CorEnergy Infrastructure Trust, Inc.
Form 10-Q
August 02, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

---

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
OR
o 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 o

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 o

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of July 31, 2017, the registrant had 11,902,779 common shares outstanding.

CorEnergy Infrastructure Trust, Inc.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2017
TABLE OF CONTENTS

			Page No.
Glossary of Defined Terms			4
Forward-Looking Statements			7
PART I	FINANCIAL INFORMATION		9
Item 1.	Financial Statements (unaudited)		9
	Consolidated Balance Sheets		9
	Consolidated Statements of Income and Comprehensive Income		10
	Consolidated Statement of Equity		11
	Consolidated Statements of Cash Flows		12
	Notes to Consolidated Financial Statements		14
	1.	Introduction and Basis of Presentation	14
	2.	Recent Accounting Pronouncements	14
	3.	Leased Properties and Leases	15
	4.	Financing Notes Receivable	18
	5.	Variable Interest Entities	18
	6.	Income Taxes	19
	7.	Property and Equipment	20
	8.	Management Agreement	20
	9.	Fair Value	21
	10.	Debt	23
	11.	Stockholders' Equity	25
	12.	Earnings Per Share	26
	13.	Subsequent Events	26
Item 2.			28

	Management's Discussion and Analysis of Financial Condition and Results of Operations	
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	44
Item 4.	Controls and Procedures	45
PART II.	OTHER INFORMATION	46
Item 1.	Legal Proceedings	46
Item 1A.	Risk Factors	46
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	46
Item 3.	Defaults Upon Senior Securities	46
Item 4.	Mine Safety Disclosures	46
Item 5.	Other Information	46
Item 6.	Exhibits	47
Signatures		48

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, 2016.

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 three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ended December 31, 2017 or for any other interim or annual period. 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, 2016.

Table of Contents GLOSSARY OF DEFINED TERMS

Certain of the defined terms used in this Report are set forth below:
Accretion Expense: the expense recognized when adjusting the present value of the GIGS ARO for the passage of time.
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.
ARO: the Asset Retirement Obligation liabilities assumed with the acquisition of GIGS.
ASC: FASB Accounting Standards Codification.
ASU: Accounting Standard Update.
Bbls: standard barrel containing 42 U.S. gallons.
BB Intermediate: Black Bison Intermediate Holdings, LLC, the holding company of Black Bison Water Services.
Black Bison Loans: the financing notes between Corridor Bison and CorEnergy BBWS and BBWS.
BBWS: Black Bison Water Services, LLC, the borrower of the Black Bison financing notes, as well as all of the other collateral securing the Black Bison Loans.
Convertible Notes: the Company's 7.00% Convertible Senior Notes due 2020.
CorEnergy: CorEnergy Infrastructure Trust, Inc. (NYSE: CORR).
CorEnergy BBWS: CorEnergy BBWS, Inc., a wholly-owned taxable REIT subsidiary of CorEnergy.
CorEnergy Credit Facility: the Company's $45.0 million CorEnergy Term Loan, together with the upsized $105.0 million CorEnergy Revolver and the $3.0 million MoGas Revolver with Regions Bank.
CorEnergy Revolver: the Company’s $105.0 million secured revolving line of credit facility with Regions Bank.
CorEnergy Term Loan: the Company's $45.0 million secured term loan with Regions Bank that is part of the CorEnergy Credit Facility.
Corridor: Corridor InfraTrust Management, LLC, the Company's external manager pursuant to the Management Agreement.
Corridor Bison: Corridor Bison, LLC a wholly-owned subsidiary of CorEnergy.
Corridor MoGas: Corridor MoGas, Inc., a wholly-owned taxable REIT subsidiary of CorEnergy and the holding company of MoGas, United Property Systems and CorEnergy Pipeline Company, LLC.
Corridor Private: Corridor Private Holdings, Inc., an indirect wholly-owned taxable REIT subsidiary of CorEnergy.
CPI: Consumer Price Index.
Exchange Act: the Securities Exchange Act of 1934, as amended.
EXXI: Energy XXI Ltd, the parent company (and guarantor) of our tenant on the Grand Isle Gathering System lease, emerged from a reorganization under Chapter 11 of the US Bankruptcy Code on December 30, 2016, with the succeeding company named Energy XXI Gulf Coast, Inc. Throughout this document, references to EXXI will refer to both the pre- and post- bankruptcy entities.
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.
FASB: Financial Accounting Standards Board.
FERC: Federal Energy Regulatory Commission.
Four Wood Corridor: Four Wood Corridor, LLC, a wholly-owned subsidiary of CorEnergy.

Table of Contents GLOSSARY OF DEFINED TERMS (Continued from previous page)

