Hydrocarbon Exchange Corporation

Financial Statements
For the Years Ended June 30, 2017 and 2016

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Hydrocarbon Exchange Corporation

Contents

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Independent Auditor's Report

Board of Directors and Stockholders
Hydrocarbon Exchange Corporation
Dallas, Texas

We have audited the accompanying financial statements of Hydrocarbon Exchange Corporation, which comprise the balance sheets as of June 30, 2017 and 2016, and the related statements of income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hydrocarbon Exchange Corporation as of June 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

Dallas, Texas
September 25, 2017

Financial Statements

Hydrocarbon Exchange Corporation

Balance Sheets

June 30,	**2017**	2016
Assets		
Current assets		
Cash and cash equivalents	**$ 14,417,737**	$ 12,588,570
Margin deposit on energy trading activities	**1,539,975**	1,733,390
Accounts receivable:		
Gas sales	**15,473,882**	8,140,491
Other	**117,008**	120,950
Imbalance inventories	**593,836**	496,810
Derivative assets	**3,395,374**	6,358,451
Derivative assets - due from TEMCO	**163,642**	-
Deferred tax assets - current	**3,164**	-
Prepaid expenses and other current assets	**388,452**	727,239
Total current assets	**36,093,070**	30,165,901
Property and equipment		
Office and computer equipment	**384,610**	384,610
Leasehold improvements	**25,543**	25,543
Accumulated depreciation and amortization	**(405,733)**	(403,212)
Net property and equipment	**4,420**	6,941
Deferred tax assets – non-current	**-**	31,834
Note receivable	**74,791**	74,791
Other assets	**4,430**	4,430
Derivative assets	**73,668**	1,244,246
Derivative assets – due from TEMCO	**84,161**	8,263
Total Assets	**$ 36,334,540**	$ 31,536,406

Hydrocarbon Exchange Corporation

Balance Sheets

June 30,	2017	2016
Liabilities and Stockholders' Equity		
Current liabilities		
Trade accounts payable and accrued expenses	**$ 13,734,373**	$ 4,758,508
Trade accounts payable - related parties	**2,427,786**	2,105,149
Income taxes and other tax payables	**60,042**	945,431
Derivative liabilities	**3,370,264**	5,538,859
Derivative liabilities – Due to related parties	**29,700**	849,741
Total current liabilities	**19,622,165**	14,197,688
Derivative liabilities	**146,118**	1,250,378
Total Liabilities	**19,768,283**	15,448,066
Commitments and contingencies		
Stockholders' Equity		
Capital stock - no par value 10,000 shares authorized; 5,304 shares issued and outstanding	**1,976,000**	1,976,000
Stock subscription receivable	**(1,000)**	(1,000)
Treasury stock, 696 shares	**(1,413,627)**	(1,413,627)
Retained earnings	**16,004,884**	15,526,967
Total stockholders' equity	**16,566,257**	16,088,340
Total Liabilities and Stockholders' Equity	**$ 36,334,540**	$ 31,536,406

See accompanying notes to financial statements.

Hydrocarbon Exchange Corporation

Statements of Income

For the Year Ended June 30,	**2017**	2016
Revenues		
Net gas sales	**$ 1,579,526**	$ 3,253,884
Marketing fees	**76,150**	94,096
Total revenues	**1,655,676**	3,347,980
Expenses		
General and administrative expenses	**992,869**	944,490
Depreciation and amortization	**2,521**	4,509
Total expenses	**995,390**	948,999
Income from operations	**660,286**	2,398,981
Other income (expenses)		
Interest income	**74,656**	19,212
Interest expense and bank charges	**(101,979)**	(91,499)
Total other expenses, net	**(27,323)**	(72,287)
Income before provision for income taxes	**632,963**	2,326,694
Provision for income taxes		
Current	**155,046**	841,163
Deferred	**-**	31,834
Total provision for income taxes	**155,046**	872,997
Net income	**$ 477,917**	$ 1,453,697

See accompanying notes to financial statements.

