: the Securities Exchange Act of 1934, as amended

EXXI: Energy XXI Ltd (NASDAQ: EXXI)

EXXI Tenant: Energy XXI GIGS Services, LLC, a wholly-owned operating subsidiary of EXXI that is the tenant under Grand Isle Corridor's triple-net lease of the Grand Isle Gathering System

EXXI USA: Energy XXI USA, Inc., a wholly owned subsidiary of EXXI and owner and operator of the Grand Isle Gathering System prior to its acquisition by Grand Isle Corridor

FASB: Financial Accounting Standards Board

FERC: Federal Energy Regulatory Commission

Four Wood Corridor: Four Wood Corridor, LLC, a wholly-owned subsidiary of CorEnergy

Four Wood Energy: Four Wood Energy Partners LLC, a wholly-owned subsidiary of Four Wood Capital Partners LLC

GAAP: U.S. generally accepted accounting principles

GIGS: the Grand Isle Gathering System, a subsea, midstream pipeline system located in the Gulf of Mexico, owned by Grand Isle Corridor, LP and triple-net leased to a wholly-owned subsidiary of Energy XXI Ltd

GOM: Gulf of Mexico

Grand Isle Corridor: Grand Isle Corridor, LP, an indirect wholly-owned subsidiary of the Company

Grand Isle Gathering System: a subsea pipeline gathering system located in the shallow Gulf of Mexico shelf and storage and onshore processing facilities

Indenture: collectively, that certain Base Indenture, dated June 29, 2015, as supplemented by the related First Supplemental Indenture, dated as of June 29, 2015, between the Company and Computershare Trust Company, N.A., as Trustee for the Convertible Notes

IRS: U.S. Internal Revenue Service

KeyBank: KeyBank National Association

KeyBank Term Facility: A $70 million secured term credit facility Pinedale LP entered into with KeyBank in December 2012 to finance a portion of our acquisition of the Pinedale LGS, which matures in December 2015 with an option to extend through December 2016.

LDCs: local distribution companies

Leeds Path West: Corridor Leads Path West, Inc., a wholly-owned subsidiary of CorEnergy

Lightfoot: collectively, Lightfoot Capital Partners, LP and Lightfoot Capital Partners GP LLC

Management Agreement: the Management Agreement effective July 1, 2013, as amended effective January 1, 2014, between the Company and Corridor

New Management Agreement: the Management Agreement effective May 8, 2015, between the Company and Corridor

MoGas: MoGas Pipeline LLC, an indirect wholly-owned subsidiary of CorEnergy

MoGas Pipeline System: an approximately 263 mile interstate natural gas pipeline system in and around St. Louis and extending into central Missouri, owned and operated by MoGas

Mowood: Mowood, LLC, an indirect wholly-owned subsidiary of CorEnergy and the holding company of Omega Pipeline Company, LLC

NAREIT: National Association of Real Estate Investment Trusts

NGA: Natural Gas Act of 1938

NGPA: Natural Gas Policy Act of 1978

OCS: the Outer Continental Shelf

Omega: Omega Pipeline Company, LLC, a wholly-owned subsidiary of Mowood, LLC

Omega Pipeline: Omega's natural gas distribution system in south central Missouri

Pinedale LGS: the Pinedale Liquids Gathering system, a system consisting of approximately 150 miles of pipelines with 107 receipt points and four above-ground central gathering facilities located in the Pinedale Anticline in Wyoming, owned by Pinedale LP and triple-net leased to a wholly-owned subsidiary of Ultra Petroleum

Pinedale Lease Agreement: the December 2012 agreement pursuant to which the Pinedale LGS assets are triple-net leased to a wholly owned subsidiary of Ultra Petroleum

Pinedale LP: Pinedale Corridor, LP

Pinedale GP: the general partner of Pinedale LP

Portland Lease Agreement: the January 2014 agreement pursuant to which the Portland Terminal Facility is triple-net leased to Arc Terminals, a wholly owned subsidiary of Arc Logistics Partners LP

Portland Terminal Facility: a petroleum products terminal located in Portland, Oregon

PNM: Public Service Company of New Mexico, a subsidiary of PNM Resources Inc. (NYSE: PNM)

PNM Lease Agreement: a triple net lease agreement for the Eastern Interconnect Project

Prudential: The Prudential Insurance Company of America

QDI: qualified dividend income

Regions Revolver: the Company’s $90 million revolving line of credit facility with Regions Bank

REIT: real estate investment trust

SEC: Securities and Exchange Commission

SWD: SWD Enterprises, LLC, a wholly-owned subsidiary of Four Wood Energy Partners, LLC

TCA: Tortoise Capital Advisors, L.L.C.

TRS: taxable REIT subsidiary

Ultra Petroleum: Ultra Petroleum Corp. (NYSE: UPL)

Ultra Wyoming: Ultra Wyoming LGS LLC, an indirect wholly-owned subsidiary of Ultra Petroleum

UPS: United Property Systems, LLC, an indirect wholly-owned subsidiary of CorEnergy

VIE: Variable Interest Entity

VantaCore: VantaCore Partners LP

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

	June 30, 2015	December 31, 2014
Assets	(Unaudited)	
Leased property, net of accumulated depreciation of $24,695,831 and $19,417,025	$517,027,594	$260,280,029
Leased property held for sale, net of accumulated depreciation of $0 and $5,878,933	—	8,247,916
Property and equipment, net of accumulated depreciation of $4,288,676 and $2,623,020	121,174,286	122,820,122
Financing notes and related accrued interest receivable, net	21,033,590	20,687,962
Other equity securities, at fair value	10,099,805	9,572,181
Cash and cash equivalents	12,440,444	7,578,164
Accounts and other receivables	8,053,108	7,793,515
Intangibles and deferred costs, net of accumulated amortization of $2,975,892 and $2,271,080	4,267,094	4,384,975
Prepaid expenses and other assets	662,898	732,110
Goodwill	1,718,868	1,718,868
Total Assets	$696,477,687	$443,815,842
Liabilities and Equity		
Current maturities of long-term debt	$3,528,000	$3,528,000
Long-term debt	173,030,500	63,532,000
Asset retirement obligation	12,152,096	—
Accounts payable and other accrued liabilities	3,789,615	3,935,307
Management fees payable	1,212,358	1,164,399
Income Tax Liability	292,214	—
Deferred tax liability	993,853	1,262,587
Line of credit	42,149,925	32,141,277
Unearned revenue	—	711,230
Total Liabilities	$237,148,561	$106,274,800
Equity		
Series A Cumulative Redeemable Preferred Stock 7.375%, $56,250,000 liquidation preference ($2,500 per share, $0.001 par value), 10,000,000 authorized; 22,500 and 0 issued and outstanding as of June 30, 2015, and December 31, 2014	$56,250,000	$—
Capital stock, non-convertible, $0.001 par value; 59,611,472 and 46,605,055 shares issued and outstanding at June 30, 2015, and December 31, 2014 (100,000,000 shares authorized)	59,611	46,605
Additional paid-in capital	376,102,899	309,950,440
Accumulated other comprehensive income	195,397	453,302
Total CorEnergy Equity	432,607,907	310,450,347
Non-controlling Interest	26,721,219	27,090,695
Total Equity	459,329,126	337,541,042
Total Liabilities and Equity	$696,477,687	$443,815,842

See accompanying Notes to Consolidated Financial Statements.

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Revenue				
Lease revenue	$6,799,879	$7,065,677	$14,135,980	$13,828,085
Sales revenue	1,665,908	1,813,607	4,007,563	5,073,137
Financing revenue	668,904	139,728	1,329,296	165,347
Transportation revenue	3,546,979	—	7,196,714	—
Total Revenue	12,681,670	9,019,012	26,669,553	19,066,569
Expenses				
Cost of sales (excluding depreciation expense)	569,958	1,384,998	1,818,288	4,092,356
Management fees	1,167,522	761,265	2,339,496	1,545,133
Acquisition expense and professional fees	416,591	286,246	1,658,546	701,591
Depreciation and amortization expense	3,495,986	3,220,253	7,544,818	6,367,231
Transportation, maintenance and general and administrative	1,076,352	—	2,067,960	—
Operating expenses	195,673	213,533	402,033	436,274
Other expenses	321,216	287,449	475,806	521,191
Total Expenses	7,243,298	6,153,744	16,306,947	13,663,776
Operating Income	$5,438,372	$2,865,268	$10,362,606	$5,402,793
Other Income (Expense)				
Net distributions and dividend income	$193,410	$5,988	$783,818	$11,044
Net realized and unrealized gain on other equity securities	43,385	2,084,026	493,183	3,378,208
Interest expense	(1,126,888)	(819,360)	(2,274,160)	(1,646,337)
Total Other Income (Expense)	(890,093)	1,270,654	(997,159)	1,742,915
Income before income taxes	4,548,279	4,135,922	9,365,447	7,145,708
Taxes				
Current tax expense	104,479	—	540,235	854,075
Deferred tax expense (benefit)	(153,342)	742,879	(268,733)	402,317
Income tax expense (benefit), net	(48,863)	742,879	271,502	1,256,392
Net Income	4,597,142	3,393,043	9,093,945	5,889,316
Less: Net Income attributable to non-controlling interest	412,004	387,135	822,179	778,249
Net Income attributable to CorEnergy Stockholders	$4,185,138	$3,005,908	$8,271,766	$5,111,067
Preferred dividend requirements	1,037,109	—	1,774,609	—
Net Income attributable to Common Stockholders	$3,148,029	$3,005,908	$6,497,157	$5,111,067
Net Income	$4,597,142	$3,393,043	$9,093,945	$5,889,316
Other comprehensive income:				
Changes in fair value of qualifying hedges attributable to CorEnergy stockholders	18,202	(270,838)	(257,905)	(341,458)
Changes in fair value of qualifying hedges attributable to non-controlling interest	4,256	(63,324)	(60,299)	(79,835)
Net Change in Other Comprehensive Income	$22,458	$(334,162)	$(318,204)	$(421,293)
Total Comprehensive Income	4,619,600	3,058,881	8,775,741	5,468,023
Less: Comprehensive income attributable to non-controlling interest	416,260	323,811	761,880	698,414