Four Wood Energy: Four Wood Energy Partners LLC, a wholly-owned subsidiary of Four Wood Capital Partners LLC.
Four Wood Notes: the financing notes between Four Wood Corridor and Corridor Private and SWD.
GAAP: U.S. generally accepted accounting principles.
GIGS: the Grand Isle Gathering System, owned by Grand Isle Corridor, LP and triple-net leased to a wholly-owned subsidiary of Energy XXI Gulf Coast, Inc.
Grand Isle Corridor LP: Grand Isle Corridor, LP, an indirect wholly-owned subsidiary of the Company.
Grand Isle Gathering System: a subsea midstream pipeline gathering system located in the shallow Gulf of Mexico shelf and storage and onshore processing facilities.
Grand Isle Lease Agreement: the June 2015 agreement pursuant to which the Grand Isle Gathering System assets are triple-net leased to EXXI Tenant.
Lightfoot: collectively, Lightfoot Capital Partners, LP and Lightfoot Capital Partners GP LLC.
Management Agreement: references to the Management Agreement as in effect prior to May 1, 2015 mean the Management Agreement that became effective July 1, 2013, as amended effective January 1, 2014, while references to the Management Agreement as in effect on and after May 1, 2015 mean the new Management Agreement entered into May 8, 2015, effective as of May 1, 2015, between the Company and Corridor.
MMBTu: Million British Thermal Units, a measurement of natural gas.
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.
MoGas Revolver: a $3.0 million secured revolving line of credit facility at the MoGas subsidiary level with Regions Bank.
Mowood: Mowood, LLC, an indirect wholly-owned subsidiary of CorEnergy and the holding company of Omega Pipeline Company, LLC.
Mowood/Omega Revolver: a $1.5 million revolving line of credit facility at the Mowood subsidiary level with Regions Bank.
NAREIT: National Association of Real Estate Investment Trusts.
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 Credit Facility: a $70.0 million secured term credit facility, with the Company and Prudential as current lenders, used by Pinedale Corridor, LP to finance a portion of the acquisition of the Pinedale LGS.
Pinedale LGS: the Pinedale Liquids Gathering System, a system consisting of approximately 150 miles of pipelines 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, an indirect subsidiary owned 81.05 percent by CorEnergy and 18.95 percent by Prudential.
Pinedale GP: the general partner of Pinedale LP and a wholly-owned subsidiary of CorEnergy.
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.
Prudential: The Prudential Insurance Company of America.

Table of Contents GLOSSARY OF DEFINED TERMS (Continued from previous page)

QDI: qualified dividend income.
REIT: real estate investment trust.
SEC: Securities and Exchange Commission.
Series A Preferred Stock: the Company's 7.375% Series A Cumulative Redeemable Preferred Stock, par value $0.001 per share, of which there currently are outstanding 52,000 shares represented by 5,200,000 depositary shares, each representing 1/100th of a whole share of Series A Preferred.
SWD: SWD Enterprises, LLC, a wholly-owned subsidiary of Four Wood Energy Partners, LLC.
TRS: taxable REIT subsidiary.
UPL: Ultra Petroleum Corp.
Ultra Wyoming: Ultra Wyoming LGS LLC, an indirect wholly-owned subsidiary of Ultra Petroleum.
United Property Systems: United Property Systems, LLC, an indirect wholly-owned subsidiary of CorEnergy, acquired with the MoGas transaction in November 2014.
VIE: Variable interest entity.
WTI: West Texas Intermediate, grade of crude oil used for benchmarking price.

Table of Contents Glossary of Defined Terms

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Quarterly Report on Form 10-Q may be deemed "forward-looking statements" within the meaning of the federal securities laws. In many cases, these forward-looking statements may be identified by the use of words such as "will," "may," "should," "could," "believes," "expects," "anticipates," "estimates," "intends," "projects," "goals," "objectives," "targets," "predicts," "plans," "seeks," or similar expressions.

Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumptions, forward-looking statements are not guarantees of future performance or results and we can give no assurance that these expectations will be attained. Our actual results may differ materially from those indicated by these forward-looking statements due to a variety of known and unknown risks and uncertainties. You should also understand that it is not possible to predict or identify all such factors and should not consider the following list to be a complete statement of all potential risks and uncertainties. Factors that could cause our actual results to differ materially from the results contemplated by such forward-looking statements include:

- the ability of our tenants and borrowers to make payments under their respective leases and mortgage loans, our reliance on certain major tenants under single tenant leases and our ability to re-lease properties;
- changes in economic and business conditions in the energy infrastructure sector where our investments are concentrated, including the financial condition of our tenants or borrowers and general economic conditions in the particular sectors of the energy industry served by each of our infrastructure assets;
- the inherent risks associated with owning real estate, including real estate market conditions, governing laws and regulations, including potential liabilities related to environmental matters, and the relative illiquidity of real estate investments;
- risks associated with the bankruptcy or default of any of our tenants or borrowers, including the exercise of the rights and remedies of bankrupt entities;
- the impact of laws and governmental regulations applicable to certain of our infrastructure assets, including additional costs imposed on our business or other adverse impacts as a result of any unfavorable changes in such laws or regulations;
- the loss of any member of our management team;
- our continued ability to access the debt and equity markets;
- our ability to successfully implement our selective acquisition strategy, including the inability to pursue our strategy due to unresolved issues impacting our current significant tenants or borrowers;
- our ability to obtain suitable tenants for our properties;
- our ability to refinance amounts outstanding under our credit facilities and our convertible notes at maturity on terms favorable to us;
- changes in interest rates under our current credit facilities and under any additional variable rate debt arrangements that we may enter into in the future;
- our ability to comply with certain debt covenants;
- dependence by us and our tenants on key customers for significant revenues, and the risk of defaults by any such tenants or customers;
- our or our tenants' ability to secure adequate insurance and risk of potential uninsured losses, including from natural disasters;
- the continued availability of third-party pipelines, railroads or other facilities interconnected with certain of our infrastructure assets;
- risks associated with owning, operating or financing properties for which the tenants', mortgagors' or our operations may be impacted by extreme weather patterns and other natural phenomena;
- our ability to sell properties at an attractive price;
- market conditions and related price volatility affecting our debt and equity securities;
- competitive and regulatory pressures on the revenues of our interstate natural gas transmission business;
- changes in federal or state tax rules or regulations that could have adverse tax consequences;
- declines in the market value of our investment securities;

- our ability to maintain internal controls and processes to ensure all transactions are accounted for properly, all relevant disclosures and filings are timely made in accordance with all rules and regulations, and any potential fraud or embezzlement is thwarted or detected;
- changes in federal income tax regulations (and applicable interpretations thereof), or in the composition or performance of our assets, that could impact our ability to continue to qualify as a real estate investment trust for federal income tax purposes; and

Table of Contents Glossary of Defined Terms

- risks related to potential terrorist attacks, acts of cyber-terrorism, or similar disruptions that could disrupt access to our information technology systems or result in other significant damage to our business and properties, some of which may not be covered by insurance and all of which could adversely impact distributions to our stockholders.

