



**GAIL Global (USA) Inc.  
and Subsidiary**

**Consolidated Financial Statements  
(with Independent Accountants'  
Review Report)**

**March 31, 2023**



## **GAIL Global (USA) Inc. and Subsidiary**

A wholly-owned subsidiary of GAIL (India) Limited

**March 31, 2023**

### **Table of Contents**

	<b><u>Page(s)</u></b>
Independent Accountants' Review Report.....	1
Financial Statements	
Consolidated Balance Sheets .....	2 – 3
Consolidated Statements of Operations .....	4
Consolidated Statements of Changes in Stockholder's Deficit .....	5
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7 – 19



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## **INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

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

We have reviewed 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 March 31, 2023 and 2022, the related consolidated statements of operations, changes in stockholder's deficit and cash flows for the three months ended March 31, 2023 and 2022, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, we do not express such an opinion.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"); 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.

### **Accountants' Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with U.S. GAAP. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### **Accountants' Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with U.S. GAAP.

*Pannell Kerr Forster of Texas, P.C.*

May 8, 2023



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## GAIL Global (USA) Inc. and Subsidiary

A wholly-owned subsidiary of GAIL (India) Limited

### Consolidated Balance Sheets

	March 31,	
	2023	2022
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 708,653	\$ 1,675,226
Accounts receivable - oil and natural gas	855,007	2,007,271
Accounts receivable - Parent	90,925,269	135,490,307
Accounts receivable - other	44,180	42,585
Inventory	14,448,544	11,612,013
Prepaid expenses	30,091	14,291
Operator advance	2,392,921	-
Other current assets	4,888,958	-
Total current assets	114,293,623	150,841,693
Oil and natural gas properties, successful effort method		
Property costs		
Leasehold costs (evaluated and unevaluated)	25,048,675	25,030,983
Drilling costs	34,050,817	34,028,843
Completion costs	60,769,949	60,769,415
Production equipment and facilities	10,727,895	10,454,350
Asset retirement obligation asset	682,212	682,212
Capitalized interest (evaluated and unevaluated)	4,659,261	4,200,117
Wells in progress costs		
Drilling costs	2,044,821	-
Completion costs	444,749	-
Total oil and natural gas property	138,428,379	135,165,920
Office equipment	70,682	69,691
Accumulated depletion, depreciation and amortization	(87,217,450)	(82,295,771)
Oil and natural gas properties, net	51,281,611	52,939,840
Operating lease right of use asset, net	44,170	88,080
Total assets	\$ 165,619,404	\$ 203,869,613

See accompanying notes to consolidated financial statements.

	March 31,	
	2023	2022
<b>Liabilities and Stockholder's Deficit</b>		
Current liabilities		
Accounts payable	\$ 66,251,685	\$ 104,024,731
Accrued liabilities	333,171	138,823
Lines of credit	107,447,145	108,821,565
Operating lease liability, current portion	<u>45,211</u>	<u>45,211</u>
Total current liabilities	<u>174,077,212</u>	<u>213,030,330</u>
Deferred tax liability, net	1,301,757	1,164,489
Asset retirement obligations	919,036	882,172
Operating lease liability, net of current portion	<u>1,675</u>	<u>47,220</u>
Total liabilities	<u>176,299,680</u>	<u>215,124,211</u>
Commitments and contingencies		
Stockholder's deficit		
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	<u>(46,680,276)</u>	<u>(47,254,598)</u>
Total stockholder's deficit	<u>(10,680,276)</u>	<u>(11,254,598)</u>
Total liabilities and stockholder's deficit	<u>\$ 165,619,404</u>	<u>\$ 203,869,613</u>