Comprehensive Income attributable to CorEnergy Stockholders	$4,203,340	$2,735,070	$8,013,861	$4,769,609
Earnings Per Common Share:				
Basic	$0.07	$0.10	$0.14	$0.17
Diluted	$0.06	$0.10	$0.14	$0.17
Weighted Average Shares of Common Stock Outstanding:				
Basic	47,618,765	31,637,568	47,118,789	30,810,060
Diluted	49,317,067	31,637,568	47,972,632	30,810,060
Dividends declared per share	$0.135	$0.129	$0.265	$0.254

See accompanying Notes to Consolidated Financial Statements.

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CorEnergy Infrastructure Trust, Inc.
CONSOLIDATED STATEMENTS OF EQUITY

	Capital Stock		Preferred Stock			Accumulated			
	Shares	Amount	Amount	Warrants	Additional Paid-in Capital	Other Comprehensive Income	Retained Earnings	Non-Controlling Interest	Tota
Balance at December 31, 2013	24,156,163	$24,156	$—	$1,370,700	$173,441,019	$777,403	$1,580,062	$28,348,030	$205
Net Income	—	—	—	—	—	—	7,013,856	1,556,157	8,57
Net change in cash flow hedges	—	—	—	—	—	(324,101)	—	(75,780)	(399
Total comprehensive income	—	—	—	—	—	(324,101)	7,013,856	1,480,377	8,17
Net offering proceeds from issuance of common stock	22,425,000	22,425	—	—	141,702,803	—	—	—	141,
Dividends	—	—	—	—	(6,734,166)	—	(8,593,918)	—	(15,3
Common stock issued under director's compensation plan	4,027	4	—	—	29,996	—	—	—	30,0
Distributions to Non-controlling interest	—	—	—	—	—	—	—	(2,737,712)	(2,73
Reinvestment of dividends paid to stockholders	19,865	20	—	—	140,088	—	—	—	140,
Warrant expiration	—	—	—	(1,370,700)	1,370,700	—	—	—	—
Balance at December 31, 2014	46,605,055	46,605	—	—	309,950,440	453,302	—	27,090,695	337,
Net income	—	—	—	—	—	—	8,271,766	822,179	9,09
Net change in cash flow hedges	—	—	—	—	—	(257,905)	—	(60,299)	(318
Total comprehensive income	—	—	—	—	—	(257,905)	8,271,766	761,880	8,77
Issuance of Series A cumulative redeemable preferred stock,	—	—	56,250,000	—	(2,039,524)	—	—	—	54,2

7.375% - redemption value									
Net offering proceeds from issuance of common stock	12,937,500	12,938	—	—	73,242,135	—	—	—	73,2
Series A preferred stock dividends	—	—	—	—	—	—	(1,428,906)	—	(1,42
Common stock dividends	—	—	—	—	(5,510,616)	—	(6,842,860)	—	(12,3
Common stock issued under director's compensation plan	8,794	8	—	—	59,992	—	—	—	60,0
Distributions to Non-controlling interest	—	—	—	—	—	—	—	(1,131,356)	(1,13
Reinvestment of dividends paid to common stockholders	60,123	60	—	—	400,472	—	—	—	400,
Balance at June 30, 2015 (Unaudited)	59,611,472	$59,611	$56,250,000	$—	$376,102,899	$195,397	$—	$26,721,219	$459

See accompanying Notes to Consolidated Financial Statements.

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

	For the Six Months Ended	
	June 30, 2015	June 30, 2014
Operating Activities		
Net Income	$9,093,945	$5,889,316
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax, net	(268,734)	402,318
Depreciation and amortization	8,216,190	6,802,882
Net distributions and dividend income, including recharacterization of income	(371,323)	—
Net realized and unrealized gain on other equity securities	(493,183)	(3,378,208)
Unrealized gain on derivative contract	(34,529)	(34,932)
Common stock issued under directors compensation plan	60,000	—
Changes in assets and liabilities:		
Decrease in accounts and other receivables	22,280	563,997
Increase in financing note accrued interest receivable	(342,874)	—
Increase in prepaid expenses and other assets	(198,215)	(94,053)
Increase in management fee payable	47,959	—
Decrease in accounts payable and other accrued liabilities	(702,221)	(366,777)
Increase in current income tax liability	292,214	421,887
Increase (decrease) in unearned revenue	(711,230)	2,133,686
Net cash provided by operating activities	$14,610,279	$12,340,116
Investing Activities		
Proceeds from sale of leased property held for sale	7,678,246	—
Acquisition expenditures	(249,925,974)	(43,536,044)
Purchases of property and equipment	(19,820)	—
Increase in financing notes receivable	(39,248)	(4,299,356)
Return of capital on distributions received	55,009	832,744
Net cash used in investing activities	$(242,251,787)	$(47,002,656)
Financing Activities		
Debt financing costs	(132,041)	(220,000)
Net offering proceeds on Series A preferred stock	54,210,476	—
Net offering proceeds on common stock	73,431,411	45,624,563
Net offering proceeds on convertible debt	111,262,500	—
Dividends paid on Series A preferred stock	(1,428,906)	—
Dividends paid on common stock	(11,952,944)	(7,039,176)
Distributions to non-controlling interest	(1,131,356)	(1,421,562)
Advances on revolving line of credit	45,072,666	2,535,671
Payments on revolving line of credit	(35,064,018)	(2,617,606)
Principal payments on credit facility	(1,764,000)	(1,176,000)
Net cash provided by financing activities	$232,503,788	$35,685,890
Net Change in Cash and Cash Equivalents	$4,862,280	$1,023,350
Cash and Cash Equivalents at beginning of period	7,578,164	17,963,266
Cash and Cash Equivalents at end of period	$12,440,444	$18,986,616

Supplemental information continued on next page.
See accompanying Notes to Consolidated Financial Statements.

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CorEnergy Infrastructure Trust, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
Continued from previous page.

	For the Six Months Ended	
	June 30, 2015	June 30, 2014
Supplemental Disclosure of Cash Flow Information		
Interest paid	$1,734,846	$1,399,619
Income taxes paid (net of refunds)	$(2,999)	$432,187
Non-Cash Operating Activities		
Change in accounts payable and accrued expenses related to prepaid assets and other expense	$16,248	$—
Non-Cash Investing Activities		
Change in accounts payable and accrued expenses related to intangibles and deferred costs	$297,831	$—
Change in accounts payable and accrued expenses related to acquisition expenditures	$(51,699)	$627,970
Change in accounts payable and accrued expenses related to issuance of financing and other notes receivable	$(39,248)	$—
Non-Cash Financing Activities		
Change in accounts payable and accrued expenses related to the issuance of common equity	$176,338	$—
Change in accounts payable and accrued expenses related to debt financing costs	$157,059	$(220,000)
Reinvestment of distributions by common stockholders in additional common shares	$400,532	$61,329

See accompanying Notes to Consolidated Financial Statements.

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CorEnergy Infrastructure Trust, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
June 30, 2015

1. INTRODUCTION AND BASIS OF PRESENTATION

Introduction

CorEnergy Infrastructure Trust, Inc. ("CorEnergy"), was organized as a Maryland corporation and commenced operations on December 8, 2005. The Company's common shares are listed on the New York Stock Exchange under the symbol “CORR.” As used in this report, the terms "we", "us", "our" and the "Company" refer to CorEnergy and its subsidiaries.

We are primarily focused on acquiring and financing midstream and downstream real estate assets within the U.S. energy infrastructure sector and concurrently entering into long-term triple-net participating leases with energy companies. We also may provide other types of capital, including loans secured by energy infrastructure assets. Targeted assets include pipelines, storage tanks, transmission lines and gathering systems, among others. These sale-leaseback or real property mortgage transactions provide the energy company with a source of capital that is an alternative to sources such as corporate borrowing, bond offerings, or equity offerings. Many of our leases contain participation features in the financial performance or value of the underlying infrastructure real property asset. The triple-net lease structure requires that the tenant pay all operating expenses of the business conducted by the tenant, including real estate taxes, insurance, utilities, and expenses of maintaining the asset in good working order.