Forward-looking statements speak only as of the date on which they are made. While we may update these statements from time to time, we are not required to do so other than pursuant to applicable laws. For a further discussion of these and other factors that could impact our future results and performance, see Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 2, 2017, and Part II, Item 1A, "Risk Factors", in this Report.

Table of Contents Glossary of Defined Terms

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

	June 30, 2017	December 31, 2016
Assets	(Unaudited)	
Leased property, net of accumulated depreciation of $62,187,684 and $52,219,717	$479,290,402	$489,258,369
Property and equipment, net of accumulated depreciation of $10,969,426 and $9,292,712	114,749,839	116,412,806
Financing notes and related accrued interest receivable, net of reserve of $4,100,000 and $4,100,000	1,500,000	1,500,000
Other equity securities, at fair value	9,147,158	9,287,209
Cash and cash equivalents	37,280,689	7,895,084
Deferred rent receivable	18,464,918	14,876,782
Accounts and other receivables	3,376,336	4,538,884
Deferred costs, net of accumulated amortization of $2,814,294 and $2,261,151	2,581,420	3,132,050
Prepaid expenses and other assets	601,428	354,230
Deferred tax asset	2,019,051	1,758,289
Goodwill	1,718,868	1,718,868
Total Assets	$670,730,109	$650,732,571
Liabilities and Equity		
Secured credit facilities, net (including $7,701,316 and $8,860,577 with related party)	$41,035,695	$89,387,985
Unsecured convertible senior notes, net of discount and debt issuance costs of $2,361,512 and $2,755,105	111,638,489	111,244,895
Asset retirement obligation	12,204,201	11,882,943
Accounts payable and other accrued liabilities	2,191,053	2,416,283
Management fees payable	1,745,325	1,735,024
Unearned revenue	543,050	155,961
Total Liabilities	$169,357,813	$216,823,091
Equity		
Series A Cumulative Redeemable Preferred Stock 7.375%, $130,000,000 and $56,250,000 liquidation preference ($2,500 per share, $0.001 par value), 10,000,000 authorized; 52,000 and 22,500 issued and outstanding at June 30, 2017 and December 31, 2016, respectively	$130,000,000	$56,250,000
Capital stock, non-convertible, $0.001 par value; 11,901,681 and 11,886,216 shares issued and outstanding at June 30, 2017 and December 31, 2016 (100,000,000 shares authorized)	11,902	11,886
Additional paid-in capital	343,585,389	350,217,746
Accumulated other comprehensive loss	(5,218)	(11,196)
Total CorEnergy Equity	473,592,073	406,468,436
Non-controlling interest	27,780,223	27,441,044
Total Equity	501,372,296	433,909,480
Total Liabilities and Equity	$670,730,109	$650,732,571

See accompanying Notes to Consolidated Financial Statements.

Table of Contents Glossary of Defined Terms

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Revenue				
Lease revenue	$17,050,092	$16,996,072	$34,116,618	$33,992,144
Transportation and distribution revenue	4,775,780	5,064,680	9,786,370	10,164,131
Financing revenue	—	—	—	162,344
Total Revenue	21,825,872	22,060,752	43,902,988	44,318,619
Expenses				
Transportation and distribution expenses	1,362,980	1,378,306	2,698,550	2,740,631
General and administrative	2,558,339	2,773,240	5,619,579	6,063,092
Depreciation, amortization and ARO accretion expense	6,005,995	5,737,025	12,011,903	11,033,843
Provision for loan loss and disposition	—	369,278	—	5,014,466
Total Expenses	9,927,314	10,257,849	20,330,032	24,852,032
Operating Income	$11,898,558	$11,802,903	$23,572,956	$19,466,587
Other Income (Expense)				
Net distributions and dividend income	$221,440	$214,169	$264,902	$589,742
Net realized and unrealized gain (loss) on other equity securities	614,634	1,199,665	70,426	(429,087)
Interest expense	(3,202,837)	(3,540,812)	(6,657,234)	(7,466,821)
Total Other Expense	(2,366,763)	(2,126,978)	(6,321,906)	(7,306,166)
Income before income taxes	9,531,795	9,675,925	17,251,050	12,160,421
Taxes				
Current tax expense (benefit)	57,651	203,652	23,891	(474,079)
Deferred tax expense (benefit)	38,084	206,786	(260,762)	(370,609)
Income tax expense (benefit), net	95,735	410,438	(236,871)	(844,688)
Net Income	9,436,060	9,265,487	17,487,921	13,005,109
Less: Net Income attributable to non-controlling interest	435,888	310,960	818,271	659,461
Net Income attributable to CorEnergy Stockholders	$9,000,172	$8,954,527	$16,669,650	$12,345,648
Preferred dividend requirements	2,123,129	1,037,109	3,160,238	2,074,218
Net Income attributable to Common Stockholders	$6,877,043	$7,917,418	$13,509,412	$10,271,430
Net Income	$9,436,060	$9,265,487	$17,487,921	$13,005,109
Other comprehensive income (loss):				
Changes in fair value of qualifying hedges / AOCI attributable to CorEnergy stockholders	3,006	3,005	5,978	(208,071)
Changes in fair value of qualifying hedges / AOCI attributable to non-controlling interest	702	703	1,396	(48,647)
Net Change in Other Comprehensive Income (Loss)	$3,708	$3,708	$7,374	$(256,718)
Total Comprehensive Income	9,439,768	9,269,195	17,495,295	12,748,391
Less: Comprehensive income attributable to non-controlling interest	436,590	311,663	819,667	610,814
Comprehensive Income attributable to CorEnergy Stockholders	$9,003,178	$8,957,532	$16,675,628	$12,137,577
Earnings Per Common Share:				
Basic	$0.58	$0.66	$1.14	$0.86
Diluted	$0.58	$0.66	$1.14	$0.86

Weighted Average Shares of Common Stock Outstanding:				
Basic	11,896,616	11,912,030	11,892,670	11,927,984
Diluted	11,896,616	15,383,892	11,892,670	11,927,984
Dividends declared per share	$0.750	$0.750	$1.500	$1.500

See accompanying Notes to Consolidated Financial Statements.