Hydrocarbon Exchange Corporation

Statements of Stockholders' Equity

	Capital Stock	Stock Subscription Receivable	Treasury Stock	Retained Earnings	Total
Balance - June 30, 2015	$ 1,976,000	$ (1,000)	$ (1,413,627)	$ 14,073,270	$ 14,634,643
Net income	-	-	-	1,453,697	1,453,697
Balance - June 30, 2016	1,976,000	(1,000)	(1,413,627)	15,526,967	16,088,340
Net income	-	-	-	477,917	477,917
Balance - June 30, 2017	$ 1,976,000	$ (1,000)	$ (1,413,627)	$ 16,004,884	$ 16,566,257

See accompanying notes to financial statements.

Hydrocarbon Exchange Corporation

Statements of Cash Flows

For the Year ended June 30,	**2017**	2016
Cash flows from operating activities		
Net income	**$ 477,917**	$ 1,453,697
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**2,521**	4,509
Net unrealized loss on energy trading activities	**(198,781)**	204,260
Deferred income taxes	**28,670**	(42,888)
Changes in operating assets and liabilities:		
Margin deposit on energy trading activities and derivative assets and liabilities	**193,415**	2,931,908
Accounts receivable	**(7,329,449)**	(1,318,654)
Imbalance inventories	**(97,026)**	30,412
Prepaid expenses and other assets	**338,787**	(368,126)
Trade accounts payable and accrued expenses	**8,975,865**	1,670,159
Trade accounts payable - related parties	**322,637**	(1,430,551)
Income taxes and other tax payables	**(885,389)**	868,672
Net cash provided by operating activities	**1,829,167**	4,003,398
Cash flows from investing activity		
Purchase of office equipment	**-**	(692)
Increase in cash and cash equivalents	**1,829,167**	4,002,706
Cash and cash equivalents, at beginning of year	**12,588,570**	8,585,864
Cash and cash equivalents, at end of year	**$ 14,417,737**	$ 12,588,570
Supplemental Cash Flow Information		
Interest and bank charges paid	**$ 101,979**	$ 91,499
Taxes paid	**$ 370,000**	$ 284,833

See accompanying notes to financial statements.

1. Business Organization and Business Activities

Hydrocarbon Exchange Corporation (the "Company") was formed on July 1, 2004. The Company, which is located in Dallas, Texas, markets natural gas. The Company focuses on the purchase of natural gas supplies from independent producers and the resale of natural gas to industrial end-users, electric power generators, and large market aggregators located in Texas and Oklahoma. The Company anchors its operations on marketing natural gas produced in North Texas.

The Company has been formed as a Texas "C" corporation, and is owned by three individual stockholders. Two of the three shareholders own a 38% share in the Company, one owns 24%. Dividends to stockholders will be made at the Company's discretion. The Company had no dividends to stockholders for the years ended June 30, 2017 and 2016.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at June 30, 2017 and 2016, and revenues and expenses during the years ended June 30, 2017 and 2016. Actual results could differ from estimates. Estimates included in the financial statements include the net realizable value of accounts receivable, derivative financial instruments, and imbalance inventory valuation. It is possible that these estimates may change based on actual results and other factors.

Revenue Recognition

Natural gas sales consist of sales to natural gas purchasers. The Company accounts for its trading activities in accordance with U.S. GAAP, regarding the presentation of trading activities in the statements of income. This rule prescribes that all trading contracts, whether or not physically settled, be recorded net upon settlement, rather than gross gas sales and cost of gas sales. Management has determined all gas purchases and sales to be trading and are, therefore, presented on a net basis.

The following reflects gross sales and cost of sale upon settlement for the years ended June 30, 2017 and 2016.