Taxable REIT subsidiaries hold our securities portfolio, operating businesses and certain financing notes receivable as follows:

- Corridor Public Holdings, Inc. and its wholly-owned subsidiary Corridor Private Holdings, Inc, hold our securities portfolio.
- Mowood Corridor, Inc. and its wholly-owned subsidiary, Mowood, LLC, which is the holding company for one of our operating companies, Omega Pipeline Company, LLC.
- Corridor MoGas, Inc. holds two other operating companies, MoGas Pipeline, LLC ("MoGas") and United Property Systems, LLC.
- CorEnergy BBWS, Inc., Corridor Private and Corridor Leeds Path West, Inc. hold financing notes receivable.

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements include our accounts and the accounts of our wholly owned subsidiaries and have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) 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 periods presented. There were no adjustments that, in the opinion of management, were not of a normal and recurring nature. All intercompany transactions and balances have been eliminated in consolidation, and our net earnings are reduced by the portion of net earnings attributable to noncontrolling interests.

The Company consolidates certain entities when it is deemed to be the primary beneficiary in a variable interest entity ("VIE"), as defined in FASB ASC Topic on Consolidation. The Topic on Consolidation requires the consolidation of VIEs in which an enterprise has a controlling financial interest. The equity method of accounting is applied to entities in which the Company is not the primary beneficiary as defined in the Consolidation Topic of FASB ASC, or does not have effective control, but can exercise influence over the entity with respect to its operations and major decisions. This topic requires an ongoing reassessment.

Operating results for the six months ended June 30, 2015, are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. 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 December 31, 2014, filed with the SEC on March 16, 2015.

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.

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2. SIGNIFICANT ACCOUNTING POLICIES

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

B. Leased Property – The Company includes assets subject to lease arrangements within Leased property, net of accumulated depreciation, in the Consolidated Balance Sheets. Lease payments received are reflected in Lease revenue on the Consolidated Statements of Income, net of amortization of any off-market adjustments. Costs in connection with the creation and execution of a lease are capitalized and amortized over the lease term. See Note 3 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 – 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 purchase price plus any direct acquisition costs, unless the transaction is accounted for as a business combination, in which case the acquisition costs are expensed as incurred. 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. See Note 5 for further information.

E. Intangibles and Goodwill – 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 and goodwill, 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.

Goodwill represents the excess of the purchase price paid over the estimated fair value of the net assets acquired in a business combination. Refer to Note 5 for further details. The company will review goodwill for impairment at least annually or whenever events or circumstances indicate the carrying value of an asset may not be recoverable. If the carrying amount of goodwill exceeds its implied fair value, an impairment loss would be recognized for the amount of the excess. No impairment write-downs were recognized during the six months ended June 30, 2015 and 2014.

F. Earnings Per Share – Basic earnings per share ("EPS") is computed using the weighted average number of common shares outstanding during the period. Diluted EPS is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period except for periods of net loss for which no common share equivalents are included because their effect would be anti-dilutive. Dilutive common equivalent shares consist of shares issuable upon conversion of the convertible notes calculated using the if-converted method. See paragraph (N) below.

G. Investment Securities – The Company's investments in securities are classified as other equity securities and represent interests in private companies which the Company has elected to report at fair value under the fair value option.

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.

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

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

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

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

- The independent valuation firm prepares the valuations and the supporting analysis.
- The valuation report is reviewed and approved by senior management.
- The Audit Committee of the Board of Directors reviews the supporting analysis and accepts the valuations.

H. Financing Notes Receivable – Financing notes receivable are presented at face value plus accrued interest receivable and deferred loan origination costs and net of related direct loan origination fees. The Company reviews its financing notes receivable to determine if the balances are realizable based on factors affecting the collectibility of those balances. Factors may include credit quality, timeliness of required periodic payments, past due status and management discussions with obligors. The Company evaluates the collectibility of both interest and principal of each of its loans to determine whether it is impaired. A loan is considered to be impaired when based on current information and events, the Company determines that it is probable that it will be unable to collect all amounts due according to the existing contractual terms. An insignificant delay or shortfall in amounts of payments does not necessarily result in the loan being identified as impaired. If the Company does determine impairment exists, the amount deemed uncollectible is expensed in the period of determination. The financing notes receivable are discussed more fully in Note 6.

I. Lease Receivable – Lease receivables are determined according to the terms of the lease agreements entered into by the Company and its lessees, as discussed within Note 4. Lease receivables may also represent timing differences between straight-line revenue recognition and contractual lease receipts. Lease payments by our tenants have remained timely and without lapse.

J. 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, 2015, and December 31, 2014, the Company determined that an allowance for doubtful accounts was not necessary.

K. 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.

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

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

ASC 820 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).
Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.
M. Asset Retirement Obligations – In accordance with ASC 410-20, Asset Retirement Obligations, we recognized an asset retirement obligation (ARO) in conjunction with the acquisition of the GIGS. This obligation existed prior to the purchase of the GIGS asset and we stepped into the seller's responsibility. The liability was initially measured at fair value using a discounted cash flow model, and will be subsequently adjusted for accretion expense and changes in the amount or timing of the estimated cash flows. A corresponding asset retirement cost has been capitalized as part of the

carrying amount of the related long-lived assets and will be amortized over the asset's remaining useful life. The useful lives of most pipeline gathering systems are primarily derived from available supply resources and ultimate consumption of those resources by end users. Indeterminate asset retirement obligation costs will be recognized in the period in which sufficient information exists to reasonably estimate potential settlement dates and methods.

N. Convertible Debt – In accordance with ASC 470, Debt ("ASC 470") the company records its Convertible Senior Notes at the aggregate principal amount, less discount. We are amortizing the debt discount over the life of the convertible notes as additional non-cash interest expense utilizing the effective interest method. Refer to Note 15 for additional information.

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

- Lease revenue – Base rent 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. Contingent rent is recognized when it is earned, based on the achievement of specified performance criteria. Rental payments received in advance are classified as unearned revenue and included as a liability within the Consolidated Balance Sheets. Unearned revenue is amortized ratably over the lease period as revenue recognition criteria are met. Rental payments received in arrears are accrued and classified as Lease Receivable and included in assets within the Consolidated Balance Sheets.
- Sales revenue – Revenues related to natural gas distribution and performance of management services are recognized in accordance with GAAP upon delivery of natural gas and upon the substantial performance of management and supervision services related to the expansion of the natural gas distribution system. Omega, acting as a principal, provides for transportation services and natural gas supply for its customers. 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.
- Transportation revenue – MoGas generates revenue from natural gas transportation and recognizes that revenue on firm contracted capacity over the contract period regardless of whether the contracted capacity is used. For interruptible or volumetric based transportation, revenue is recognized when physical deliveries of natural gas are made at the delivery point agreed upon by both parties.
- Financing revenue – Our financing notes receivable are considered a core product offering and therefore the related income is presented as a component of operating income in the revenue section. For increasing rate loans, base interest income is recorded ratably over the life of the loan, using the effective interest rate. The net amount of deferred loan origination fees and costs are amortized on a straight-line basis over the life of the loan and reported as an adjustment to yield in financing revenue. Participating financing revenues are recorded when specific performance criteria have been met.

P. 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 Omega natural gas distribution system.

Q. Transportation, maintenance and general and administrative – These expenses are incurred both internally and externally. The internal expenses relate to system control, pipeline operations, maintenance, insurance and taxes. Other internal expenses include payroll cost for employees associated with gas control, field employees, the office manager and the vice presidents of operations and finance. The external costs consist of professional services such as audit and accounting, legal and regulatory and engineering.

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

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

T. Debt Issuance Costs – Costs incurred for the issuance of new debt are capitalized and amortized into interest expense over the debt term. See Note 14 for further discussion.

U. Distributions to Stockholders – Distributions to both common and preferred stockholders are determined by the Board of Directors. Distributions to common stockholders are recorded on the ex-dividend date and distributions to preferred stockholders are recorded when declared by the Board of Directors.

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

- Net distributions and dividend income from investments – Distributions and dividends from investments are recorded on their ex-dates and are reflected as other income within the accompanying Consolidated Statements of Income. Distributions received from the Company's investments are generally characterized as ordinary income, capital gains and distributions received from investment securities. The portion characterized as return of capital is paid by our investees from their cash flow from operations. The Company records investment income, capital gains and distributions received from investment securities based on estimates made at the time such distributions are received. Such estimates are based on information available from each company and other industry sources. These estimates may subsequently be revised based on information received from the entities after their tax reporting periods are concluded, as the actual character of these distributions is not known until after the fiscal year end of the Company.
- Net realized and unrealized gain (loss) from investments – Securities transactions are accounted for on the date the securities are purchased or sold. Realized gains and losses are reported on an identified cost basis. 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 the portfolio company and other industry sources. These estimates may subsequently be revised based on information received from the portfolio company after their tax reporting periods are concluded, as the actual character of these distributions are not known until after our fiscal year end.