Table of Contents Glossary of Defined Terms

CorEnergy Infrastructure Trust, Inc.
CONSOLIDATED STATEMENT OF EQUITY

	Capital Stock		Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non-Controlling Interest	Total
	Shares	Amount	Amount					
Balance at December 31. 2016	11,886,216	$11,886	$56,250,000	$350,217,746	$(11,196)	$ —	$27,441,044	$433,909,480
Net income	—	—	—	—	—	16,669,650	818,271	17,487,921
Amortization related to de-designated cash flow hedges	—	—	—	—	5,978	—	1,396	7,374
Total comprehensive income	—	—	—	—	5,978	16,669,650	819,667	17,495,295
Issuance of Series A cumulative redeemable preferred stock, 7.375% - redemption value	—	—	73,750,000	(2,579,389)	—	—	—	71,170,611
Series A preferred stock dividends	—	—	—	(727,001)	—	(2,706,983)	—	(3,433,984)
Common stock dividends	—	—	—	(3,872,516)	—	(13,962,667)	—	(17,835,183)
Common stock issued under director's compensation plan	881	1	—	29,999	—	—	—	30,000
Distributions to Non-controlling interest	—	—	—	—	—	—	(480,488)	(480,488)
Reinvestment of dividends paid to common stockholders	14,584	15	—	516,550	—	—	—	516,565
Balance at June 30, 2017 (Unaudited)	11,901,681	$11,902	$130,000,000	$343,585,389	$(5,218)	$ —	$27,780,223	$501,372,296

See accompanying Notes to Consolidated Financial Statements.

Table of Contents Glossary of Defined Terms

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

	For the Six Months Ended	
	June 30, 2017	June 30, 2016
Operating Activities		
Net Income	$17,487,921	$13,005,109
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax, net	(260,762)	(370,609)
Depreciation, amortization and ARO accretion	12,949,644	12,149,782
Provision for loan loss	—	5,014,466
Non-cash settlement of accounts payable	(171,609)	—
Gain on repurchase of convertible debt	—	(68,734)
Net distributions and dividend income, including recharacterization of income	148,649	(117,004)
Net realized and unrealized (gain) loss on other equity securities	(70,426)	429,087
Unrealized gain on derivative contract	(16,453)	(132,094)
Common stock issued under directors compensation plan	30,000	30,000
Changes in assets and liabilities:		
Increase in deferred rent receivable	(3,588,136)	(4,777,761)
Decrease in accounts and other receivables	1,162,548	1,044,197
Decrease in financing note accrued interest receivable	—	95,114
Decrease (increase) in prepaid expenses and other assets	134,023	(143,996)
Increase (decrease) in management fee payable	10,301	(63,961)
Decrease in accounts payable and other accrued liabilities	(53,621)	(133,100)
Increase in unearned revenue	29,695	54,094
Net cash provided by operating activities	$27,791,774	$26,014,590
Investing Activities		
Proceeds from assets and liabilities held for sale	—	644,934
Purchases of property and equipment, net	(13,745)	(372,230)
Proceeds from asset foreclosure and sale	—	223,451
Increase in financing notes receivable	—	(202,000)
Return of capital on distributions received	61,828	2,134
Net cash provided by investing activities	$48,083	$296,289
Financing Activities		
Debt financing costs	(2,512)	(193,000)
Net offering proceeds on Series A preferred stock	71,170,611	—
Repurchases of common stock	—	(2,041,851)
Repurchases of convertible debt	—	(931,266)
Dividends paid on Series A preferred stock	(3,433,984)	(2,074,218)
Dividends paid on common stock	(17,318,618)	(17,570,352)
Distributions to non-controlling interest	(480,488)	—
Advances on revolving line of credit	—	44,000,000
Payments on revolving line of credit	(44,000,000)	—
Principal payments on secured credit facilities	(4,389,261)	(54,002,815)
Net cash provided (used) by financing activities	$1,545,748	$(32,813,502)
Net Change in Cash and Cash Equivalents	$29,385,605	$(6,502,623)
Cash and Cash Equivalents at beginning of period	7,895,084	14,618,740
Cash and Cash Equivalents at end of period	$37,280,689	$8,116,117

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

12

Table of Contents Glossary of Defined Terms

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

	For the Six Months Ended	
	June 30, 2017	June 30, 2016
Supplemental Disclosure of Cash Flow Information		
Interest paid	$5,777,328	$6,758,715
Income taxes paid (net of refunds)	132,202	3,437
Non-Cash Investing Activities		
Change in accounts and other receivables	$—	$(450,000)
Net change in Assets Held for Sale, Property and equipment, Prepaid expenses and other assets, Accounts payable and other accrued liabilities and Liabilities held for sale	—	(1,776,549)
Non-Cash Financing Activities		
Reinvestment of distributions by common stockholders in additional common shares	$516,565	$331,823

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
June 30, 2017

1. INTRODUCTION AND BASIS OF PRESENTATION

Introduction

CorEnergy Infrastructure Trust, Inc. ("CorEnergy" or "the Company"), 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 ("NYSE") under the symbol "CORR" and the depositary shares representing its Series A Preferred Stock are listed on the NYSE under the symbol "CORR PrA".

