GAIL Global (USA) Inc.
and Subsidiary

Consolidated Financial Statements
and Supplementary Information

December 31, 2018

GAIL Global (USA) Inc. and Subsidiary

A wholly-owned subsidiary of GAIL (India) Limited

December 31, 2018

Table of Contents

PANNELL
KERR
FORSTER
OF TEXAS, P.C.

CPAs & Professional Advisors
5847 San Felipe St., Suite 2600
Houston, Texas 77057-3000
Main: (713) 860-1400
Fax: (713) 355-3909
www.pkftexas.com

Independent Auditors' Report

To the Board of Directors and Stockholder of
GAIL Global (USA) Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of GAIL Global (USA) Inc. (a Texas corporation) and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in stockholder's equity (deficit) and cash flows for the years ended December 31, 2018 and 2017, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of GAIL Global (USA) Inc. and Subsidiary as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated fixed assets rollforward as of December 31, 2018 and 2017, included on pages 18-19, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Pannell Kerr Forster of Texas, P.C.

May 15, 2019

GAIL Global (USA) Inc. and Subsidiary

A wholly-owned subsidiary of GAIL (India) Limited

Consolidated Balance Sheets

	December 31, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 2,227,754	$ 692,298
Accounts receivable - oil and natural gas	1,577,570	3,595,817
Accounts receivable - other	51,263	34,000
Accounts receivable - Parent	113,701,004	297,900
Inventory	23,677,667	-
Prepaid expenses	40,295	71,112
Other current assets	2,308,296	-
Total current assets	143,583,849	4,691,127
Oil and natural gas properties, successful effort method		
Property costs		
Leasehold costs (evaluated and unevaluated)	24,873,498	52,614,144
Drilling costs	32,983,095	66,994,797
Completion costs	58,783,589	117,863,486
Production equipment and facilities	9,986,541	16,164,636
Asset retirement obligation asset	627,256	852,082
Capitalized interest	3,513,380	5,696,332
Wells in progress costs		
Drilling costs	-	1,599,984
Total oil and natural gas property	130,767,359	261,785,461
Office equipment	38,082	8,273
Accumulated depletion, depreciation and amortization	(50,927,738)	(119,196,943)
Oil and natural gas properties, net	79,877,703	142,596,791
Total assets	$ 223,461,552	$ 147,287,918

See accompanying notes to consolidated financial statements.

	December 31, 2018	December 31, 2017
Liabilities and Stockholder's Equity (Deficit)		
Current liabilities		
Accounts payable	$ 97,702,154	$ 4,408,425
Accrued liabilities	156,874	236,507
Lines of credit, net of unamortized deferred financing costs	125,644,188	106,530,121
Total current liabilities	223,503,216	111,175,053
Deferred tax liability, net	1,979,440	580,688
Asset retirement obligations	722,088	1,016,199
Total liabilities	226,204,744	112,771,940
Commitments and contingencies		
Stockholder's equity		
Common stock, $1 par value; 50,000,000 shares authorized 36,000,000 shares issued and outstanding	36,000,000	36,000,000
Retained deficit	(38,743,192)	(1,484,022)
Total stockholder's equity (deficit)	(2,743,192)	34,515,978
Total liabilities and stockholder's (deficit)	$ 223,461,552	$ 147,287,918

GAIL Global (USA) Inc. and Subsidiary

A wholly-owned subsidiary of GAIL (India) Limited

Consolidated Statements of Operations

	Year Ended December 31, 2018	2017
LNG sales - Parent	$ 501,855,628	$ -
Oil and natural gas sales	25,567,256	17,736,703
Total revenue	527,422,884	17,736,703
Oil and natural gas operating expenses		
Lease operating	4,492,895	4,400,065
Production taxes	1,107,167	822,281
Marketing and distribution	1,084,180	736,820
Depletion, depreciation and amortization	11,397,757	12,215,125
Abandonment of expired leases	-	35,215
Accretion expense	41,680	42,256
Loss on sale of oil and natural gas properties	39,373,331	-
Cost of sales - LNG	499,402,468	-
General and administrative	2,664,856	701,652
Total operating expenses	559,564,334	18,953,414
Loss from operations	(32,141,450)	(1,216,711)
Other income (expense)		
Interest income	22,560	16,553
Interest expense	(4,524,674)	(3,216,183)
Interest expense capitalized	783,146	1,180,527
Total other expense, net	(3,718,968)	(2,019,103)
Loss before income tax expense (benefit)	(35,860,418)	(3,235,814)
Income tax expense (benefit)		
Current	-	-
Deferred	1,398,752	(893,376)
Total income tax expense (benefit)	1,398,752	(893,376)
Net loss	$ (37,259,170)	$ (2,342,438)

See accompanying notes to consolidated financial statements.