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

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

The Company's trading securities and other equity securities are limited partnerships or limited liability companies which are treated as partnerships for federal and state income tax purposes. As a limited partner, the Company reports its allocable share of taxable income in computing its own taxable income. To the extent held by a TRS, the TRS'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. It is expected that for the six months ended June 30, 2015, and future periods, any deferred tax liability or asset generated will be related entirely to the assets and activities of the Company's TRSs.

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

X. Recent Accounting Pronouncements – In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-08 "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." Under this guidance, only disposals representing a strategic shift in operations would be presented as discontinued operations. This guidance requires expanded disclosure that provides information about the assets, liabilities, income and expenses of discontinued operations. Additionally, the guidance requires additional disclosure for a disposal of a significant part of an entity that does not qualify for discontinued operations reporting. This guidance will be effective for reporting periods beginning on or after December 15, 2014 with early adoption permitted for disposals or classifications of assets as held-for-sale that have not been reported in financial statements previously issued or available for issuance. It is expected that fewer disposal transactions will meet the new criteria to be reported as discontinued operations. The Company elected early adoption of the standard and the effects of applying the revised guidance did not have a material effect on the consolidated financial statements and related disclosures. Refer to Note 3 for further information.

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In May 2014, the FASB issued ASU No. 2014-09 "Revenue from Contracts with Customers." ASU No. 2014-09 adds to the FASB ASC by detailing new guidance in order to make a more clarified set of principles for recognizing revenue from customer contracts. In July 2015, the FASB provided for a one-year deferral of the effective date for ASU 2014-09 (though the FASB has not issued the new ASU revising the effective date). Upon that issuance, ASU 2014-09 would be effective for us beginning January 1, 2018. We are continuing to evaluate this guidance, however, we do not expect its adoption to have a significant impact on our consolidated financial statements, as a substantial portion of our revenue consists of rental income from leasing arrangements, which are specifically excluded from ASU 2014-09.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (“ASU No. 2014-15”) that will require management to evaluate whether there are conditions and events that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the financial statements are issued on both an interim and annual basis. Management will be required to provide certain footnote disclosures if it concludes that substantial doubt exists or when its plans alleviate substantial doubt about the Company’s ability to continue as a going concern. ASU No. 2014-15 becomes effective for annual periods beginning in 2016 and for interim reporting periods starting in the first quarter of 2017. The Company does not expect the adoption of this amendment to have a material impact on its consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02 "Consolidation (Topic 810), Amendments to the Consolidation Analysis." ASU 2015-02 is aimed at asset managers, however, it will also have an effect on all reporting entities that have variable interests in other legal entities. In some cases, consolidation conclusions will change. In other cases, reporting entities will need to provide additional disclosures about entities that currently aren't considered variable interest entities but will be considered VIE's under the new guidance if they have a variable interest in those entities. At the very least, reporting entities will need to re-evaluate their consideration conclusions and potentially revise their documentation. For public companies, ASU No. 2015-02 is effective for annual periods beginning after December 15, 2015 and interim periods within those years using either a retrospective or a modified retrospective approach. Early adoption is permitted. Management is in the process of evaluating this amendment and does not expect adoption to have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03 "Interest-Imputation of Interest" to simplify presentation of debt issuance costs. The amendments in this update require debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU No. 2015-03 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Management is still in the process of evaluating this amendment, however, does not expect adoption to have a material impact on the Company's consolidated financial statements.

3. LEASED PROPERTIES

Grand Isle Gathering System

On June 23, 2015, we (i) completed a follow-on equity offering of 12,937,500 shares of common stock that generated $73.5 million in proceeds net of underwriting discounts, (ii) completed a new issue of convertible debt in an underwritten public offering that generated $111.3 million in proceeds net of underwriting discounts, and (iii) drew approximately $42 million under our existing Senior Credit Facility. Concurrently, our subsidiary, Grand Isle Corridor, LP ("Grand Isle Corridor"), used the net proceeds from the offerings and the advance under our Senior Credit Facility to close on a Purchase and Sale Agreement to acquire the Grand Isle Gathering System (the "GIGS"), a subsea, midstream pipeline system in the Gulf of Mexico from a subsidiary of Energy XXI Ltd ("EXXI") for $245 million, the assumption of asset retirement obligation liabilities of approximately $12.2 million, asset acquisition costs of approximately $1.9 million and deferred lease costs of approximately $298 thousand, for a total consideration of $259.3 million. Grand Isle Corridor, LP also entered into a long-term triple-net lease agreement relating to the use of the GIGS with Energy XXI GIGS Services, LLC, a wholly owned operating subsidiary of EXXI.

Physical Assets

The GIGS includes 153 miles of offshore pipeline in the Gulf of Mexico that connects to seven producing fields, six of which are operated by EXXI and one by ExxonMobil, and includes a 16-acre onshore terminal and saltwater disposal system consisting of four storage tanks, a saltwater disposal facility with three injection wells, and associated pipelines, land, buildings and facilities. Of the seven oil fields that connect to the Grand Isle Gathering System, four are among the top 15 producing oil fields in the Gulf of Mexico shelf as ranked by total cumulative oil production to date—the West Delta 30, West Delta 73, Grand Isle 16/22 and South Pass 89. As of March 31, 2015, the Grand Isle Gathering System transported approximately 60,000 Bbls/d (18,000 oil and 42,000 water) with total capacity of 120,000 Bbls/d. Five other shippers utilize the GIGS for transportation of oil to onshore sales points and transportation of produced water for disposal onshore.

The asset will be depreciated for book purposes over an estimated useful life of 30 years.
See Note 4 for further information regarding the Grand Isle Lease Agreement (as defined therein).
Pinedale LGS
Our subsidiary, Pinedale Corridor, LP ("Pinedale LP"), owns a system of gathering, storage, and pipeline facilities (the "Pinedale LGS"), with associated real property rights in the Pinedale Anticline in Wyoming.
Physical Assets
The Pinedale LGS consists of more than 150 miles of pipelines with 107 receipt points and four above-ground central gathering facilities. The system is leased to and used by Ultra Petroleum Corp. ("Ultra Petroleum") as a method of separating water, condensate and associated flash gas from a unified stream and subsequently selling or treating and disposing of the separated products. Prior to entering the Pinedale LGS, a commingled hydrocarbon stream is separated into wellhead natural gas and a liquids stream. The wellhead natural gas is transported to market by a third party. The remaining liquids, primarily water, are transported by the Pinedale LGS to one of its four central gathering facilities where they pass through a three-phase separator which separates condensate, water and associated natural gas. Condensate is a valuable hydrocarbon commodity that is sold by Ultra Petroleum; water is transported to disposal wells or a treatment facility for re-use; and the natural gas is sold or otherwise used by Ultra Petroleum for fueling on-site operational equipment.
The asset is depreciated for book purposes over an estimated useful life of 26 years. The amount of depreciation recognized for the leased property for each of the three-month periods ended June 30, 2015 and 2014, was $2.2 million, and for each of the six-month periods ended June 30, 2015 and 2014, was $4.3 million.
See Note 4 for further information regarding the Pinedale Lease Agreement (as defined therein).
Non-Controlling Interest Partner
Prudential Financial, Inc. ("Prudential") funded a portion of the Pinedale LGS acquisition and, as a limited partner, holds 18.95 percent of the economic interest in Pinedale LP. The general partner, Pinedale GP, holds the remaining 81.05 percent of the economic interest.
Debt
Pinedale LP borrowed $70 million pursuant to a secured term credit facility with KeyBank National Association serving as a lender and the administrative agent on behalf of other lenders participating in the credit facility ("KeyBank Term 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 Pinedale LGS. See Note 14 for further information regarding the credit facility.
Portland Terminal Facility
The Portland Terminal Facility is a rail and marine facility adjacent to the Willamette River in Portland, Oregon which is triple-net leased to Arc Terminals Holdings LLC ("Arc Terminals"), an indirect wholly-owned subsidiary of Arc Logistics Partners LP ("Arc Logistics"). The 39-acre site has 84 tanks with a total storage capacity of approximately 1.5 million barrels. The Portland Terminal Facility is capable of receiving, storing and delivering crude oil and refined petroleum products. Products are received and delivered via railroad or marine (up to Panamax size vessels). The marine facilities are accessed through a neighboring terminal facility via an owned pipeline. The Portland Terminal Facility offers heating systems, emulsions and an on-site product testing laboratory as ancillary services.
At the acquisition date we anticipated funding an additional $10 million of terminal-related improvement projects in support of Arc Terminals’ commercial strategy to optimize the Portland Terminal Facility and generate stable cash flows, including: i) upgrade a portion of the existing storage assets; ii) enhance existing terminal infrastructure; and iii) develop, design, engineer and construct throughput expansion opportunities. As of June 30, 2015, additional spending on terminal-related projects totaled approximately $8.8 million.
The asset is depreciated for book purposes over an estimated useful life of 30 years. The amount of depreciation recognized for the leased property for the three months ended June 30, 2015 and 2014, was $422 thousand and $347 thousand, respectively, and for the six months ended June 30, 2015 and 2014, was $829 thousand and $621 thousand, respectively.
See Note 4 for further information regarding the Portland Lease Agreement related to the Portland Terminal Facility assets.