*See accompanying notes to consolidated financial statements.*



## GAIL Global (USA) Inc. and Subsidiary

A wholly-owned subsidiary of GAIL (India) Limited

### Consolidated Statements of Operations

	Three Months Ended March 31,	
	2023	2022
LNG sales - Parent	\$ 232,216,077	\$ 318,153,490
Oil and natural gas sales		
Crude oil	1,649,247	2,295,571
Natural gas liquids	145,242	218,869
Natural gas	149,500	186,391
Total oil and natural gas sales	1,943,989	2,700,831
Total revenue	234,160,066	320,854,321
Cost of sales - LNG	231,025,703	317,636,796
Oil and natural gas operating expenses		
Lease operating	440,846	428,262
Production taxes	92,231	129,800
Marketing and distribution	125,975	171,544
Depletion, depreciation and amortization	888,658	1,997,705
Abandonment of expired unevaluated leases	-	106,000
Accretion expense	9,515	9,117
General and administrative	494,594	471,075
Total operating expenses	233,077,522	320,950,299
Income (loss) from operations	1,082,544	(95,978)
Other income (expense)		
Interest income	658	117
Interest expense	(1,721,147)	(246,681)
Interest expense capitalized	188,225	24,332
Total other expense, net	(1,532,264)	(222,232)
Loss before		
income tax benefit)	(449,720)	(318,210)
Income tax benefit		
Current	-	-
Deferred	(280,386)	(18,163)
Total income tax benefit	(280,386)	(18,163)
Net loss	\$ (169,334)	\$ (300,047)

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 Deficit****For the Three Months Ended March 31, 2023 and 2022**

	<u>Common Stock</u>	<u>Retained Deficit</u>	<u>Total</u>
Balance, December 31, 2021	\$ 36,000,000	\$ (46,954,551)	\$ (10,954,551)
Net loss	<u>-</u>	<u>(300,047)</u>	<u>(300,047)</u>
Balance, March 31, 2022	<u>\$ 36,000,000</u>	<u>\$ (47,254,598)</u>	<u>\$ (11,254,598)</u>
Balance, December 31, 2022	\$ 36,000,000	\$ (46,510,942)	\$ (10,510,942)
Net loss	<u>-</u>	<u>(169,334)</u>	<u>(169,334)</u>
Balance, March 31, 2023	<u>\$ 36,000,000</u>	<u>\$ (46,680,276)</u>	<u>\$ (10,680,276)</u>

*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

	Three Months Ended March 31,	
	2023	2022
Cash flows from operating activities		
Net loss	\$ (169,334)	\$ (300,047)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depletion, depreciation and amortization	888,658	1,997,705
Abandonment of expired leases	-	106,000
Accretion expense	9,515	9,117
Amortization of operating lease right of use asset	11,000	10,940
Deferred income tax benefit	(280,386)	(18,163)
Changes in operating assets and liabilities		
Accounts receivable - oil and natural gas	139,036	(120,782)
Accounts receivable - Parent	89,984,440	(3,697,412)
Accounts receivable - other	3,850	(10,374)
Inventory	(14,322,147)	19,452,837
Prepaid expenses	1,168	19,559
Operator advance	(2,392,921)	-
Other current assets	15,026,693	2,391,326
Accounts payable	(54,681,031)	(3,185,193)
Accrued liabilities	35,406	(27,339)
Operating lease liability	(11,409)	(11,075)
Net cash provided by operating activities	<u>34,242,538</u>	<u>16,617,099</u>
Cash flows from investing activities		
Additions to oil and natural gas properties	(704,859)	(29,156)
Change in capital expenditure accrual	173,490	(9,906)
Additions to office equipment	(991)	-
Net cash used in investing activities	<u>(532,360)</u>	<u>(39,062)</u>
Cash flows from financing activities		
Proceeds from borrowings on lines of credit	256,303,170	298,937,510
Repayments of lines of credit	(290,427,902)	(314,706,079)
Net cash used in financing activities	<u>(34,124,732)</u>	<u>(15,768,569)</u>
Net increase (decrease) in cash and cash equivalents	(414,554)	809,468
Cash and cash equivalents - beginning of period	<u>1,123,207</u>	<u>865,758</u>
Cash and cash equivalents - end of period	<u>\$ 708,653</u>	<u>\$ 1,675,226</u>
Supplemental cash flow information		
Cash paid for interest, net of amounts capitalized	<u>\$ 1,497,515</u>	<u>\$ 249,688</u>

See accompanying notes to consolidated financial statements.