GAIL Global (USA) Inc. and Subsidiary

A wholly-owned subsidiary of GAIL (India) Limited

Consolidated Statements of Changes in Stockholder's Equity (Deficit)

For the Years Ended December 31, 2018 and 2017

	Common Stock	Retained Earnings (Deficit)	Total
Balance, December 31, 2016	$ 36,000,000	$ 858,416	$ 36,858,416
Net loss	-	(2,342,438)	(2,342,438)
Balance, December 31, 2017	36,000,000	(1,484,022)	34,515,978
Net loss	-	(37,259,170)	(37,259,170)
Balance, December 31, 2018	$ 36,000,000	$ (38,743,192)	$ (2,743,192)

See accompanying notes to consolidated financial statements.

GAIL Global (USA) Inc. and Subsidiary

A wholly-owned subsidiary of GAIL (India) Limited

Consolidated Statements of Cash Flows

	Year Ended December 31, 2018	Year Ended December 31, 2017
Cash flows from operating activities		
Net loss	$ (37,259,170)	$ (2,342,438)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depletion, depreciation and amortization	11,397,757	12,215,125
Abandonment of expired leases	-	35,215
Accretion expense	41,680	42,256
Amortization of deferred loan costs	290,050	237,644
Loss on sale of oil and natural gas properties	39,373,331	-
Deferred income tax benefit	1,398,752	(893,376)
Changes in operating assets and liabilities		
Accounts receivable	2,000,984	(2,340,705)
Accounts receivable - Parent	(113,403,104)	(249,884)
Inventory	(23,677,667)	-
Prepaid expenses	30,817	(62,419)
Other current assets	(2,308,296)	-
Accounts payable	92,142,807	(10,238)
Accrued liabilities	(79,633)	154,721
Net cash provided by (used in) operating activities	(30,051,692)	6,785,901
Cash flows from investing activities		
Additions to oil and natural gas properties	(19,674,220)	(12,957,639)
Additions to office equipment	(29,809)	(3,951)
Change in capital expenditure accrual	1,150,923	2,164,517
Proceeds from sale of oil and natural gas properties	31,316,237	-
Net cash provided by (used in) investing activities	12,763,131	(10,797,073)
Cash flows from financing activities		
Proceeds from borrowings on lines of credit	420,979,696	110,250,000
Repayments of lines of credit	(401,903,679)	(108,750,000)
Deferred loan costs	(252,000)	(228,000)
Net cash provided by financing activities	18,824,017	1,272,000
Net increase (decrease) in cash and cash equivalents	1,535,456	(2,739,172)
Cash and cash equivalents - beginning of year	692,298	3,431,470
Cash and cash equivalents - end of year	$ 2,227,754	$ 692,298
Non-cash investing and financing activities		
Capitalized asset retirement obligation costs	$ 233,178	$ 50,827
Supplemental cash flow information		
Cash paid for interest, net of amounts capitalized	$ 3,490,786	$ 1,746,630

See accompanying notes to consolidated financial statements.

NOTE 1 - NATURE OF OPERATIONS

GAIL Global (USA) Inc. ("GGUI") was formed on September 26, 2011 as a Texas Corporation and is a wholly-owned subsidiary of GAIL (India) Limited (the "Parent"). GGUI is a United States petroleum exploration and production company engaged in the acquisition, exploration, and development of properties for the production of crude oil and natural gas from underground reservoirs.

On September 28, 2011, GGUI entered into a purchase and participation agreement (the "Agreement") with Carrizo Oil & Gas, Inc. and two of its affiliates (collectively "Carrizo") to acquire a 20% working interest in oil and natural gas properties located in the Eagle Ford Shale area in Dimmit, Frio, LaSalle and McMullen Counties of the State of Texas for an upfront payment of $63,650,000 and a carry on behalf of Carrizo totaling $31,350,000 which has since then been funded.

During 2013, the Company's Board of Directors approved the formation of a wholly-owned subsidiary to enter into contractual agreements to secure capacity rights in a certain liquefied natural gas ("LNG") liquefaction terminal and related pipelines, to purchase and deliver natural gas to the terminal, and to perform any other activities that may be required in the sale of LNG to Parent. On March 28, 2013, Gail Global (USA) LNG LLC ("GGULL or Subsidiary") was formed as a Delaware limited liability company to hold the LNG operations and related obligations. GGUI and Subsidiary are collectively referred to as the "Company".

In April 2013, GGULL entered into a terminal service agreement with Dominion Energy Cove Point LNG, LP ("DECP") for 2.3 million tons per annum of capacity in Dominion Energy Cove Point LNG Terminal in Lusby, Maryland, for a term of approximately 20 years, commencing on the in-service date of the LNG liquefaction terminal, which occurred in April 2018. GGULL also entered into a Pipeline Precedent Agreement for a pipeline capacity of 420,000 Dekatherm ("Dth") per day (later changed to 430,000 Dth/Day) in DECP's Cove Point pipeline. The terminal service agreement requires GGULL to pay monthly fixed charges for liquefaction of the annual contracted quantities and supply fuel gas for liquefaction and general terminal purposes. The operator is liable to pay certain credits to GGULL in case of service failures other than force majeure. The Pipeline Precedent Agreement followed by the Pipeline Service Agreement executed in December 2014 requires GGULL to pay monthly fixed and variable charges for capacity of 430,000 Dth/Day in DECP's Cove Point pipeline.