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LEASED PROPERTY HELD FOR SALE
Eastern Interconnect Project (EIP)
Physical Assets
On November 1, 2012, the Company entered into a definitive Purchase Agreement with PNM to sell the Company’s 40 percent undivided interest in the EIP upon termination of the PNM Lease Agreement on April 1, 2015. Upon termination, the Company received $7.7 million for its undivided interest, resulting in no gain or loss being recorded during the three-month period ended June 30, 2015. For further information regarding the Purchase Agreement with PNM and the PNM Lease Agreement related to the EIP transmission assets, see Note 4.
The EIP transmission assets are utilized by the lessee to move electricity across New Mexico between Albuquerque and Clovis. The physical assets include 216 miles of 345 kilovolt (unaudited) 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 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 on April 1, 2015.
The amount of depreciation expense related to the EIP leased property for the three months ended June 30, 2015 and 2014, was $0 and $570 thousand, respectively, and for the six months ended June 30, 2015 and 2014, was $570 thousand and $1.1 million, respectively.
EIP Leased Property Held for Sale consists of the following:
EIP Leased Property Held for Sale

	June 30, 2015	December 31, 2014	
Leased asset	$—	$14,126,849	
Less: accumulated depreciation	—	(5,878,933	)
Net leased asset held for sale	$—	$8,247,916	

4. LEASES
As of June 30, 2015, the Company had three significant leases. The table below displays the impact of the Company's most significant leases on total leased properties and total lease revenues for the periods presented.

	As a Percentage of Leased Properties		Lease Revenues			
	As of	As of	For the Three Months Ended		For the Six Months Ended	
	June 30, 2015	December 31, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Pinedale LGS	40.26%	79.17%	75.90%	71.85%	73.02%	73.42%
Grand Isle Gathering System (1)	50.10%	—	—	—	—	—
Portland Terminal Facility	9.37%	17.24%	23.82%	19.12%	22.19%	17.35%
Public Service of New Mexico (2)	—	3.07%	—	9.03%	4.52%	9.23%

(1) The Grand Isle Gathering System acquisition closed on June 30, 2015, with the first monthly rental payment due July 1, 2015. Although the asset has been included in Leased Properties, no rental income has been included for the period.
(2) The Public Service of New Mexico lease terminated on April 1, 2015. See additional discussion of the PNM lease under the heading Lease of Property Held for Sale, below.

Grand Isle Gathering System
Grand Isle Corridor, LP entered into a long-term triple-net lease agreement on June 30, 2015, relating to the use of the GIGS (the “Grand Isle Lease Agreement”) with Energy XXI GIGS Services, LLC (the "EXXI Tenant"). The Grand Isle Lease Agreement has an initial eleven-year term and may be extended for one additional term equal to the lesser of nine years or 75 percent of the expected remaining useful life of the GIGS. The EXXI Tenant’s obligations under the

lease agreement are guaranteed by EXXI, and CorEnergy guarantees the obligations of Grand Isle Corridor. During the initial term, the EXXI Tenant will make variable minimum monthly rental payments that are initially $2.6 million in year one, increase to a maximum of $4.2 million in year seven and decline to $3.5 million in year eleven. In addition, the EXXI Tenant will pay variable rent payments based on a ten percent participation above a pre-defined threshold, which will be calculated monthly on the volumes of EXXI oil that flow through the

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GIGS, multiplied by the average daily closing price of crude oil for the applicable calendar month. Variable rent will be capped at 39 percent of the total rent for each month. Tangible assets, excluding land, will be depreciated over the 30-year depreciable life of the leased property with associated depreciation expense expected to be approximately $8.6 million annually beginning July 1, 2015.

As of June 30, 2015, and December 31, 2014, approximately $298 thousand and $0, respectively, of net deferred lease costs related to the GIGS are included in the accompanying Consolidated Balance Sheets. The deferred costs are amortized over the 11-year life of the Grand Isle Lease Agreement. For each of the three and six months ended June 30, 2015 and 2014, $0 is included in amortization expense within the Consolidated Statements of Income.

In view of the fact that EXXI 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 Company's results of operations going forward.

EXXI is currently subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, 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 EXXI can be found on the SEC's website at www.sec.gov. The Company makes no representation as to the accuracy or completeness of the audited and unaudited financial statements of EXXI, but has no reason to doubt the accuracy or completeness of such information. In addition, EXXI 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.

Pinedale LGS

Pinedale LP entered into a long-term triple-net lease agreement on December 20, 2012, relating to the use of the Pinedale LGS (the “Pinedale Lease Agreement”) with Ultra Wyoming LGS, LLC (“Ultra Wyoming”), an indirect wholly-owned subsidiary of Ultra Petroleum. The Pinedale Lease Agreement has a fifteen year initial term and may be extended for additional five-year terms at the sole discretion of Ultra Wyoming. Ultra Wyoming utilizes the Pinedale LGS to gather and transport a commingled stream of oil, natural gas and water, then further utilizes the Pinedale LGS to separate this stream into its separate components. Ultra Wyoming's obligations under the Pinedale Lease Agreement are guaranteed by Ultra Petroleum and Ultra Petroleum's operating subsidiary, Ultra Resources, Inc. (“Ultra Resources”), pursuant to the terms of a related parent guaranty. Annual rent for the initial term under the Pinedale Lease Agreement is a minimum of $20 million (as adjusted annually for changes based on the Consumer Price Index (“CPI”), subject to annual maximum adjustments of 2 percent). Additionally, the Pinedale Lease Agreement has a variable rent component based on the volume of liquid hydrocarbons and water that flowed through the Pinedale LGS in a prior month, subject to Pinedale LP not being in default under the Pinedale Lease Agreement. For 2015, the quarterly rent increased by $85 thousand to $5.2 million based on the CPI adjustment as specified in the lease terms. Total annual rent may not exceed $27.5 million during the initial fifteen-year term.

As of June 30, 2015, and December 31, 2014, approximately $699 thousand and $727 thousand , respectively, of net deferred lease costs are included in the accompanying Consolidated Balance Sheets. The deferred costs are amortized over the 15-year life of the Pinedale Lease Agreement. For each of the three months ended June 30, 2015 and 2014, $14 thousand and for each of the six-month periods ended June 30, 2015 and 2014, $28 thousand is included in amortization expense within the Consolidated Statements of Income.

The assets comprising the Pinedale LGS include real property and land rights to which the purchase consideration was allocated based on relative fair values and equaled $122.3 million and $105.7 million, respectively, at the time of acquisition. Beginning in December 2012, the real property and land rights are being depreciated over the 26-year life of the related land lease. 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 Company's results of operation going forward.

Ultra Petroleum is currently subject to the reporting requirements Exchange Act and is required to file with the SEC annual reports containing audited financial statements and quarterly reports containing unaudited financial statements.

The audited financial statements and unaudited financial statements of Ultra Petroleum can be found on the SEC's website at www.sec.gov (NYSE: UPL). The Company makes no representation as to the accuracy or completeness of the audited and unaudited financial statements of Ultra Petroleum, but has no reason to doubt the accuracy or completeness of such information. In addition, Ultra Petroleum has no duty, contractual or otherwise, to advise the Company of any events that might have occurred subsequent to the date of such financial statements which could affect the significance or accuracy of such information.

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Portland Terminal Facility
LCP Oregon entered into the Portland Lease Agreement on January 21, 2014. Arc Logistics has guaranteed the obligations of Arc Terminals under the Portland Lease Agreement. The Portland Lease Agreement grants Arc Terminals substantially all authority to operate the Portland Terminal Facility. During the initial fifteen-year term, Arc Terminals will make base monthly rental payments as well as variable rent payments based on the volume of liquid hydrocarbons that flowed through the Portland Terminal Facility in the prior month in excess of a designated threshold of 12,500 barrels per day of oil equivalent. Variable rent is capped at 30 percent of total rent each month, which would be the equivalent of the Portland Terminal Facility's expected throughput capacity.
Base rent as of June 30, 2015, had increased to $500 thousand per month due to approximately $8.8 million in completed construction projects at the Portland Terminal Facility. Total planned construction was estimated at inception to be $10 million (unaudited). During the three and six months ended June 30, 2015, $229 thousand and $402 thousand, respectively, in incremental base rent was received due to construction completed as of the current quarter end.
Arc Logistics is a fee-based, growth-oriented Delaware limited partnership formed by Lightfoot Capital Partners, LP and Lightfoot Capital Partners GP LLC, collectively, ("Lightfoot") to own, operate, develop and acquire a diversified portfolio of complementary energy logistics assets. Arc Logistics' public disclosures filed with the SEC indicate that Arc Logistics is principally engaged in the terminaling, storage, throughput and transloading of crude oil and petroleum products with energy logistics assets strategically located in the East Coast, Gulf Coast and Midwest regions of the U.S. Arc Terminals is a wholly-owned subsidiary of Arc Logistics.
Arc Logistics is currently subject to the reporting requirements of the Exchange Act and is required to file with the SEC annual reports containing audited financial statements and quarterly reports containing unaudited financial statements. The audited financial statements and unaudited financial statements of Arc Logistics can be found on the SEC's web site at www.sec.gov (NYSE: ARC). The Company makes no representation as to the accuracy or completeness of the audited and unaudited financial statements of Arc Logistics but has no reason to doubt the accuracy or completeness of such information. In addition, Arc Logistics has no duty, contractual or otherwise, to advise the Company of any events that might have occurred subsequent to the date of such financial statements which could affect the significance or accuracy of such information. None of the information in the public reports of Arc Logistics that are filed with the SEC is incorporated by reference into, or in any way form, a part of this filing.
The future contracted minimum rental receipts for all net leases as of June 30, 2015, are as follows:

Future Minimum Lease Receipts

Years Ending December 31,	Amount
2015	$29,088,822
2016	59,382,645
2017	60,758,145
2018	60,966,145
2019	63,292,115
Thereafter	520,734,682
Total	$794,222,554

Lease of Property Held for Sale
Public Service Company of New Mexico ("PNM")
The EIP leased asset held for sale was 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 (unaudited) in New Mexico. PNM is a subsidiary of PNM Resources Inc. (NYSE: PNM) ("PNM Resources").
At the time of acquisition, the lease payments under the PNM Lease Agreement were 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 was amortized as a reduction to lease revenue over the lease term. See Note 13 below for further details of the intangible asset.
On November 1, 2012, the Company entered into a definitive Purchase Agreement with PNM to sell the Company's 40 percent undivided interest in the EIP upon termination of the PNM Lease Agreement on April 1, 2015, for $7.7

million. Upon execution of the Agreement, the schedule of the lease payments under the PNM Lease Agreement was changed so that the last scheduled semi-annual lease payment was received by the Company on October 1, 2012. Additionally, PNM's remaining basic lease payments

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due to the Company were accelerated. The semi-annual payments of approximately $1.4 million that were originally scheduled to be paid on April 1, and October 1, 2013, were received by the Company on November 1, 2012. The three remaining lease payments due April 1, 2014, October 1, 2014, and April 1, 2015, were paid in full on January 2, 2014. For the three months ended June 30, 2015 and 2014, revenue of $0 and $638 thousand, respectively, and for the six months ended June 30, 2015 and 2014, revenue of $638 thousand and $1.3 million, respectively, is included in lease revenue within the Consolidated Statements of Income.

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

5. MOGAS TRANSACTION

On November 24, 2014, our wholly owned taxable REIT subsidiary, Corridor MoGas, executed a Purchase Agreement (the “MoGas Purchase Agreement”) with Mogas Energy, LLC (“Seller”) to acquire all of the equity interests of two entities, MoGas Pipeline, LLC ("MoGas") and United Property Systems, LLC ("UPS") (collectively, the "MoGas Transaction"). MoGas is the owner and operator of an approximately 263 mile interstate natural gas pipeline system in and around St. Louis and extending into central Missouri. The pipeline system, regulated by FERC, delivers natural gas to both investor-owned and municipal local distribution systems and has eight firm transportation customers. The pipeline system receives natural gas at three receipt points and delivers that natural gas at 22 delivery points. UPS owns 10.28 acres of real property that includes office and storage space which is leased to MoGas. A portion of that land is also leased to an operator of a small cement plant owned by a third party. The combined purchase price of MoGas and UPS was $125 million, funded by a combination of equity proceeds and revolving credit facility, as further discussed in Note 14 to these Consolidated Financial Statements.

On November 17, 2014, the Company completed a follow-on equity offering of 14,950,000 shares of common stock, raising approximately $102 million in gross proceeds at $6.80 per share (net proceeds of approximately $96 million after underwriters' discount). Then on November 24, 2014, the Company borrowed $32 million (net proceeds of approximately $29 million after $3 million in fees). The total cash proceeds of $125 million were then used to capitalize Corridor MoGas, $90 million of which was in the form of a term note, who then concurrently used the cash to fund the purchase price to the Seller, $7 million of which, was placed in an indemnity escrow account. The Purchase Agreement describes the circumstances under which escrowed funds are to be released and the party to receive such released funds. Currently the Company has no reason to believe that any of the funds in escrow will be returned.

The Company is accounting for the acquisition under the acquisition method in accordance with ASC 805, Business Combinations (“ASC 805”), and the initial accounting for this business combination is final and complete. The Company's assessment of the fair values and the allocation of purchase price to the identified tangible and intangible assets is its best estimate of fair value. The following table summarizes the acquisition date fair values of the assets acquired and liabilities assumed, which the Company determined using Level 1, Level 2 and Level 3 inputs:

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Acquisition Date Fair Values

	Amount
Leased Property:	
Land	$210,000
Buildings and improvements	1,188,000
Total Leased Property	$1,398,000
Property and Equipment:	
Land	$580,000
Depreciable property:	
Natural Gas Pipeline	119,081,732
Vehicles and Trailers	378,000
Office Equipment	43,400
Total Property and Equipment	$119,503,132
Goodwill	$1,718,868
Cash and cash equivalents	4,098,274
Accounts receivable	1,357,905
Prepaid assets	125,485
Accounts payable and other accrued liabilities	(3,781,664)
Net assets acquired	$125,000,000

The fair values of land, depreciable property and goodwill were determined using internally developed models that were based on market assumptions and comparable transportation data as well as external valuations performed by unrelated third parties. The market assumptions used as inputs to the Company's fair value model include replacement construction costs, leasing assumptions, growth rates, discount rates, terminal capitalization rates and transportation yields. The Company uses data on its existing portfolio of investments as well as similar market data from third party sources, when available, in determining these Level 3 inputs. The carrying value of cash and cash equivalents, accounts receivable, prepaid assets and accounts payable and other accrued liabilities, approximate fair value due to their short term, highly liquid nature.

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. Management believes that goodwill in the transaction results from various benefits. The pipeline system interconnects with three receipt points, the Panhandle Eastern, Rockies Express and Mississippi River Transmission Pipelines, which allows MoGas the flexibility to source natural gas from a variety of gas producing regions in the U.S. This advantageous position enhances operational efficiency, and allows MoGas customers to procure natural gas in times of peak demand and scarce supply. Two of the largest MoGas customers are also two large suppliers of natural gas for the St. Louis area. Additionally, the characteristics of the tangible assets and operations acquired in the MoGas Transaction are consistent with Company investment criteria and strategy. Some of these criteria include investments that are fixed asset intensive, with long depreciable lives, capable of providing stable cash flows due to limited commodity price sensitivity, as well as experienced management teams capable of effectively and efficiently operating the assets now and through possible future growth opportunities. Goodwill related to this acquisition is deductible for income tax purposes.

Pro Forma Financial Information

For comparative purposes, the following table illustrates the effect on the Consolidated Statements of Income and Comprehensive Income as well as earnings per share - basic and diluted as if the Company had consummated the MoGas Transaction as of January 1, 2014:

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	Three months ended June 30, 2014	Six months ended June 30, 2014
Total Revenue (1)	$13,328,988	$26,657,976
Total Expenses (2)	8,935,739	17,871,478
Operating Income	4,393,249	8,786,498
Other Income (Expense) (3)	(999,479)	(1,998,958)
Tax Benefit (Expense) (4)	160,326	320,652
Net Income	3,554,096	7,108,192
Less: Net Income attributable to non-controlling interest	387,135	778,249
Net Income attributable to CORR Stockholders	$3,166,961	$6,329,943
Earnings per share:		
Basic and Diluted	$0.07	$0.14
Weighted Average Shares of Common Stock Outstanding:		
Basic and Diluted (5)	46,587,568	45,760,060

(1) Includes elimination adjustments for intercompany sales and rent.
(2) Includes adjustments for an increase in management fee payable, elimination of intercompany purchases and rent, depreciation, and other miscellaneous expenses.
(3) Includes adjustments for interest expense and other miscellaneous income.
(4) Includes an adjustment for a deferred tax benefit.
(5) Shares outstanding were adjusted for the November 17, 2014, follow-on equity offering mentioned above.