## **GAIL Global (USA) Inc. and Subsidiary**

A wholly-owned subsidiary of GAIL (India) Limited

### **Notes to Consolidated Financial Statements**

**March 31, 2023**

#### **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") 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 the seller totaling \$31,350,000, which has since then been funded.

In July 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. At March 31, 2023, the Company had a working interest in the remaining 2,870 net acres (including 82 producing wells) in the Eagle Ford Shale area.

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 the 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 2020, DECP changed its name to Cove Point LNG, LP ("CPLL") and is referred to herein as CPLL. In July 2022, the TSA was amended to accommodate certain planned maintenance whereby CPLL will provide incremental liquefaction capacity to the Company. Accordingly, the Company will receive up to an additional 16 days of liquefaction services of 365,000 Dth per day (5,840,000 Dth annually) at \$2.275 per Dth for each extended maintenance period in operating years 6, 12 and 18.



## **GAIL Global (USA) Inc. and Subsidiary**

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### **Notes to Consolidated Financial Statements**

**March 31, 2023**

#### **NOTE 1 - NATURE OF OPERATIONS (CONTINUED)**

In November 2014, GGULL entered into a Gas Sale and Purchase Agreement ("GSPA") with WGL Midstream, Inc. ("WGLM") for supply of up to 430,000 Dth 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 CPLL's Cove Point pipeline in favor of WGLM. In April 2021, WGLM became Six One Commodities Vega LLC followed by a change in its ownership interest. Effective July 2021, Six One Commodities Vega LLC assigned GSPA to its affiliate Six One Commodities LLC and GGULL amended its capacity release in CPLL's Cove Point pipeline in favor of Six One Commodities LLC.

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 the Parent under the LNG SPA commenced in April 2018.

#### **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.

##### **Interim Financial Information**

The information contained in the accompanying consolidated financial statements as of March 31, 2023 and 2022 and for the three month periods ended March 31, 2023 and 2022 are unaudited; however, the consolidated financial statements include all adjustments of a normal recurring nature which are, in the opinion of management, necessary to present fairly the financial position of the Company as of March 31, 2023 and 2022 and the results of its operations and cash flows for the three month periods ended March 31, 2023 and 2022. Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end, which is December 31. The results of operations for interim periods are not necessarily indicative of the results for any other interim period or the full year.

##### **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 for produced volumes that remain unsold.



## **GAIL Global (USA) Inc. and Subsidiary**

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### **Notes to Consolidated Financial Statements**

**March 31, 2023**

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

GGULL supplies natural gas to CPLL'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.

During the production of LNG and the Loading of LNG tankers, Boil-off gas ("BOG") is produced, most of which is recaptured and stored in tanks at the liquefaction terminal. BOG can be used by the terminal operator as fuel use gas or it can be reliquefied into LNG. BOG is treated as consumed and recorded within Cost of Sales – LNG within the Consolidated Statements of Operations.

#### **Liquefaction - Other Current Assets or Liabilities**

Per the Terminal Services Agreement executed between GGULL and CPLL, GGULL is entitled to liquefaction of gas quantities at the CPLL 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 either a prepaid Liquefaction Charges Adjustment Account, which is included within Other Current Assets, or a liability Liquefaction Charges Adjustment Account, which is included in Accounts Payable, on the consolidated 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.

Interest costs totaling \$188,225 and \$24,332 were capitalized for the three months ended March 31, 2023 and 2022, respectively. Geological and geophysical costs and costs of carrying and retaining unproved properties are expensed when incurred.