The Company is primarily focused on acquiring and financing real estate assets within the U.S. energy infrastructure sector and concurrently entering into long-term triple-net participating leases with energy companies. The Company 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 other sources such as corporate borrowing, bond offerings, or equity offerings. Many of the Company's 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. CorEnergy considers its investments in these energy infrastructure assets to be a single business segment and reports them accordingly in its financial statements.

In 2013 CorEnergy 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 the Company's 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 the Company from qualifying as a REIT. The Company's use of TRSs enables it to continue to engage in certain businesses while complying with REIT qualification requirements and also allows it to retain income generated by these businesses for reinvestment without the requirement of distributing those earnings. In the future, the Company may elect to reorganize and transfer certain assets or operations from its TRSs to the Company or other subsidiaries, including qualified REIT subsidiaries. TRSs hold the Company's securities portfolio, operating businesses and certain financing notes receivable.

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements include CorEnergy accounts and the accounts of its wholly-owned subsidiaries and have been prepared in accordance with GAAP set forth in the ASC, as published by the FASB, and with the 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 the Company's net earnings are reduced by the portion of net earnings attributable to non-controlling interests.

Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 or any other interim or annual period. These consolidated financial statements and Management's Discussion and Analysis of the Financial Condition and Results of Operations should be read in conjunction with CorEnergy's Annual Report on Form 10-K, for the year ended December 31, 2016, filed with the SEC on March 2, 2017 (the "2016 CorEnergy 10-K").

2. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers" ("ASU 2014-09"), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard was originally effective for interim and annual periods beginning after December 15, 2016 and permits the use of either the retrospective or cumulative effect transition method. On July 9,

2015, the FASB approved a one-year deferral of the effective date making the standard effective for interim and annual periods beginning after December 15, 2017. The Company is currently planning to use the modified retrospective transition method. The Company is also currently evaluating the impact that this standard will have on its consolidated financial statements and disclosures, as well as its processes and internal controls.

As part of its assessment work, the Company has formed an implementation team, completed training on the new revenue recognition model and is undertaking a review of its contracts. However, the Company does not expect that adoption of the standard will have a significant impact on its consolidated financial statements, as a substantial portion of its revenue consists of rental income from leasing arrangements, which is specifically excluded from ASU 2014-09.

In January 2016, the FASB issued ASU 2016-01 "Financial Instruments — Overall: Recognition and Measurement of Financial Assets and Financial Liabilities," which will require entities to measure their investments at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicability exception. The practicability exception will be available for equity investments that do not have readily determinable fair values. The guidance is effective for fiscal years beginning after December 15, 2017. The Company is currently evaluating the impact of adopting the new standard but does not believe that its adoption will have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 "Leases" ("ASU 2016-02"), which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 is effective for fiscal years and interim periods beginning after December 15, 2018, with early adoption permitted. At adoption, the standard will be applied using a modified retrospective approach. Management is in the process of evaluating the impact of the standard on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13 "Financial Instruments - Credit Losses" ("ASU 2016-13"), which introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. The new model, referred to as the current expected credit losses ("CECL model"), will apply to financial assets subject to credit losses and measured at amortized cost, and certain off-balance sheet credit exposures. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. Early application of the guidance will be permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management is currently evaluating the impact that adopting the new standard will have on the Company's consolidated financial statements but believes that, unless the Company acquires any additional financing receivables, the impact will not be material.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments." This new standard will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The new standard is effective for fiscal years beginning after December 15, 2017 and will require adoption on a retrospective basis unless it is impracticable to apply, in which case we would be required to apply the amendments prospectively as of the earliest date practicable. Management is currently evaluating the impact of the new standard but does not expect that its adoption will have a material impact.

In January 2017, the FASB issued ASU 2017-01, "Clarifying the Definition of a Business," which clarifies the definition of "a business" to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard introduces a screen for determining when assets acquired are not a business and clarifies that a business must include, at a minimum, an input and a substantive process that contribute to an output to be considered a business. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is allowed for transactions where the acquisition (or subsidiary deconsolidation) occurs before the effective date of the amendments and the transaction has not been previously reported in the financial statements. Management is currently evaluating the impact and timing of adopting the new standard.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"), which simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. Under the amendments in ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The standard is effective for annual or interim tests performed in fiscal years beginning after December 15, 2019. Early adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. Effective

January 1, 2017, Management has elected to early adopt this standard in connection with its goodwill impairment testing performed subsequent to January 1, 2017. As the standard will be applied prospectively, for measurement of goodwill impairment losses when an impairment is indicated, the impact of adoption to the financial statements will depend on various factors. However, elimination of the second step will reduce the complexity and cost of measuring any such impairment.