	2017	2016
Gas sales	**$ 203,545,097**	$ 135,781,082
Cost of gas sales	**201,965,571**	132,527,198
Net gas sales	**$ 1,579,526**	$ 3,253,884

The Company recognized revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

For marketing contracts in which the Company acts as agent to market gas on behalf of others, revenue is reflected as marketing fees and recognized as revenue during the period the service is rendered.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

The Company reports cash flows resulting from futures contracts as an operating activity as the transactions relate to cash payments that hedge a purchase or sale of natural gas.

Derivative Financial Instrument and Commodity Price Risk Management

The Company enters into certain derivative contracts in accordance with its risk management strategy that do not meet the criteria for hedge accounting. Although these derivatives do not qualify as hedges, they have the economic impact of mitigating commodity price exposures. These derivative financial instruments are accounted for on a full mark to market basis through current earnings. The Company continues to carry these derivatives at their fair value on the balance sheet and recognizes any subsequent changes in its fair value in earnings.

Accounts Receivable

Accounts receivable from gas sales consist of uncollateralized accrued revenues due under normal trade terms, generally requiring payment within 30 days of invoice date. No interest is charged on past-due balances. Payments made on all accounts receivable are applied to the earliest unpaid items. The Company uses the direct write-off method for recognizing bad debts, which approximates the allowance method for doubtful accounts. Accounts are written off when there is certainty as to their being uncollectible. No allowance was deemed necessary at June 30, 2017 and 2016.

Imbalance Inventories

Differences between the volumes of gas purchased and nominated to customers and volumes actually delivered by the pipelines (imbalances) are included in the balance sheet as imbalance inventories. The Company maintains an imbalance inventory valued at applicable spot market prices at various hubs located in Texas. All short imbalance positions are accrued.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation and amortization. Expenditures for maintenance and repairs are charged to operations as incurred. When assets are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in current earnings.

Property and equipment are depreciated or amortized using straight-line method over the following estimated useful lives:

Office and computer equipment	1-5 years
Software	3-5 years

Leasehold improvements are amortized on a straight-line method over the shorter of the lease term or estimated useful life of the asset.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairments whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of such assets to future net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. In management's opinion, no impairment of long-lived assets exists at June 30, 2017 and 2016.

Income Taxes

The Company utilizes the asset and liability approach to accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the period in which the differences are expected to affect taxable income. The effect on deferred tax assets and liabilities of a change in tax rates in recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized on a more likely than not basis. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company recognized both interest and penalties related to uncertain tax positions as part of the income tax provision.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, derivative assets, derivative liabilities, accounts payable and accrued expenses. The carrying amounts of financial instruments are representative of their fair values due to their short maturities.

Shipping and Handling Costs

Shipping and handling costs are reported under the cost of gas sales on the statement of income.

3. Margin Deposit on Energy and Trading Activities and Derivatives

The Company also maintains a margin deposit with the financial institution and the cash balance as of June 30, 2017 and 2016 amounts to $1,539,975 and $1,733,390, respectively.

Included in the net gas sales during the years ended June 30, 2017 and 2016, is net realized gain/(loss) on the Company's derivative financial instruments of $728,366 and ($6,952,261), respectively and net unrealized gain/(loss) on the Company's derivative financial instruments of $199,401and ($81,859), respectively.

The Company adopted Accounting Standards Codification ("ASC") 820 – Fair Value Measurement in the Broad Transaction – Fair Value Measurement and Disclosures which defines fair value, establishes a framework for measuring fair value and requires additional disclosures about fair value measurements. The criterion that is set forth in this standard is applicable to the fair value measurement where it is permitted or required under other accounting pronouncements. ASC 820 defines fair value as the exit price, which is the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date. ASC 820 establishes a three-tier fair value hierarchy that prioritizes inputs to valuation techniques used for fair value measurement.

- Level 1 consists of observable market data in an active market for identical assets or liabilities.
- Level 2 consists of observable market data, other than that included in Level 1, that is either directly or indirectly observable.
- Level 3 consists of unobservable market data. The input may reflect the assumptions of the Company, not a market participant, if there is little available market data and the Company's own assumptions are considered by management to be the best available information.