## **GAIL Global (USA) Inc. and Subsidiary**

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### **Notes to Consolidated Financial Statements**

**March 31, 2023**

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Oil and Natural Gas Properties (Continued)**

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.

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 consolidated statements 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 consolidated statements of operations.

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. At March 31, 2023 and 2022, no impairment of unevaluated oil and natural gas properties is required. During the three months ended March 31, 2023 and 2022, abandonment of expired unevaluated leases charged to expense totaled \$0 and \$106,000, respectively. As of March 31, 2023 and 2022, oil and natural gas leasehold costs in the consolidated balance sheets included \$10,925,731 and \$10,857,070, respectively, of unevaluated leasehold costs. As of March 31, 2023 and 2022, included within oil and natural gas property recorded in the consolidated balance sheets is capitalized interest totaling \$2,480,962 and \$2,229,380, respectively, associated with unevaluated leasehold costs.

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.

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 depreciation, depletion, and amortization. At March 31, 2023 and 2022, no impairment of evaluated oil and natural gas properties is required.



## **GAIL Global (USA) Inc. and Subsidiary**

A wholly-owned subsidiary of GAIL (India) Limited

### **Notes to Consolidated Financial Statements**

**March 31, 2023**

#### **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 (see Note 3). 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 to present value 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**

The Company follows Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers" (Topic 606) ("ASC 606"). ASC 606 uses a five-step revenue recognition model to depict the transfer of goods or services to customers in an amount that reflects the consideration in exchange for those goods or services.

The Company's oil and natural gas revenues are comprised of revenues that are distributed from the operator who sells on the Company's behalf to various purchasers the Company's share of oil, natural gas and natural gas liquids ("NGLs") which may be subject to operator obligated processing, treating and delivery contracts. The Company believes that the disaggregation of revenue into these three major product types as presented in the Consolidated Statements of Operations appropriately depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors based on its single geographic location. Revenues from the sale of oil, natural gas and NGLs is recorded when control has passed and is net of royalties.

An accrual is recorded at each reporting period by estimating the oil, natural gas and NGL volumes produced and delivered, net of royalties, and corresponding 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 transaction price used to recognize revenue is a function of the contract billing terms of the operator taking into account volumes at contractually based rates with payment typically required within 30 days of the end of the production month. At the end of each month when the performance obligation is satisfied, the variable consideration can be reasonably estimated and amounts due from the operators are accrued in Accounts Receivable – oil and natural gas in the consolidated balance sheets. As of March 31, 2023, 2022 and 2021, oil and natural gas receivables from the operators were \$855,007, \$2,007,271 and \$1,062,857, respectively. Taxes assessed by governmental authorities on crude oil, natural gas and NGLs and costs associated with processing, treating and delivery contracts are typically netted within the selling price received or when remitted. Taxes assessed are presented separately from such revenues in the consolidated statements of operations as production taxes and other post-production costs are recorded as marketing and distribution costs since control of production sold passes to the purchasers subject to the operator's terms under these contracts



## **GAIL Global (USA) Inc. and Subsidiary**

A wholly-owned subsidiary of GAIL (India) Limited

### **Notes to Consolidated Financial Statements**

**March 31, 2023**

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Revenue Recognition and Imbalances (Continued)**

The Company applied the practical expedient in ASC 606 exempting the disclosure of the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Each unit of product typically represents a separate performance obligation; therefore, future volumes are wholly unsatisfied and disclosure of the transaction price allocated to remaining performance obligation is not required.

Revenue from LNG sales is recognized when the LNG Cargo Loading is completed and control has passed. 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 of 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 Unilateral Advance Pricing Agreement filed by GGUI with the IRS for transfer pricing of GGULL's Parent LNG transactions. Any under/over recovery in costs is recorded as a true-up provision within Other Current Assets or within Accounts Payable and is 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. From time to time, GGULL may sell LNG to a third party, which is facilitated through an "in tank transfer" at the terminal. Revenue from in tank transfers is recognized when delivery is completed on the delivery date.