In November 2014, GGULL entered into a Gas Sale and Purchase Agreement ("GSPA") with WGL Midstream Inc. for supply of up to 430,000 dekatherm per day of natural gas for a term of approximately 20 years. The supplies under the GSPA commenced in March 2018. As provided in the GSPA, GGULL also released its capacity in DECP's Cove Point pipeline in favor of WGL Midstream Inc.

In September 2017, GGULL entered into an LNG Sale Purchase Agreement ("LNG SPA") with the Parent for the sale of LNG from the Dominion Energy Cove Point LNG Terminal in Lusby, Maryland. LNG sales to Parent under the LNG SPA commenced in April 2018.

During 2018, the Company sold its working interest in certain producing properties and undeveloped acreage totaling approximately 2,502 net acres (including 55 producing wells) located primarily in LaSalle County in the Eagle Ford Shale area to EP Energy E&P Company, L.P. for a sale price of approximately $31.3 million. As a result of the sale, the Company recorded a loss of approximately $39.4 million. At the end of 2018, the Company has a working interest in the remaining 2,848 net acres (including 78 producing wells) in the Eagle Ford Shale area.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of GGUI and GGULL. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less from the date of purchase.

Inventory

Crude oil that remains within field tanks, natural gas that remains in a pipeline and natural gas liquids that remain within a tank that is not sold at each reporting period is considered not produced. Therefore, no inventory is recorded by GGUI.

GGULL supplies natural gas to DECP's Liquefaction Terminal for production of LNG, for fuel consumed for such liquefaction and for its fuel share for terminal operations. Natural gas supplied by GGULL for fuel is treated as consumed and any positive or negative imbalance with the operator is adjusted in subsequent fuel supplies. All LNG produced for GGULL and remaining in the LNG tanks at the liquefaction terminal, at each reporting date is valued on a First-in-First Out (FIFO) basis and is classified as Inventory. Valuation of LNG includes the costs of natural gas (including consumed fuel gas), gas liquefaction and gas transportation. Inventory is carried at the lower of cost or net realizable value.

Other Current Assets

Per the Terminal Services Agreement executed between GGULL and DECP, GGULL is entitled to liquefaction of gas quantities at the DECP liquefaction terminal equal to the aggregate annual contracted quantities stated in the agreement for such operating year. For liquefaction services, GGULL is required to pay fixed liquefaction charges each month but the liquefaction quantities vary from month to month. Therefore, the value of the difference between the liquefaction charges paid and the value of the liquefaction services provided for the quantities received at each reporting date is accounted for in a prepaid Liquefaction Charges Adjustment Account and is included within Other Current Assets on the balance sheets.

Oil and Natural Gas Properties

The Company uses the successful efforts method of accounting for oil and natural gas producing activities. Costs to acquire mineral interests in oil and natural gas properties, to drill and equip exploratory wells that find proved reserves, to drill and equip development wells, and related asset retirement costs, are capitalized. Exploratory wells that do not find proved oil and natural gas reserves are expensed when that determination is made, which is less than one year from the date that total depth is reached and the well is logged. With respect to amounts paid by the Company for its carry obligation, they are recorded to oil and natural gas properties in cost categories incurred as tangible and intangible drilling costs and completion costs and production equipment and facilities. Additionally, interest costs are capitalized to oil and natural gas properties during the period that unevaluated leasehold costs and costs of wells in progress are undergoing development and preparation for their intended use until reserves have been identified.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Oil and Natural Gas Properties (Continued)

Interest cost totaling $783,146 and $1,180,527 was capitalized for the years ended December 31, 2018 and 2017, respectively. Geological and geophysical costs and costs of carrying and retaining unproved properties are expensed when incurred.

Capitalized costs of producing oil and natural gas properties, after considering estimated residual salvage values, are depreciated and depleted on a field level (common reservoir) basis using the unit-of-production method using proved producing oil and natural gas reserves for exploration and development costs and using total proved reserves for acquisition leasehold costs. Unproved property costs, costs of wells in progress and related capitalized interest costs are excluded from the base subject to depletion until the related costs are considered developed or until proved reserves are found. Oil and natural gas leasehold costs are depleted using the unit-of-production method based on total proved oil and natural gas reserves.

Upon sale or retirement of a complete unit of an evaluated property, the cost and related accumulated depreciation, depletion, and amortization are eliminated from the property accounts, and the resulting gain or loss is recognized in the statement of operations. On the retirement or sale of a partial unit of evaluated property, the cost and related accumulated depreciation, depletion, and amortization apportioned to the interest retired or sold are eliminated from the property accounts, and the resulting gain or loss is recognized in the statements of operations.