In the case of multiple inputs being used in fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy in which the fair value measurement is reported. The Company uses exchange-traded futures and options for the purpose of mitigating exposure to market risk in commodity prices.

The fair value measurements that are performed on a recurring basis fall within Level 1 of the fair value hierarchy. The amounts are as follows at June 30, 2017 and 2016:

	2017	2016
Derivative Assets	**$ 3,523,299**	$ 7,620,614
Derivative Liabilities	**3,516,382**	7,609,278
Commodity derivatives	**$ 6,917**	$ 11,336

4. Related Party Transactions

The Company has identified six related parties, Texas Energy Management Corporation ("TEMCO"), Gas Asset Management, Inc. ("GAM"), Texas Energy Midstream (TEMidstream), Peninsula Pipelines NT LLC ("PENINS"), Precision Biologics, Inc., and Commerce Midstream, LLC, which are also owned by certain shareholders of the Company. TEMCO, GAM, TEMidstream and PENINS have appointed the Company to act on their behalf regarding certain Firm Intrastate Transportation Agreements and assigned contracts with various natural gas suppliers to the Company.

The Company has long-term natural gas supply contracts with TEMCO, GAM and PENINS for resale of natural gas, at market price, in the normal course of business. The gas purchases from TEMCO totaled approximately $21,120,000 and $22,419,000 for the years ended June 30, 2017 and 2016, respectively, representing 11% of total gas purchases in 2017.The gas purchases from GAM totaled approximately $2,173,000 and $922,000 for the years ended June 30, 2017 and 2016, respectively, representing 1% of total gas purchases in 2017.The gas purchases from PENINS totaled approximately $1,819,000 and $1,539,000 for the years ended June 30, 2017 and 2016, respectively, representing 1% of total gas purchases in 2017.

The Company trades derivatives financial instruments on behalf of TEMCO and as of June 30, 2017 and 2016, the amount due from TEMCO from the trades of derivatives financial instruments amounted to approximately $247,800 and $812,000, respectively.

The Company realized marketing fees of approximately $0 for the years ended June 30, 2017 and 2016 on resale of gas purchased from TEMCO and approximately $20,400 and $28,000 for the years ended June 30, 2017 and 2016, respectively, on resale of gas purchased from GAM.

The Company paid commissions of approximately $4,577,000 and $3,445,000 for the years ended June 30, 2017 and 2016, respectively, to TEMCO and GAM.

The Company paid transportation expense of approximately $228,000 and $234,000 for the years ended June 30, 2017 and 2016 to Commerce Midstream, LLC.

The Company had a payable to the following related parties as follows at June 30, 2017 and 2016.

	2017	2016
TEMCO	**$ 1,777,741**	$ 1,369,502
GAM	**483,831**	630,846
PENINS	**154,915**	94,118
Commerce Midstream, LLC	**11,299**	10,683
Total related party payable	**$ 2,427,786**	$ 2,105,149

Office Rental Agreement

On December 1, 2013, the Company renewed their agreement with TEMCO for its office facilities. The rental agreement is for 76 months and provides four months free rent and average monthly rental payments of $5,286 after the initial four-month period. The Company recognized rent expense under the agreement of $54,308 and $53,257 for the years ended June 30, 2017 and 2016, respectively. The following is a schedule of the future minimum lease payments required under the operating lease:

Year Ending June 30,		**Amount**
2018	$	65,010
2019		66,111
2020		50,203
Total	$	181,203

5. Concentrations and Economic Dependency

Deposits at one bank exceeded the $250,000 federally insured limit at various times throughout the year. We maintain our cash and cash equivalents in financial institutions to be of high audit quality.

At June 30, 2017, the Company had two customers that accounted for approximately 26% of the outstanding accounts receivable balance. Two customers comprised 20% of total gas sales for the year ended June 30, 2017.