3. LEASED PROPERTIES AND LEASES

As of June 30, 2017, the Company had three significant leased properties located in Oregon, Wyoming, Louisiana, and the Gulf of Mexico, which are leased on a triple-net basis to major tenants, described in the table below. These major tenants are responsible

for the payment of all taxes, maintenance, repairs, insurance, and other operating expenses relating to the leased properties. The long-term, triple-net leases generally have an initial term of 11 to 15 years with options for renewals. Lease payments are scheduled to increase at varying intervals during the initial terms of the leases. The following table summarizes the significant leased properties, major tenants and lease terms:

Summary of Leased Properties, Major Tenants and Lease Terms

Property	Grand Isle Gathering System	Pinedale LGS[1]	Portland Terminal Facility
Location	Gulf of Mexico/Louisiana	Pinedale, WY	Portland, OR
Tenant	Energy XXI GIGS Services, LLC	Ultra Wyoming LGS, LLC	Arc Terminals Holdings LLC
Asset Description	Approximately 153 miles of offshore pipeline with total capacity of 120 thousand Bbls/d, including a 16-acre onshore terminal and saltwater disposal system.	Approximately 150 miles of pipelines and four central storage facilities.	A 39-acre rail and marine facility property adjacent to the Willamette River with 84 tanks and total storage capacity of approximately 1.5 million barrels.
Date Acquired	June 2015	December 2012	January 2014
Initial Lease Term	11 years	15 years	15 years
Renewal Option	Equal to the lesser of 9-years or 75 percent of the remaining useful life	5-year terms	5-year terms
Current Monthly Rent Payments	7/1/16 - 6/30/17: $2,826,250 7/1/17 - 6/30/18: $2,854,667	$1,741,933	$513,355
Initial Estimated Useful Life	27 years	26 years	30 years

(1) Non-Controlling Interest Partner, 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. Pinedale GP, a wholly-owned subsidiary of the Company, holds the remaining 81.05 percent of the economic interest.

The future contracted minimum rental receipts for all leases as of June 30, 2017, are as follows:

Future Minimum Lease Receipts [1]

Years Ending December 31,	Amount
2017	$30,672,815
2018	61,356,965
2019	63,685,399
2020	70,846,857
2021	77,027,332
Thereafter	376,287,233
Total	$679,876,601

(1)Future minimum lease receipts include base rents for the Portland Terminal Facility through its initial 15-year term. The lessee has a purchase option on the facility beginning in February 2017, which it can exercise with 90-days notice, as well as lease termination options on the fifth and tenth anniversaries of the lease. If exercised, the purchase option and termination options are subject to additional payment provisions and

termination fees prescribed under the lease.

The table below displays the Company's individually significant leases as a percentage of total leased properties and total lease revenues for the periods presented:

	As a Percentage of [1]					
	Leased Properties		Lease Revenues			
			For the Three Months Ended		For the Six Months Ended	
	June 30, 2017	December 31, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Pinedale LGS	39.7%	39.8 %	30.6%	30.4%	30.6%	30.4%
Grand Isle Gathering System	50.1%	50.0 %	59.6%	59.8%	59.6%	59.8%
Portland Terminal Facility	9.9 %	9.9 %	9.6 %	9.7 %	9.7 %	9.7 %

(1) Insignificant leases are not presented; thus percentages may not sum to 100%.

16

Table of Contents Glossary of Defined Terms

The following table reflects the depreciation and amortization included in the accompanying Consolidated Statements of Income associated with the Company's leases and leased properties:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Depreciation Expense				
GIGS	$2,438,649	$2,153,928	$4,877,298	$4,297,650
Pinedale	2,217,360	2,217,360	4,434,720	4,434,720
Portland Terminal Facility	318,915	318,915	637,830	205,256
United Property Systems	9,060	7,425	18,119	14,850
Total Depreciation Expense	$4,983,984	$4,697,628	$9,967,967	$8,952,476
Amortization Expense - Deferred Lease Costs				
GIGS	$7,641	$7,641	$15,282	$15,282
Pinedale	15,342	15,342	30,684	30,684
Total Amortization Expense - Deferred Lease Costs	$22,983	$22,983	$45,966	$45,966
ARO Accretion Expense				
GIGS	$160,629	$174,375	$321,258	$358,457
Total ARO Accretion Expense	$160,629	$174,375	$321,258	$358,457

The following table reflects the deferred costs that are included in the accompanying Consolidated Balance Sheets associated with the Company's leased properties:

	June 30, 2017	December 31, 2016
Net Deferred Lease Costs		
GIGS	$275,165	$ 290,447
Pinedale	642,401	673,085
Total Deferred Lease Costs, net	$917,566	$ 963,532

Substantially all of the lease tenants' financial results are driven by exploiting naturally occurring oil and natural gas hydrocarbon deposits beneath the Earth's surface. As a result, the tenants' financial results are highly dependent on the performance of the oil and natural gas industry, which is highly competitive and subject to volatility. During the terms of the leases, management monitors the credit quality of its tenants by reviewing their published credit ratings, if available, reviewing publicly available financial statements, or reviewing financial or other operating statements, monitoring news reports regarding the tenants and their respective businesses, and monitoring the timeliness of lease payments and the performance of other financial covenants under their leases.

UPL

On March 14, 2017, the bankruptcy court issued an order confirming its plan of reorganization and on April 12, 2017, UPL emerged from bankruptcy. UPL is currently subject to the reporting requirements under the Exchange Act and is required to file with the SEC annual reports containing audited financial statements and quarterly reports containing unaudited financial statements. Its SEC filings can be found at www.sec.gov. Following emergence from bankruptcy, Ultra Petroleum Corp. stock is trading on the NASDAQ under the symbol UPL. The Company makes no representation as to the accuracy or completeness of the audited and unaudited financial statements of UPL but has no reason to doubt the accuracy or completeness of such information. In addition, UPL 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 UPL that are filed with the SEC is incorporated by reference into, or in any way form, a part of this filing.

EXXI

EXXI 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. Its SEC filings can be found at www.sec.gov. Its stock is currently trading on the NASDAQ under the symbol EXXI.

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. None of the information in the public reports of EXXI that are filed with the SEC is incorporated by reference into, or in any way form, a part of this filing.

ARCX

ARCX 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 website at www.sec.gov (NYSE: ARCX). The Company makes no representation as to the accuracy or completeness of the audited and unaudited financial statements of ARCX but has no reason to doubt the accuracy or completeness of such information. In addition, ARCX 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 ARCX that are filed with the SEC is incorporated by reference into, or in any way form, a part of this filing.