Upon sale of an entire interest in an unevaluated property, gain or loss on the sale is recognized, taking into consideration the amount of any recorded impairment if the property had been assessed individually. If a partial interest in an unevaluated property is sold, the amount received is treated as a reduction of the cost of the interest retained.

During 2018, the Company sold its working interest in certain producing properties and undeveloped acreage totaling approximately 2,502 net acres (including 55 producing wells) for a sale price of approximately $31.3 million. As a result of the sale, the Company recorded a loss of approximately $39.4 million.

Evaluated oil and natural gas properties are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable, which is generally performed at the field level. Assets are grouped at the lowest level for which there is identifiable cash flows that are largely independent of the cash flows of other groups of assets. The Company estimates the future undiscounted cash flows of the affected properties to determine the recoverability of carrying amounts. If the net costs are in excess of the undiscounted future net cash flows, then the fair value is determined using the discounted future net cash flows as the new carrying value with any excess net cost recorded as an impairment with a corresponding amount recorded to accumulated depletion, depreciation and amortization. At December 31, 2018 and 2017, no impairment of evaluated oil and natural gas properties is required.

Unevaluated oil and natural gas properties are periodically assessed for impairment of value, and a loss is recognized at the time of impairment by providing an impairment allowance. During the years ended December 31, 2018 and 2017, abandonment of expired leases totaling $0 and $35,215 was charged to expense due to the expiration of certain leases. As of December 31, 2018 and 2017, oil and natural gas leasehold costs included in the consolidated balance sheets included $11,649,046 and $26,652,111, respectively, of unevaluated leasehold costs.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Asset Retirement Obligations

The Company records an asset retirement obligation for the abandonment of oil and natural gas producing properties. The asset retirement obligation is recorded at its estimated fair value on the date that the obligation is incurred and accretion expense is recognized over time as the discounted liability is accreted to its expected settlement value. Fair value is measured using expected future cash outflows, which consider an estimate of the cost to plug and abandon wells (excluding salvage), future inflation rates and is discounted at the Company's credit-adjusted risk-free interest rate.

The fair value of the estimated asset retirement cost is capitalized as part of the carrying amount of the applicable proved oil and natural gas property and depleted using the unit-of-production method. Periodically the asset retirement obligation is re-measured to determine if a revision to the estimate is necessary with any revisions being recorded as an adjustment to oil and natural gas property cost.

Revenue Recognition and Imbalances

Revenues from the sale of crude oil and natural gas production are recognized when oil and natural gas is sold at a fixed and determinable price, delivery has occurred, title has transferred and collectability is reasonably assured, net of royalties. An accrual is recorded at each reporting period by estimating the oil and natural gas volumes produced and delivered, net of royalties, and corresponding oil and natural gas prices for periods when actual production information is not available. Crude oil that remains within the field tanks, natural gas that remains in a pipeline and natural gas liquids that remain within a tank that is not sold at each reporting period is considered not produced. The Company follows the sales method of accounting for oil and natural gas revenues whereby revenue is recognized for all oil and natural gas sold to purchasers, regardless of whether the sales are proportionate to the Company's ownership interest in the property. Production imbalances, if any, are recognized as an asset or liability to the extent that the Company has an imbalance on a specific property that is in excess of its remaining proved oil and gas reserves. Oil and natural gas sales volumes are not significantly different from the Company's share of production and as of December 31, 2018 and 2017, the Company did not have any material production imbalances.

Revenue from LNG sales is recognized when the LNG Cargo Loading is completed. All the costs arising out of GGULL's LNG operations are billed to the Parent ("Buyer") through LNG invoices or billing adjustments. The LNG sales price is comprised of the natural gas purchase cost, liquefaction costs, transportation costs, other third-party costs such as financing and letter or credit costs, legal expenses on contracts, general and administrative costs and a markup on general and administrative costs. The markup being charged is subject to the outcome of a Bilateral Advance Pricing Agreement filed by GGUI with the IRS for transfer pricing of GGULL-Parent LNG transactions. Any under/over recovery in costs is recorded as a true-up provision within Other Current Assets as its adjusted in subsequent periods through LNG pricing adjustments. In addition to the LNG sale pricing, any costs paid to or any credits received from the terminal operator and gas supplier that are not related to the LNG sold are passed on to the Buyer through Debit/Credit Notes and reported as receivable from/payable to Buyer.

Deferred Financing Costs

Deferred financing costs are those costs incurred in connection with obtaining a line of credit and are amortized to interest expense, on a straight-line basis, which approximates the interest method, over the term of the line of credit. Deferred financing costs are presented as a direct deduction of the carrying value of the line of credit.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the consolidated financial statements.

Significant estimates include volumes of oil and natural gas reserves used in calculating depreciation, depletion and amortization of oil and natural gas properties, future net revenues and abandonment obligations, impairment of developed and undeveloped properties, the collectability of outstanding accounts receivable, contingencies, and the results of current and future litigation. Oil and natural gas reserve estimates, which are the basis for unit-of-production depreciation and depletion, have numerous inherent uncertainties. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Subsequent drilling results, testing, and production may justify revision of such estimates. Accordingly, reserve estimates are often different from the quantities of oil and natural gas that are ultimately recovered. In addition, reserve estimates are sensitive to changes in wellhead prices of crude oil and natural gas, which has a direct effect on future revenues and volumes of oil and natural gas that can be produced economically. Such prices have been volatile in the past and can be expected to be volatile in the future.