##### **Use of Estimates**

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 evaluated and unevaluated 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 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.





## **GAIL Global (USA) Inc. and Subsidiary**

A wholly-owned subsidiary of GAIL (India) Limited

### **Notes to Consolidated Financial Statements**

**March 31, 2023**

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Use of Estimates (Continued)**

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 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 consolidated financial statements. Deferred tax assets and liabilities are included in the consolidated 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.

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.

The Company will account for interest and penalties assessed resulting from an examination in income tax expense when incurred. The Company had no tax-related interest or penalties for the three months ended March 31, 2023 and 2022. 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 consolidated statements of operations. Total sales-based taxes incurred by the Company for the three months ended March 31, 2023 and 2022 amounted to \$92,231 and \$129,800, respectively.

##### **Fair Value of Financial Instruments**

The Company measures fair value under ASC 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.



## **GAIL Global (USA) Inc. and Subsidiary**

A wholly-owned subsidiary of GAIL (India) Limited

### **Notes to Consolidated Financial Statements**

**March 31, 2023**

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Fair Value of Financial Instruments (Continued)**

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 the plugging and abandonment of oil and natural gas wells. 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.

Fair value measurements are also used for impairment purposes most notably related to oil and natural gas properties. Significant Level 3 inputs used in the calculation of fair value takes into consideration a number of assumptions such as future net revenues associated the production and sale of oil and natural gas, future prices, estimates of costs and expenses, timing of production, inflation rates, cost of capital discount rates, future development of prospects and current economic conditions.

##### **Leases**

The Company follows ASU No. 2016-02, leases (Topic 842) and all related amendments ("ASC 842"), which accounts for leases to be put on the consolidated balance sheet as Right of Use Assets with a corresponding amount recorded as a Lease Liability. The Company's lease is an operating lease for its office space which expires in March 2024. See Note 9 – "Leases".

#### **NOTE 3 - ASSET RETIREMENT OBLIGATIONS**

The following is a summary of the changes in the asset retirement obligations for the three months ended March 31:

	2023	2022
Balance, December 31	\$ 909,521	\$ 873,055
Liabilities incurred	-	-
Accretion expense	9,515	9,117
Balance, March 31	\$ 919,036	\$ 882,172





## **GAIL Global (USA) Inc. and Subsidiary**

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### **Notes to Consolidated Financial Statements**

**March 31, 2023**

#### **NOTE 4 - LINES OF CREDIT**

##### **Working Capital Line of Credit**

During April 2021, GGULL entered into a credit facility agreement with a bank for: (1) a \$55,000,000 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 \$15,000,000, which matured in April 2022. During April 2022, the credit facility was renewed and amended to include: (1) a \$65,000,000 committed line of credit, and (2) an uncommitted line of credit for \$25,000,000, and maturing in April 2023. Borrowings under the Working Capital Line of Credit as of March 31, 2023 accrue interest at the one-month secured overnight financing rate ("SOFR") plus 0.55% (4.87% at March 31, 2023) and is payable monthly. The Working Capital Line of Credit had a commitment fee at March 31, 2023 equal to 0.15% per annum times the average daily amount by which the commitment exceeds the outstanding principal amount. The commitment fee accrued at all times, as defined, and was 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. The outstanding balance on the Working Capital Line of Credit at March 31, 2023 and 2022 was \$42,947,145 and \$41,821,565, respectively. See Note 10 – "Subsequent Events" for a summary of the new credit agreement for this credit facility.

##### **Line of Credit**

During December 2021, the Company entered into a Credit Facility Agreement with a bank for borrowings of up to \$70,000,000 (the "Line of Credit") with a bank. The outstanding balance on the Line of Credit at March 31, 2022 was \$67,000,000 and it matured on December 16, 2022. Borrowings under the Line of Credit accrued interest at the one-month LIBOR (0.43757% at March 31, 2022) plus 0.39% and is payable monthly. The Line of Credit is guaranteed by the Parent for an annual fee of 0.24% payable quarterly in arrears, calculated based on the outstanding principal plus overdue interest.