6. FINANCING NOTES RECEIVABLE

Black Bison Financing Note Receivable

On March 13, 2014, our wholly-owned subsidiary, Corridor Bison, entered into a Loan Agreement with Black Bison Water Services, LLC ("Black Bison WS"). Black Bison WS's initial loan draw in the amount of $4.3 million was used to acquire real property in Wyoming and to pay loan transaction expenses. Corridor Bison agreed to loan Black Bison WS up to $11.5 million (the "Black Bison Loan") to finance the acquisition and development of real property that will provide water sourcing, water disposal, or water treating and recycling services for the oil and natural gas industry.
On July 23, 2014, the Company increased its secured financing to Black Bison WS from $11.5 million to $15.3 million. The Company executed an amendment to the Loan Agreement to increase the loan to $12 million, and entered into an additional loan for $3.3 million from a taxable REIT subsidiary of the Company, CorEnergy BBWS, on substantially the same terms (the "TRS Loan" and, together with the Black Bison Loan, as amended, the "Loans"). The purpose of the increase in the secured financing was to fund the acquisition and development of real property and related equipment to provide water sourcing, water disposal, or water treating and recycling services for the oil and natural gas industry. There were no other material changes to the terms of the loan agreement. In connection with the Amendment and the TRS Loan, the Company fully funded the remainder of the $15.3 million capacity of the combined Loans.
Interest initially accrues on the outstanding principal amount of both Loans at an annual base rate of 12 percent, which base rate will increase by 2 percent of the current base rate per year. In addition, starting in April 2015 and continuing for each month thereafter, the outstanding principal of the Loans will bear variable interest calculated as a function of the increase in volume of water treated by Black Bison WS during the particular month. The base interest plus variable interest, paid monthly, is capped at 19 percent per annum. The Loans mature on March 31, 2024 and are amortized by quarterly payments which were set to begin on March 31, 2015. The Loans are secured by the real property and equipment held by Black Bison WS and the outstanding equity in Black Bison WS and its affiliates. The Loans are also guarantied by all affiliates of Black Bison WS and further secured by all assets of those guarantors.
As a condition to the Black Bison Loan, Corridor Bison acquired a Warrant to purchase a number of equity units, which as of March 13, 2014 represented 15 percent of the outstanding equity of Black Bison Intermediate Holdings, LLC ("Intermediate Holdings"). Corridor Bison paid $34 thousand for the Warrant, which amount was determined to

represent the fair value of the Warrant as of the date of purchase. Corridor Bison capitalized approximately $13 thousand in asset acquisition expenses in relation to the Warrant. The exercise price of the Warrant was $3.16 per unit. The exercise price increases at a rate of 12 percent per annum.

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Corridor Bison assigned to CorEnergy BBWS its rights and obligations in the Warrant dated March 13, 2014. As a condition of the TRS Loan, the parties entered into an Amended and Restated Warrant, pursuant to which the amount available to purchase thereunder was increased to a number of equity units, which, as of July 23, 2014, represented 18.72 percent of the outstanding equity of Intermediate Holdings. CorEnergy BBWS paid an additional $51 thousand for this increase in the amount that could be purchased pursuant to the Amended and Restated Warrant. CorEnergy BBWS capitalized $25 thousand in asset acquisition expenses in relation to the Warrant. Including capitalized asset acquisition costs, the Company paid approximately $123 thousand for the Warrant, which is fair valued at $115 thousand as of June 30, 2015. The amount paid was determined to be the current value of the incremental amount that could be purchased under the Amended and Restated Warrant. Furthermore, the warrant qualifies as a derivative, with all changes in fair value reflected in the consolidated statements of income and comprehensive income in the current period.

Due to reduced drilling activity in Black Bison WS's area of operations, during the first quarter of 2015 Black Bison WS requested, and the Company granted, a waiver of certain financial covenants. Black Bison WS and its affiliates have not made the principal payments to the Company that were scheduled to begin on March 31, 2015. As a result, we entered into an agreement with Black Bison WS, effective June 17, 2015, as follows:

- We have agreed to forbear through August 15, 2015 from exercising any remedies relating to certain existing defaults. A reduced principal and interest payment schedule will apply (as described below). The forbearance period, which will terminate on August 15, 2015 unless extended by the Company in its sole discretion, is subject to compliance by Black Bison WS and its affiliates with additional conditions set forth in the agreement and to the non-occurrence of any defaults under the Loans other than the existing defaults.
- We agreed to accept temporarily reduced interest payments under the Loans in the maximum amount of $50 thousand per month for June and July of 2015, with such maximum amount increasing to $75 thousand per month for August through December 2015 (subject to the continuation of the forbearance period in the Company's sole discretion). Interest that accrues but is not payable pursuant to these terms during the forbearance period will be added to the principal of the Loans, will accrue additional interest from the date on which such interest otherwise would have been payable, and shall be payable in full upon termination of the forbearance period. No principal payments are required during the forbearance period. Black Bison WS also agreed to a general release of any prior claims related to the Loans or the forbearance and to reimburse the Company for its additional expenses incurred in connection with granting the forbearance agreement. The Company has no reason to believe the notes receivable with Black Bison are not fully collectible as of June 30, 2015.

Four Wood Financing Note Receivable

On December 31, 2014, our wholly-owned subsidiary, Four Wood Corridor, LLC ("Four Wood Corridor"), entered into a Loan Agreement with SWD Enterprises, LLC ("SWD Enterprises"), a wholly-owned subsidiary of Four Wood Energy, pursuant to which Four Wood Corridor made a loan to SWD Enterprises for $4.0 million. Concurrently, our TRS, Corridor Private entered into a TRS Loan Agreement with SWD Enterprises, pursuant to which Corridor Private made a loan to SWD Enterprises for $1.0 million. The proceeds of the REIT loan and the TRS loan were used by SWD Enterprises and its affiliates to finance the acquisition of real and personal property that provides saltwater disposal services for the oil and natural gas industry, and to pay related expenses.

For the REIT loan from Four Wood Corridor, interest will initially accrue on the outstanding principal at an annual base rate of 12 percent. For the TRS loan from Corridor Private, interest will initially accrue on the outstanding principal at an annual base rate of 13 percent. The base rates of both loans will increase by 2 percent of the current base rate per year. In addition, for both loans, starting in January 2016 and continuing for each month thereafter, the outstanding principal of the Loans will bear variable interest calculated as a function of the increase in volume of water treated by SWD Enterprises during the particular month. The base interest plus variable interest, paid monthly, is capped at 19 percent per annum for the REIT loan and 20 percent per annum for the TRS Loan. The Loans mature on December 31, 2024, and are to be amortized by quarterly payments beginning March 31, 2016, and annual prepayments based upon free cash flows of the Borrower and its affiliates commencing on January 15, 2016. The Loans are secured by the real property and equipment held by SWD Enterprises and the outstanding equity in SWD Enterprises and its affiliates. The Loans are also guaranteed by all affiliates of SWD Enterprises. The Company believes the notes receivable with SWD Enterprises are fully collectible as of June 30, 2015.

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7. VARIABLE INTEREST ENTITIES

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

Consolidated VIEs

As of June 30, 2015, the Company does not have any investments in VIEs that qualify for consolidation.

Unconsolidated VIE

At June 30, 2015, the Company's recorded investment in Black Bison WS and Intermediate Holdings, collectively a VIE that is unconsolidated, was $15.6 million. The Company's maximum exposure to loss associated with the investment is limited to the Company's outstanding notes receivable, related accrued interest receivable and the fair value of the Warrant, discussed in Note 6, totaling $15.6 million and $15.9 million as of June 30, 2015, and December 31, 2014, respectively. While this entity is a VIE, the Company has determined that the power to direct the activities of the VIE that most significantly impact the VIE's economic performance is not held by the Company, therefore the VIE is not consolidated.

8. 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, 2015, and December 31, 2014, are as follows:

Deferred Tax Assets and Liabilities

	June 30, 2015	December 31, 2014
Deferred Tax Assets:		
Net operating loss carryforwards	$(295,175)	$(679,692)
Cost recovery of leased and fixed assets	(601,942)	(1,042,207)
Other loss carryforwards	(1,089,025)	—
Sub-total	$(1,986,142)	$(1,721,899)
Deferred Tax Liabilities:		
Basis reduction of investment in partnerships	$2,636,485	$2,842,332
Net unrealized gain on investment securities	343,510	142,154
Sub-total	2,979,995	2,984,486
Total net deferred tax liability	$993,853	$1,262,587

For the quarter ended June 30, 2015, the total deferred tax liability presented above relates to assets held in the Company's TRSs. The Company recognizes the tax benefits of uncertain tax positions only when the position is “more likely than not” to be sustained upon examination by the tax authorities based on the technical merits of the tax position. The Company’s policy is to record interest and penalties on uncertain tax positions as part of tax expense. Tax years subsequent to the year ending November 30, 2007, remain open to examination by federal and state tax authorities.