The significant estimates are based on current assumptions that may be materially affected by changes to future economic conditions, such as the market prices received for sales of volumes of oil and natural gas, which are primarily based upon the data and information received from the joint venture operator. Future changes in these assumptions may affect these significant estimates materially in the near term.

Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current period and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. When appropriate, a valuation allowance is recorded to reflect its deferred tax assets at their net realizable value.

In 2018, the Company adopted Accounting Standards Update (“ASU”) 2015-17, (Topic 740) Balance Sheet Classification of Deferred Taxes on a prospective basis. There was no impact on the consolidated financial statements or related disclosures upon adoption of this standard.

The Company is subject to state taxes in Maryland and Texas. The state of Texas has a gross margin tax that applies to the Company. Tax margin is defined as total revenue less deduction for costs of goods sold or compensation and benefits in which total calculated taxable margin cannot exceed 70% of total revenue.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The Company will account for interest and penalties assessed resulting from of an examination in income tax expense when incurred. The Company had no tax-related interest or penalties for the years ended December 31, 2018 and 2017. Management has evaluated the Company's tax positions and concluded that the Company has taken no uncertain tax positions that require adjustment to the consolidated financial statements.

Sales-Based Taxes

The Company pays certain governmental taxes based on its sales of oil and natural gas to customers. The Company reports its sales at the gross amount and the related taxes, primarily severance taxes, are included in production taxes in the accompanying statements of operations. Total sales-based taxes incurred by the Company for the years ending December 31, 2018 and 2017 amounted to $1,107,167 and $822,281, respectively.

Fair Value of Financial Instruments

The Company measures fair value under Accounting Standard Codification 820, "Fair Value Measurements and Disclosures," which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements.

A three-level valuation hierarchy for disclosure of fair value measurements categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. Level 1 inputs include observable inputs such as quoted prices in active markets at the measurement date for identical, unrestricted assets or liabilities. Level 2 inputs include inputs that are observable directly or indirectly such as quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability. Level 3 inputs include unobservable inputs for which there is little or no market data and which the Company makes its own assumptions about how market participants would price the assets and liabilities.

The initial measurement of asset retirement obligations at fair value is calculated using discounted cash flow techniques and based on internal estimates of future retirement costs associated with property, plant and equipment. Significant Level 3 inputs used in the calculation of asset retirement obligations include plugging costs, inflation rates, discount rates and reserve lives. A reconciliation of the Company's asset retirement obligations is presented in NOTE 3 - ASSET RETIREMENT OBLIGATIONS.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an ASU on a comprehensive new revenue recognition standard that will supersede Accounting Standards Codification 605, Revenue Recognition. The ASU creates a framework under which an entity will allocate the transaction price to separate performance obligations and recognize revenue when each performance obligation is satisfied. Under the ASU, entities will be required to use judgment and make estimates, including identifying performance obligations in a contract, estimating the amount of variable consideration to include in the transaction price, allocating the transaction price to each separate performance obligation, and determining when an entity satisfies its performance obligations.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

The ASU allows for either "full retrospective" adoption, meaning that the standard is applied to all of the periods presented with a cumulative catch-up as of the earliest period presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements with a cumulative catch-up as of the current period. The standard is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, for nonpublic entities. The Company is still evaluating the impact that the ASU will have on its financial statements and related disclosures however based on the nature of its activities does not believe the adoption of this standard will have a material impact on financial statements.

In February 2016, the FASB issued an ASU update for leases. The ASU introduces a lessee model that brings most leases on the balance sheet. The new standard also aligns many of the underlying principles of the new lessor model with those in the current accounting guidance as well as the FASB's new revenue recognition standard. However, the ASU eliminates the use of bright-line tests in determining lease classification as required in the current guidance. The ASU also requires additional qualitative disclosures along with specific quantitative disclosures to better enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The ASU is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period, using a modified retrospective approach. Early adoption is permitted. The Company is still evaluating the impact that the ASU will have on its financial statements and related disclosures.