4. 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 income. Each quarter the Company reviews its financing notes receivable to determine if the balances are realizable based on factors affecting the collectability 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 collectability of both interest and principal of each of its loans to determine if an allowance is needed. An allowance will be recorded when, based on current information and events, the Company determines it is probable that it will be unable to collect all amounts due according to the existing contractual terms. If the Company does determine an allowance is necessary, the amount deemed uncollectable is expensed in the period of determination. An insignificant delay or shortfall in the amount of payments does not necessarily result in the recording of an allowance. Generally, when interest and/or principal payments on a loan become past due, or if management otherwise does not expect the borrower to be able to service its debt and other obligations, the Company will place the loan on non-accrual status and will generally cease recognizing financing revenue on that loan until all principal and interest have been brought current. Interest income recognition is resumed if and when the previously reserved for financing notes become contractually current and performance has been demonstrated. Payments received subsequent to the recording of an allowance will be recorded as a reduction to principal.

Black Bison Financing Notes

On February 29, 2016, the Company foreclosed on 100 percent of the equity of BB Intermediate, the borrower of the Black Bison financing notes, as well as all of the other collateral securing the Black Bison Loans. The foreclosure was accepted in satisfaction of $2.0 million of the total outstanding loan balance. On June 16, 2016, the Company entered into an asset sale agreement with Expedition Water Solutions for the sale of specified disposal wells and related equipment as outlined in the sale agreement. Consideration received by the company included $748 thousand cash, net of fees, and the future right to royalty payments, which was recorded at its fair value of $450 thousand. The rights to future cash payments are tied to the future volumes of water disposed of in each of the wells sold. The Company did not record any financing revenue related to the Black Bison Loans for the six months ended June 30, 2016 or any subsequent period. These notes were considered by the Company to be on non-accrual status and were reflected as such in the financial statements. For the three and six months ended June 30, 2016 the Company recorded $369 thousand and $832 thousand, respectively, in provision for loan losses related to the Black Bison Loans.

Four Wood Financing Note Receivable

As a result of the decreased economic activity by SWD, the Company recorded a provision for loan loss with respect to the SWD Loans. The Consolidated Statements of Income for the six months ended June 30, 2016 reflect a Provision for Loan Loss of $3.5 million, which includes $71 thousand of deferred origination income and $98 thousand of interest accrued under the original loan agreements. The loans were placed on non-accrual status during the first quarter of 2016.

5. VARIABLE INTEREST ENTITIES

The FASB issued ASU 2015-02, "Consolidations (Topic 810) - Amendments to the Consolidation Analysis" ("ASU 2015-02"), which amended previous consolidation guidance, including introducing a separate consolidation analysis specific to limited partnerships and other similar entities. Under this analysis, limited partnerships and other similar

entities are considered a VIE unless the limited partners hold substantive kick-out rights or participating rights. Management determined that Pinedale LP and Grand Isle Corridor LP are VIEs under the amended guidance because the limited partners of both partnerships lack both substantive kick-out rights and participating rights. As such, management evaluated the qualitative criteria under FASB ASC Topic 810 - Consolidation in conjunction with ASU 2015-02 to make a determination whether these partnerships should be consolidated on the Company's financial statements. ASC Topic 810-10 requires the primary beneficiary of a variable interest entity's activities to consolidate the VIE. The primary beneficiary is identified as the enterprise that has a) the power to direct the activities of the VIE that most significantly impact the entity's economic performance and b) the obligation to absorb losses of the entity that could

potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. The standard requires an ongoing analysis to determine whether the variable interest gives rise to a controlling financial interest in the VIE. Based on the general partners' roles and rights as afforded by the partnership agreements and its exposure to losses and benefits of each of the partnerships through its significant limited partner interests, management determined that CorEnergy is the primary beneficiary of both Pinedale LP and Grand Isle Corridor LP. Based upon that evaluation, the consolidated financial statements presented include full consolidation with respect to both of the partnerships.

6. 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, 2017 and December 31, 2016, are as follows:

Deferred Tax Assets and Liabilities

	June 30, 2017	December 31, 2016
Deferred Tax Assets:		
Net operating loss carryforwards	$1,533,957	$1,144,818
Net unrealized loss on investment securities	34,119	61,430
Cost recovery of leased and fixed assets	669,143	739,502
Loan Loss Provision	385,180	608,086
Other loss carryforwards	3,929,335	3,187,181
Sub-total	$6,551,734	$5,741,017
Deferred Tax Liabilities:		
Basis reduction of investment in partnerships	$(2,199,063)	$(2,158,746)
Cost recovery of leased and fixed assets	(2,333,620)	(1,823,982)
Sub-total	$(4,532,683)	$(3,982,728)
Total net deferred tax asset	$2,019,051	$1,758,289

As of June 30, 2017, the total deferred tax assets and liabilities presented above relate to 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 ended December 31, 2012 remain open to examination by federal and state tax authorities.