During December 2022, the Company entered into a Credit Facility Agreement with a bank for borrowings of up to \$70,000,000 (the "New Line of Credit"). The outstanding balance on the New Line of Credit at March 31, 2023 was \$64,500,000 and it matures on December 15, 2023. Borrowings under the New Line of Credit accrue interest at the one-month SOFR (4.87% at March 31, 2023) plus 1.00% and is payable monthly. The New Line of Credit is guaranteed by the Parent for an annual fee of 0.43% payable quarterly in arrears, calculated based on the outstanding principal plus overdue interest.

##### **Letter of Credit Line**

During September 2017, GGULL entered into two letter of credit facility agreements with a bank to provide for: (1) a \$100,000,000 Letter of Credit Line, and (2) a \$25,000,000 Uncommitted letter of Credit Line. These facilities will be used for the issuance of standby letters of credit to accommodate the purchase of natural gas. The agreements were subsequently amended to extend the maturity date to September 27, 2021. The Letter of Credit Line had 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 were payable on the first business day of the quarter. The Letter of Credit Line was guaranteed by the Company's Parent for no annual fee.



## GAIL Global (USA) Inc. and Subsidiary

A wholly-owned subsidiary of GAIL (India) Limited

### Notes to Consolidated Financial Statements

March 31, 2023

#### NOTE 4 - LINES OF CREDIT (CONTINUED)

##### Letter of Credit Line (Continued)

In June 2021, GGULL further amended the \$100,000,000 Letter of Credit Line and the \$25,000,000 Uncommitted Letter of Credit Line to extend the maturity date from September 27, 2021 to September 27, 2022. The remaining terms are similar to those under its prior agreement except the original commission fees have been revised to be 0.25% of the aggregate amount available to be drawn after September 28, 2021. The Letter of Credit Line continues to be guaranteed by the Company's Parent. At March 31, 2022, the issued letters of credit under the Letter of Credit Line totaled \$100,000,000.

In May 2022, GGULL amended the \$100,000,000 Letter of Credit Line and the \$25,000,000 Uncommitted Line of Credit to increase the Uncommitted Line of Credit to \$65,000,000. In June 2022, GGULL amended the \$100,000,000 Letter of Credit Line and the \$65,000,000 Uncommitted Letter of Credit Line to increase the Uncommitted Letter of Credit Line to \$120,000,000 and extend the maturity date from September 27, 2022 to September 27, 2023. The remaining terms are similar to those under its prior agreement except the original commission fees have been revised to be 0.22% of the aggregate amount available to be drawn after September 28, 2022. The Letter of Credit Line continues to be guaranteed by the Company's Parent. At March 31, 2023, the issued letters of credit under the Letter of Credit Line totaled \$169,015,800.

The following table comprises the outstanding lines of credit balance as of March 31 2023 and 2022.

	2023	2022
Line of credit	\$ 64,500,000	\$ 67,000,000
Working capital line of credit	42,947,145	41,821,565
Lines of credit	\$ 107,447,145	\$ 108,821,565

#### 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 March 31, 2023 and 2022.

	2023	2022
<u>Deferred tax assets (liabilities)</u>		
Differences in depletion, depreciation and amortization of property for tax purposes	\$ (7,580,318)	\$ (7,321,211)
Net operating loss carryforward	7,173,059	7,471,997
Capitalized interest expense	(894,498)	(1,315,275)
Total deferred tax liability, net	\$ (1,301,757)	\$ (1,164,489)



## **GAIL Global (USA) Inc. and Subsidiary**

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### **Notes to Consolidated Financial Statements**

**March 31, 2023**

#### **NOTE 5 - INCOME TAXES (CONTINUED)**

The Company has a federal net operating loss carryforward available at March 31, 2023 amounting to approximately \$73.9 million, of which \$67.8 million begins to expire in 2035 and \$6.1 million will be carried forward indefinitely. Maryland generally follows the federal rules with respect to the treatment of NOL's. At March 31, 2023, the Company has a state net operating loss carryforward of \$7.1 million.