NOTE 3 - ASSET RETIREMENT OBLIGATIONS

A summary of the changes in the asset retirement obligations for the years ending December 31:

	2018	2017
Beginning of year	$ 1,016,199	$ 923,116
Liabilities incurred	233,178	50,827
Reduction due to divestiture of oil and gas properties	(568,969)	-
Accretion expense	41,680	42,256
End of year	$ 722,088	$ 1,016,199

NOTE 4 - LINES OF CREDIT

During April 2018, GGULL entered into a credit facility agreement for: (1) a $41,000,000 committed line of credit (the "Working Capital Line of Credit"), and (2) an uncommitted line of credit (the "Uncommitted Working Capital Line of Credit") for $10,000,000. The outstanding balance on the Working Capital Line of Credit at December 31, 2018 was $45,826,017. Principal is due at maturity on April 24, 2019 (see Note 9). Borrowings under the Line of Credit accrue interest at the one-month LIBOR (2.41% at December 31, 2018) plus 0.45% and is payable monthly. The Working Capital Line of Credit has a commitment fee equal to 0.10% per annum times the average daily amount by which the commitment exceeds the outstanding principal amount. The commitment fee will accrue at all times, as defined, and will be due and payable in arrears on the last day of each interest period. The Working Capital Line of Credit is guaranteed by the Company's Parent for no annual fee.

NOTE 4 - LINES OF CREDIT (CONTINUED)

During September 2017, GGULL entered into two letter of credit facility agreements: (1) a $101,394,000 letter of credit line (the "Letter of Credit Line"), and (2) an uncommitted line of credit (the "Uncommitted Line of Credit") for $23,606,000. These facilities will be used for the issuance of standby letters of credit to accommodate the purchase of natural gas. The available limit on the Letter of Credit Line at December 31, 2017 was $101,394,000 and matured on September 28, 2018. The Letter of Credit Line has a commission fee of 0.40% on the average daily amount of obligations outstanding, and a facility fee equal to 0.25% per annum times the average daily amount by which the commitment exceeds the outstanding Letter of Credit Line obligation amount. The facility fees and commission fees for the immediately preceding quarter are payable on the first business day of the quarter. The Letter of Credit Line is guaranteed by the Company's Parent for no annual fee.

During September 2018, GGULL amended the two letter of credit facility agreements referred to above as follows: (1) a $100,000,000 Letter of Credit Line, and (2) a $25,000,000 Uncommitted Line of Credit. These facilities will be used for the issuance of standby letters of credit to accommodate the purchase of natural gas. The available limit on the Letter of Credit Line at December 31, 2018 was $100,000,000 and matures on September 27, 2019. The Letter of Credit Line has a commission fee of 0.25% on the average daily amount of obligations outstanding, and a facility fee equal to 0.25% per annum times the average daily amount by which the commitment exceeds the outstanding Letter of Credit Line obligation amount. The facility fees and commission fees for the immediately preceding quarter are payable on the first business day of the quarter. The Letter of Credit Line is guaranteed by the Company's Parent for no annual fee.

During December 2017, the Company entered into a credit facility for $114,000,000 (the "Line of Credit") with a bank. The outstanding balance on the Line of Credit at December 31, 2017 was $106,750,000 and matured on December 19, 2018 and was renewed as noted below. Borrowings under the Line of Credit accrue interest at the one-month LIBOR (1.56% at December 31, 2017) plus 0.45% and is payable monthly. The Line of Credit had a commitment fee equal to 0.10% per annum times the average daily amount by which the commitment exceeds the outstanding principal amount. The commitment fee will accrue at all times, as defined, and will be due and payable in arrears on the last day of each interest period. The Line of Credit is guaranteed by the Parent for an annual fee of 1.43662% payable quarterly in advance calculated based on the outstanding principal plus overdue interest.

During December 2018, the Company entered into a Credit Facility Agreement for borrowings of up to $85,000,000. The outstanding balance on the Line of Credit at December 31, 2018 was $80,000,000 and matures on December 19, 2019. Borrowings under the Line of Credit accrue interest at the one-month LIBOR (2.41% at December 31, 2018) plus 0.40% and is payable monthly. The Line of Credit has a commitment fee equal to 0.05% per annum times the average daily amount by which the commitment exceeds the outstanding principal amount. The commitment fee will accrue at all times, as defined, and will be due and payable in arrears on the last day of each interest period. The Line of Credit is guaranteed by the Parent for an annual fee of 0.41324% payable quarterly in advance calculated based on the outstanding principal plus overdue interest.

NOTE 4 - LINES OF CREDIT (CONTINUED)

The following table comprises the outstanding lines of credit balance at December 31:

	2018	2017
Line of credit	$ 80,000,000	$ 106,750,000
Working capital line of credit	45,826,017	-
Less: Unamortized deferred financing costs	(181,829)	(219,879)
Lines of credit, net of unamortized deferred financing costs	$ 125,644,188	$ 106,530,121

Both credit agreements have a current maturity, therefore, remaining deferred loan cost will be amortized to interest expense over the next 12 months.

NOTE 5 - INCOME TAXES

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 using a U.S. Federal statutory corporate rate of 21% as of December 31, 2018 and 2017. Significant components of the Company's deferred tax liability as of December 31 are as follows:

	2018	2017
Differences in depletion, depreciation and amortization of property for tax purposes	$ (8,072,139)	$ (13,263,097)
Net operating loss carryforward	7,560,000	13,718,212
Tax credit carryforward	47,628	47,628
Capitalized interest expense	(1,514,929)	(1,083,431)
Total deferred tax liability	$ (1,979,440)	$ (580,688)

During 2017, the U.S. enacted the Tax Cuts and Job Acts of 2017 ("2017 Tax Act") which substantially reduced the federal tax rate for U.S. corporations from 34% to 21% commencing in 2018. As of December 31, 2017, the remeasurement of the cumulative deferred tax assets and liabilities using the newly enacted statutory federal tax rate of 21% resulted in a reduction of the net deferred tax liability of approximately $389,000.