At June 30, 2016, the Company had two customers that accounted for approximately 40% of the outstanding accounts receivable balance. Four customers comprised 53% of total gas sales for the year ended June 30, 2016.

Management does not believe that the loss of any one customer would have a material adverse effect on the Company's results of operations or cash flows, as it believes it could readily locate other customers.

The Company had four vendors that comprised 66% of the outstanding gas accounts payable at June 30, 2017. Three vendors comprised 31% of total gas purchases for the year ended June 30, 2017.

The Company had three vendors that comprised 46% of the outstanding gas accounts payable at June 30, 2016. Three vendors comprised 50% of total gas purchases for the year ended June 30, 2016.

Management does not believe that the loss of any one vendor would have a material adverse effect on the Company's results of operations or cash flows, as it believes it could readily locate other vendors.

6. Credit Facility

On February 27, 2015, the Company entered into an uncommitted revolving credit facility agreement (the "Facility") with a bank. The credit facility will mature on April 27, 2018. The maximum amount the Company can borrow under the Facility depends on certain provisions as defined in the Facility, and was set at $30,000,000 at June 30, 2017. The Company has no outstanding balance on the Facility at June 30, 2017. Amounts outstanding under the Facility bear interest at varying rates based on the amount of time the advance has been outstanding. The Facility contains certain covenants, the most restrictive of which require the Company to maintain certain net worth, working capital, debt to earnings before interest, taxes, depreciation, amortization ("EBITDA"), EBITDA to interest expense, and current ratios. The Company had outstanding letters of credit of $0 and $950,000 at June 30, 2017 and 2016, respectively. The Company was in compliance with the covenants as of June 30, 2017. The bank holds a security interest in all of the assets of the Company.

7. Other Commitments and Contingencies

The Company enters into various contracts to both sell and acquire natural gas in the future. The Company's ability to meet its commitment to sell natural gas to its customers in future periods is dependent upon performance by those vendors that have committed to provide natural gas in the same future period.

Additionally, from time to time, the Company is involved in claims and litigation arising in the normal course of business that are not expected to have a material adverse effect on the Company's financial statements, however, the ultimate outcome cannot be presently determined.

8. Retirement Plan

The Company has a 401(k) profit sharing plan (the "Plan") for the benefit of its employees. Eligible employees under the Plan consist of all employees who have attained the age of twenty-one. The Company made no profit sharing contribution for the year ended June 30, 2017. In addition, the Company may elect to make matching contributions which will be determined by the Board of Directors annually. There were no employer matching contributions to the Plan for the years ended June 30, 2017 and 2016.

9. Income Tax

Provision for income tax for the years ended June 30, 2017 and 2016, consist of the following:

	2017	2016
Income tax expense:		
Current:		
Federal	**$ 215,162**	$ 710,633
State	**(60,116)**	130,530
Deferred:		
Federal	**-**	31,834
	$ 155,046	$ 872,997

The income tax expense differs from the amount computed by applying the statutory federal income tax rate of 34% to income before income taxes primarily as a result of the state income taxes and disallowance of 50% of meals and entertainment expenses for income tax purposes.

Deferred taxes are determined based on temporary differences between the financial statements and income taxes bases of assets and liabilities as measured by the enacted tax rates, which will be in effect when these differences reverse.

Deferred income taxes consist of the following at June 30, 2017 and 2016:

		2017		2016
Current deferred tax asset:				
Property and equipment	**$**	**3,164**	$	-
Total	**$**	**3,164**	$	-
Non-current deferred tax asset:				
Property and equipment	$	**-**	$	31,834
Total	$	**-**	$	31,834

10. Subsequent Events

Loans were made to related parties on July 24, 2017 in the amount of $1,225,500 to be repaid by July 23, 2020.

The Company has evaluated subsequent events through September 25, 2017, the date the financial statements were available for issuance.