Total income tax expense (benefit) 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, 2017 and 2016 to income or loss from operations and other income and expense for the periods presented, as follows:

Income Tax Expense (Benefit)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Application of statutory income tax rate	$3,158,922	$3,277,737	$5,726,827	$4,025,336
State income taxes, net of federal tax expense (benefit)	3,786	25,234	(31,651)	(58,026)
Federal Tax Attributable to Income of Real Estate Investment Trust	(3,066,973)	(2,892,533)	(5,932,047)	(4,811,998)
Total income tax expense (benefit)	$95,735	$410,438	$(236,871)	$(844,688)

Total income taxes are computed by applying the federal statutory rate of 35 percent plus a blended state income tax rate. Corridor Public Holdings, Inc. and Corridor Private Holdings, Inc. had a blended state rate of approximately 3.78 percent for the three and six months ended June 30, 2017 and 2.82 percent for the three and six months ended June 30, 2016. 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, 2017 and 2016. For the three and six months ended June 30, 2017 and 2016, all of the income tax benefit presented above relates to the assets and activities held in the Company's TRSs. The components of income tax expense (benefit) include the following for the periods presented:

Table of Contents Glossary of Defined Terms

Components of Income Tax Expense (Benefit)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Current tax expense (benefit)				
Federal	$52,031	$188,467	$21,562	$(438,730)
State (net of federal tax benefit)	5,620	15,185	2,329	(35,349)
Total current tax expense (benefit)	$57,651	$203,652	$23,891	$(474,079)
Deferred tax expense (benefit)				
Federal	$39,918	$196,737	$(226,782)	$(347,932)
State (net of federal tax benefit)	(1,834)	10,049	(33,980)	(22,677)
Total deferred tax expense (benefit)	$38,084	$206,786	$(260,762)	$(370,609)
Total income tax expense (benefit), net	$95,735	$410,438	$(236,871)	$(844,688)

As of December 31, 2016, the TRSs had an aggregate net operating loss of $3.0 million. The net operating loss may be carried forward for 20 years. If not utilized, this net operating loss will expire as follows: $90 thousand, $804 thousand, $479 thousand and $1.7 million in the years ending December 31, 2033, 2034, 2035 and 2036 respectively. The amount of deferred tax asset for net operating losses as of June 30, 2017 includes amounts for the six months ended June 30, 2017. 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, 2017	December 31, 2016
Aggregate cost for federal income tax purposes	$4,000,757	$ 4,327,077
Gross unrealized appreciation	5,582,630	5,408,242
Gross unrealized depreciation	—	—
Net unrealized appreciation	$5,582,630	$ 5,408,242

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Property and Equipment

	June 30, 2017	December 31, 2016
Land	$580,000	$580,000
Natural gas pipeline	124,288,657	124,288,156
Vehicles and trailers	582,049	570,267
Office equipment and computers	268,559	267,095
Gross property and equipment	$125,719,265	$125,705,518
Less: accumulated depreciation	(10,969,426)	(9,292,712)
Net property and equipment	$114,749,839	$116,412,806

Depreciation of property and equipment is as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Depreciation Expense	$838,399	$842,040	$1,676,712	$1,676,945

8. MANAGEMENT AGREEMENT

The Company pays its manager, Corridor, pursuant to a Management Agreement as described in the 2016 CorEnergy 10-K. Fees incurred under the Management Agreement for the three and six months ended June 30, 2017 were $1.8

million and $3.6 million, respectively, compared to $1.6 million and $3.5 million, respectively, for the three and six months ended June 30, 2016. Fees incurred under the Management Agreement are reported in the General and Administrative line item on the Consolidated Statements of Income.

The Company pays its administrator, Corridor, pursuant to an Administrative Agreement. Fees incurred under the Administrative Agreement for the three and six months ended June 30, 2017 were $67 thousand and $134 thousand, respectively, compared to $65

Table of Contents Glossary of Defined Terms

thousand and $132 thousand, respectively, for the three and six months ended June 30, 2016. Fees incurred under the Administrative Agreement are reported in the General and Administrative line item on the Consolidated Statements of Income.

9. FAIR VALUE

The following tables set forth the Company's assets and liabilities measured at fair value on a recurring basis, by level within the fair value hierarchy, as of June 30, 2017 and December 31, 2016.

	June 30, 2017			
		Fair Value		
	Total	Level 1	Level 2	Level 3
Assets:				
Other equity securities	$9,147,158	$—	$—	$9,147,158
Interest Rate Swap Derivative	43,777	—	43,777	—
Total Assets	$9,190,935	$—	$43,777	$9,147,158

	December 31, 2016			
		Fair Value		
	Total	Level 1	Level 2	Level 3
Assets:				
Other equity securities	$9,287,209	$—	$—	$9,287,209
Interest Rate Swap Derivative	19,950	—	19,950	—
Total Assets	$9,307,159	$—	$19,950	$9,287,209

At June 30, 2017, the only assets and liabilities measured at fair value on a recurring basis were the Company's derivatives and its equity securities. On March 30, 2016, the Company terminated one of the cash flow hedges with a notional amount of $26.3 million concurrent with the assignment of the Pinedale Credit Facility. The remaining cash flow hedge was de-designated from hedge accounting as of March 30, 2016, and continues to be valued using a consistent methodology and therefore is classified as a Level 2 measurement. Subsequent to de-designation, changes in the fair value are recognized in earnings in the period in which the changes occur.

The valuation of the interest rate swaps are determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including forward interest rate curves. The inputs used to value the derivatives fall primarily within Level 2 of the value hierarchy.

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, 2017 and 2016 are as follows:

Level 3 Rollforward

For the Six Months Ended June 30, 2017	Fair Value Beginning Balance	Acquisitions	Disposals	Total Realized and Unrealized Gains/(Losses) Included in Net Income	Return of Capital Adjustments Impacting Cost Basis of Securities	Fair Value Ending Balance	Changes in Unrealized Losses, Included In Net Income, Relating to Securities Still Held (1)
Other equity securities	$9,287,209	$ —	$ —	$ 70,426	$ (210,477)	$9,147,158	$70,426
Total	$9,287,209	$ —	$ —	$ 70,426	$ (210,477)	$9,147,158	$70,426

For the Six Months Ended June 30, 2016							
Other equity securities	$ 8,393,683	$ —	$ —	$ (472,416)	$ 114,869	$ 8,036,136	$ (472,416)
Total	$ 8,393,683	$ —	$ —	$ (472,416			