The Company had a net operating loss carryforward available at December 31, 2018 amounting to approximately $70,601,000, of which $67,776,000 begins to expire in 2035 and $2,825,000 will be carried forward indefinitely. At December 31, 2018, a valuation allowance totaling approximately $7.3 million has been recorded and is reflected as a reduction of the net operation loss carryforward.

NOTE 6 - RELATED PARTY TRANSACTIONS

The Company recorded interest expense related to the Parent's guarantee of the lines of credit for the years ended December 31, 2018 and 2017 totaling $1,335,393 and $641,562, respectively.

NOTE 6 - RELATED PARTY TRANSACTIONS (CONTINUED)

The Company incurred general and administrative expenses incurred by its Parent on behalf of the Company of $551,301 and $129,624 during the years ended December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, $331,435 and $29,125, respectively, was unpaid and included in accounts payable.

Prior to commencement of the LNG terminal operations in April 2018, GGULL charged Parent for certain services provided on behalf of the Parent, recorded as a reduction in general and administrative expenses on the accompanying consolidated statements of operations. At December 31, 2018 and 2017, accounts receivable - Parent included nil and $297,900, respectively, related to these charges.

GGULL recorded LNG revenue from sales to Parent of approximately $501.9 million during the year ended December 31, 2018. At December 31, 2018, accounts receivable - Parent included approximately $113.7 million related to these sales.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

From time to time, the Company may be party to legal actions and claims arising in the ordinary course of business. While the outcome of these events cannot be predicted with certainty, management does not expect these matters to have a material adverse effect on the financial positions or results of operations of the Company.

During 2018, DECP claimed certain force majeure events resulted in export in-service delays and service interruptions in DECP's Cove Point Terminal, which were not accepted by GGULL. DECP did not make payment of export in-service delay damages to GGULL in the amount of $4.47 million because DECP claimed the delays were due to force majeure. In addition, GGULL disputed and deducted an aggregate amount of $14.06 million out of the total amounts invoiced by DECP during the year ended December 31, 2018 because of certain service failure credits, additional service failure credits and remarketing losses, which DECP claimed as service failures arising due to force majeure. As of December 31, 2018, the amounts in dispute have not been recorded and the ultimate outcome in these matters is not determinable. GGULL and DECP are holding discussions to resolve these matters and to the extent any amounts owed that result from such discussions will be recorded at that time with a corresponding amount recorded as a receivable from Parent.

The Company is subject to a non-cancelable operating lease for the rental of office space. The office lease was executed in February 2018 and expires March 31, 2021.

Gross future minimum rental commitments are as follows:

Year Ended December 31,		
2019	$	42,464
2020		43,558
2021		11,026
	$	97,048

Total rental expense for all operating leases except those with terms of a month or less that were not renewed was $59,695 and $22,604 for the years ended December 31, 2018 and 2017, respectively.

NOTE 7 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

The operations and financial positions of the Company continue to be affected from time to time in varying degrees by domestic political developments as well as legislation and regulations pertaining to restrictions on oil and gas production, imports and exports, gas regulation, environmental regulations and cancellation of contract rights. Both the likelihood and overall effect of such occurrences on the Company vary and are not predictable.

NOTE 8 - CONCENTRATIONS OF CREDIT RISK AND FINANCIAL INSTRUMENTS

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash, accounts receivable and debt. The Company maintains its cash with financial institutions it believes have a high credit quality. The Company at times maintains bank deposits in excess of federally-insured limits. The possibility of a loss exists if the bank holding excess deposits was to fail. All of the Company's accounts receivable resulting from oil and natural gas sales are from Carrizo as operator of 100% of the Company's properties. To mitigate this credit risk, the Company closely monitors the payment history and credit worthiness of Carrizo. All of the Company's accounts receivable resulting from LNG sales are from its Parent. The carrying value of the Working Capital Line of Credit and the Line of Credit approximates fair value because the interest rate is based on current floating market rates commensurate with debt instruments that carry similar credit risk.

NOTE 9 - SUBSEQUENT EVENTS

In April 2019, GGULL entered into a credit agreement and increased its committed Working Capital Line of Credit amount to $50,000,000 and its Uncommitted Working Capital Line of Credit to $20,000,000 both of which mature in April 2020. The remaining terms are similar to those under its prior agreements and continue to be guaranteed by the Company's Parent.

The Company has evaluated subsequent events through May 15, 2019, the date the financial statements were available to be issued and have determined that there are no other subsequent events to be reported.