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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, 2015, and June 30, 2014, 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, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Application of statutory income tax rate	$1,436,710	$1,310,265	$2,990,144	$2,228,611
State income taxes, net of federal tax (benefit)	(8,988)	59,790	28,063	102,769
Federal Tax Attributable to Income of Real Estate Investment Trust	(1,476,585)	(627,176)	(2,746,705)	(1,074,988)
Total income tax expense (benefit)	$(48,863)	$742,879	$271,502	$1,256,392

Total income taxes are computed by applying the federal statutory rate of 35 percent plus a blended state income tax rate. Corridor Public Inc. and Corridor Private Inc. had a blended state rate of approximately 3.92 percent for the three and six months ended June 30, 2015 and 3.11 percent for the three and six months ended June 30, 2014. CorEnergy BBWS Inc. does not record a provision for state income taxes because it operates only in Wyoming, which does not have state income tax. Because Mowood Corridor Inc. and Corridor MoGas Inc. primarily only operate in the state of Missouri, a blended state income tax rate of 5 percent was used for the operations of both TRSs for the three and six months ended June 30, 2015 and 2014. The restructuring done in December 2012 causes us to hold and operate certain of our assets through one or more TRSs. A TRS is a subsidiary of a REIT that is subject to applicable corporate income tax. For the three and six months ended June 30, 2015, 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, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Current tax expense				
Federal	$94,312	$—	$486,258	$784,377
State (net of federal tax benefit)	10,167	—	53,977	69,698
Total current tax expense	104,479	—	540,235	854,075
Deferred tax expense (benefit)				
Federal	(134,187)	683,089	(242,819)	369,246
State (net of federal tax benefit)	(19,155)	59,790	(25,914)	33,071
Total deferred tax expense (benefit)	(153,342)	742,879	(268,733)	402,317
Total income tax expense (benefit), net	$(48,863)	$742,879	$271,502	$1,256,392

As of December 31, 2014, the TRSs had a net operating loss of $1.7 million. The net operating loss may be carried forward for 20 years. If not utilized, this net operating loss will expire in the year ending December 31, 2033 and 2034. The amount of deferred tax asset for net operating losses as of June 30, 2015, includes amounts for the six months ended June 30, 2015. 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, 2015	December 31, 2014
Aggregate cost for federal income tax purposes	$5,161,694	$4,218,986
Gross unrealized appreciation	7,658,484	7,436,696
Net unrealized appreciation	$7,658,484	$7,436,696

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9. PROPERTY AND EQUIPMENT
Property and equipment consists of the following:
Property and Equipment

	June 30, 2015	December 31, 2014
Land	$580,000	$580,000
Natural gas pipeline	124,288,307	124,297,157
Vehicles and trailers	506,958	506,958
Office equipment and computers	87,697	59,027
Gross property and equipment	125,462,962	125,443,142
Less: accumulated depreciation	(4,288,676)	(2,623,020)
Net property and equipment	$121,174,286	$122,820,122

The amounts of depreciation of property and equipment recognized for the three months ended June 30, 2015 and 2014, were $833 thousand and $71 thousand, respectively, and $1.7 million and $142 thousand, respectively, for the six months ended June 30, 2015 and 2014.
10. CONCENTRATIONS
Mowood, Omega
Omega had a 10-year agreement (the "DOD Agreement") with the Department of Defense (“DOD”) to provide natural gas and gas distribution services to Fort Leonard Wood. The DOD Agreement expired January 31, 2015. On January 28, 2015, the DOD awarded Omega a 6-month bridge agreement with very similar terms and conditions as the original agreement for Omega to continue providing natural gas and gas distribution services until a new 10-year agreement is reached. On June 12, 2015, the DOD gave notice of their intent to extend the bridge agreement to October 31, 2015, to provide additional time to negotiate terms for a new 10-year agreement.
Revenue related to the DOD contract accounted for 89 percent and 90 percent of our sales revenue for the three and six months ended June 30, 2015, respectively, as compared to 84 percent and 88 percent of our sales revenue for the three and six months ended June 30, 2014, respectively . 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 94 percent and 90 percent of the consolidated accounts receivable balances as of June 30, 2015, and December 31, 2014, respectively.
Omega’s contracts for its supply of natural gas are concentrated among select providers. Purchases from its largest supplier of natural gas accounted for 74 percent and 89 percent of our cost of sales for the three and six months ended June 30, 2015. This compares to 55 percent and 69 percent for the three and six months ended June 30, 2014.MoGas
MoGas generates revenue from the transportation of natural gas to a concentrated group of customers. Transportation revenue relating to MoGas' largest customer accounted for 66 percent of the contracted capacity for the three and six months ended June 30, 2015.
11. MANAGEMENT AGREEMENT
On December 1, 2011, the Company executed a Management Agreement with Corridor InfraTrust Management, LLC (“Corridor”). Under the Management Agreement, Corridor (i) presents the Company with suitable acquisition opportunities consistent with the investment policies and objectives of the Company, (ii) is responsible for the day-to-day operations of the Company, and (iii) performs such services and activities relating to the assets and operations of the Company as may be appropriate. A new Management Agreement between the Company and Corridor was approved by the Board of Directors and became effective July1, 2013. The new agreement did 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. The new management agreement was amended as of January 1, 2014, to change the methodology for calculating the quarterly management fee.
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 Managed Assets as of the end of each quarter. For purposes of the Management Agreement, “Managed Assets” means the total assets of the Company (including any securities

receivables, other personal property or real property purchased with or attributable to any borrowed funds) minus (A) the initial invested value of all non-controlling interests, (B) the

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value of any hedged derivative assets, (C) any prepaid expenses, and (D) 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, the Company's securities portfolio will be valued at then current market value. For purposes of the definition of Managed Assets, other personal property and real property assets will include real and other personal property owned and the assets of the Company invested, directly or indirectly, in equity interests in or loans secured by real estate or personal property (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.

On May 8, 2015, the Company entered into a new Management Agreement with Corridor, effective as of May 1, 2015 (the "New Management Agreement"), that replaced the prior Management Agreement. The following material terms of the prior Management Agreement, as described in our Annual Report on Form 10-K for the year ended December 31, 2014, are carried forward in the New Management Agreement:

- Under the New Management Agreement, Corridor (i) presents the Company with suitable acquisition opportunities consistent with the investment policies and objectives of the Company, (ii) is responsible for the day-to-day operations of the Company, and (iii) performs such services and activities relating to the assets and operations of the Company as may be appropriate.
- The terms of the New Management Agreement provide for a quarterly management fee equal to 0.25 percent (1.00 percent annualized) of the value of the Company's Managed Assets as of the end of each quarter. For purposes of the New Management Agreement, "Managed Assets" is determined in the same manner as under the prior Management Agreement, as described in Item 1 of our Annual Report on Form 10-K.
- The New 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, and requires that at least half of any incentive fees be reinvested in the Company's common stock.

The New Management Agreement varies from the prior Management Agreement in three principal ways. First, the new agreement eliminates the ability of the independent directors to terminate the agreement for poor investment performance. However, the New Management Agreement gives a majority of the stockholders of the Company, or two-thirds of the independent directors, the ability to terminate the agreement for any reason on thirty (30) days' prior written notice, so long as that notice is delivered with a termination payment equal to three times the base management fee and incentive fee paid to the manager in the last four quarters. Second, the New Management Agreement clarifies that the manager is to be reimbursed for all fees and travel expenses incurred by its staff while conducting business expected to benefit the Company. Finally, the New Management Agreement, which does not have a specific term, and will remain in place unless terminated by the Company or Corridor in the manner permitted pursuant to the agreement, deletes certain references to the Investment Company Act of 1940 that are no longer relevant to the Company. The foregoing description of the terms of the New Management Agreement is qualified in its entirety by reference to the full terms of such agreement, which is incorporated by reference to the Registrant's form 10-Q, filed May 11, 2015. In order to ensure equitable application of the quarterly management fee provisions of the New Management Agreement to the GIGS acquisition, which closed on June 30, 2015, the Manager has waived any incremental management fee due as of the end of the second quarter based on the net impact of the GIGS Acquisition as of June 30, 2015..

The Company pays Corridor, as the Company's Administrator pursuant to an Administrative Agreement, 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.

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12. 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, 2015, and December 31, 2014. These assets and liabilities are measured on a recurring basis.

June 30, 2015

	June 30, 2015	Fair Value Level 1	Level 2	Level 3
Assets:				
Other equity securities	$10,099,805	$—	$—	$10,099,805
Total Assets	$10,099,805	$—	$—	$10,099,805

December 31, 2014

	December 31, 2014	Fair Value Level 1	Level 2	Level 3
Assets:				
Other equity securities	9,572,181	—	—	9,572,181
Total Assets	$9,572,181	$—	$—	$9,572,181

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, 2015 and 2014, are as follows:

Level 3 Rollforward

For the Six Months Ended June 30, 2015	Fair Value Beginning Balance	Acquisitions	Disposals	Total Realized and Unrealized Gains Included in Net Income	Return of Capital Adjustments Impacting Cost Basis of Securities	Fair Value Ending Balance	Changes in Unrealized Gains, Included In Net Income, Relating to Securities Still Held (1)
Other equity securities	$9,217,181	$—	$—	$451,311	$316,313	$9,984,805	$451,311
Warrant investment	355,000	—	—	(240,000)	—	115,000	(240,000)
Total	$9,572,181	$—	$—	$211,311	$316,313	$10,099,805	$211,311
For the Six Months Ended June 30, 2014							
Other equity securities	$23,304,321	$46,500	$—	$3,378,208	$(832,744)	$25,896,285	$3,378,208
Total	$23,304,321	$46,500	$—	$3,378,208	$(832,744)	$25,896,285	$3,378,208

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

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 months ended June 30, 2015, and June 30, 2014.

In accordance with ASC 820, the Company fair values their derivative financial instruments. Please refer to Note 17