Supplementary Information

GAIL Global (USA) Inc. and Subsidiary

A wholly owned subsidiary of GAIL (India) Limited

Consolidated Fixed Assets Rollforward

Year Ended December 31, 2018

	COST				DEPLETION, DEPRECIATION AND AMORTIZATION				NET BOOK VALUE	
	Balance at December 31, 2017	Additions/ Transfers	Retirements	Balance at December 31, 2018	Balance at December 31, 2017	Additions/ Transfers	Retirements	Balance at December 31, 2018	December 31, 2017	December 31, 2018
Oil and Natural Gas Properties										
Leasehold costs (evaluated and unevaluated)	$ 52,614,144	$ 617,027	$ 28,357,673	$ 24,873,498	$ 7,461,129	$ 1,233,128	$ 5,268,607	$ 3,425,650	$ 45,153,015	$ 21,447,848
Drilling costs	66,994,797	4,809,059	38,820,761	32,983,095	37,456,423	2,932,740	24,113,403	16,275,760	29,538,374	16,707,335
Completion costs	117,863,486	13,240,385	72,320,282	58,783,589	63,655,083	6,027,231	44,088,006	25,594,308	54,208,403	33,189,281
Production equipment and facilities	16,164,636	1,824,586	8,002,681	9,986,541	8,066,471	1,000,487	4,766,923	4,300,035	8,098,165	5,686,506
ARO and capitalized interest	6,548,414	1,016,323	3,424,101	4,140,636	2,555,791	199,005	1,430,023	1,324,773	3,992,623	2,815,863
Total	260,185,477	21,507,380	150,925,498	130,767,359	119,194,897	11,392,591	79,666,962	50,920,526	140,990,580	79,846,833
Wells in progress costs										
Drilling costs	1,599,984	(1,599,984)	-	-	-	-	-	-	1,599,984	-
Total wells in progress costs	1,599,984	(1,599,984)	-	-	-	-	-	-	1,599,984	-
Total oil and natural gas properties	261,785,461	19,907,396	150,925,498	130,767,359	119,194,897	11,392,591	79,666,962	50,920,526	142,590,564	79,846,833
Other										
Office equipment	8,273	29,809	-	38,082	2,046	5,166	-	7,212	6,227	30,870
Total other	8,273	29,809	-	38,082	2,046	5,166	-	7,212	6,227	30,870
Grand total	$ 261,793,734	$ 19,937,205	$ 150,925,498	$ 130,805,441	$ 119,196,943	$ 11,397,757	$ 79,666,962	$ 50,927,738	$ 142,596,791	$ 79,877,703

See independent auditors' report on supplementary information.

GAIL Global (USA) Inc. and Subsidiary

A wholly owned subsidiary of GAIL (India) Limited

Consolidated Fixed Assets Rollforward

Year Ended December 31, 2017

	COST				DEPLETION, DEPRECIATION AND AMORTIZATION				NET BOOK VALUE	
	Balance at December 31, 2016 (Restated)	Additions/ Transfers	Retirements	Balance at December 31, 2017	Balance at December 31, 2016	Additions/ Transfers	Retirements	Balance at December 31, 2017	December 31, 2016	December 31, 2017
Oil and Natural Gas Properties										
Leasehold costs (evaluated and unevaluated)	$ 52,018,839	$ 630,520	$ 35,215	$ 52,614,144	$ 6,402,853	$ 1,058,276	$ -	$ 7,461,129	$ 45,615,986	$ 45,153,015
Drilling costs	64,409,361	2,585,436	-	66,994,797	34,066,796	3,389,627	-	37,456,423	30,342,565	29,538,374
Completion costs	112,518,490	5,344,996	-	117,863,486	57,333,423	6,321,660	-	63,655,083	55,185,067	54,208,403
Production equipment and facilities	14,548,460	1,616,176	-	16,164,636	7,068,343	998,128	-	8,066,471	7,480,117	8,098,165
ARO and capitalized interest	5,317,060	1,231,354	-	6,548,414	2,108,729	447,062	-	2,555,791	3,208,331	3,992,623
Total proved property costs	248,812,210	11,408,482	35,215	260,185,477	106,980,144	12,214,753	-	119,194,897	141,832,066	140,990,580
Wells in progress costs										
Drilling costs	-	1,599,984	-	1,599,984	-	-	-	-	-	1,599,984
Total wells in progress costs	-	1,599,984	-	1,599,984	-	-	-	-	-	1,599,984
Total oil and natural gas properties	248,812,210	13,008,466	35,215	261,785,461	106,980,144	12,214,753	-	119,194,897	141,832,066	142,590,564
Other										
Office equipment	4,322	3,951	-	8,273	1,674	372	-	2,046	2,648	6,227
Total other	4,322	3,951	-	8,273	1,674	372	-	2,046	2,648	6,227
Grand total	$ 248,816,532	$ 13,012,417	$ 35,215	$ 261,793,734	$ 106,981,818	$ 12,215,125	$ -	$ 119,196,943	$ 141,834,714	$ 142,596,791

See independent auditors' report on supplementary information.