The 2017 CARES Act provisions relating to NOL's are not expected to result in any material impacts to the Company's tax attributes. At March 31, 2023 and 2022, a tax effected valuation allowance totaling approximately \$8.7 million and \$10.2 million, respectively, has been recorded and is reflected as a reduction of the net operating loss carryforward.

The differences between the U.S. Federal statutory corporate rate of 21% and the current income tax rates realized for the three months ended March 31, 2023 and 2022 are due to several factors primarily resulting from the Company's LNG operations, which commenced in Maryland during 2018, to which state income taxes are applicable. Accordingly, in 2018 the Company established deferred state income taxes related to its Maryland LNG operations. The 2017 CARES Act, which came into effect during the 2018 tax year, phased out the alternative minimum ("AMT") tax.

#### **NOTE 6 - RELATED PARTY TRANSACTIONS**

The Company recorded interest expense related to the Parent's guarantee of the lines of credit for the three months ended March 31, 2023 and 2022 totaling \$67,734 and \$34,477, respectively.

The Company incurred general and administrative expenses incurred by its Parent on behalf of the Company of \$36,774 and \$29,483 during the three months ended March 31, 2023 and 2022, respectively. At March 31, 2023 and 2022, \$54,684 and \$27,143, respectively, was unpaid and included in Accounts Payable.

GGULL recorded LNG revenue from sales to Parent of approximately \$232 million and \$318 million during the three months ended March 31, 2023 and 2022, respectively. At March 31, 2023 and 2022, Accounts Receivable – Parent was approximately \$91 million and \$135 million, respectively.

GGULL recorded LNG over/(under) recovery in costs as a true-up provision to be adjusted in subsequent periods through LNG pricing adjustments to Parent of approximately \$(0.1) million and \$2.0 million for the three months ended March 31, 2023 and 2022, respectively. At March 31, 2023 and 2022, Accounts Payable included approximately \$1.6 million and \$3.4 million, respectively, related to this true-up provision.

#### **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.

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.



## GAIL Global (USA) Inc. and Subsidiary

A wholly-owned subsidiary of GAIL (India) Limited

### Notes to Consolidated Financial Statements

March 31, 2023

#### 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 and accounts receivable. 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 two operators of 100% of the Company's properties. To mitigate this credit risk, the Company closely monitors the payment history and credit worthiness of the operators. 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. Since the Company's debt instruments have floating interest rates based on the one-month SOFR, the Company is exposed to interest rate risk. Interest expense will fluctuate as SOFR increases and decreases and due to changes in borrowing activities. Based on the March 31, 2023 balance of debt outstanding, a 1% change in SOFR will cause interest expense to increase or decrease by approximately \$1 million.

#### NOTE 9 - LEASES

The Company follows ASC 842 applying the modified retrospective approach.

The Company has an operating lease for its office which expires on March 31, 2024. The initial accounting for this operating lease under ASC 842 resulted in the recognition of operating lease liability totaling \$147,476, based upon the present value of the remaining minimum rental payments using discount rates as of the adoption date. The Company recorded a corresponding right-of-use asset totaling \$142,632 based upon the operating lease liability adjusted for deferred rent and lease incentives and a \$4,844 cumulative effect as an adjustment to the opening balance of accumulated deficit.

At March 31, 2023, the operating lease right-of-use asset total is \$44,170 and the operating lease liability total is \$46,886. At March 31, 2022, the operating lease right-of-use asset total is \$88,080 and the operating lease liability total \$92,431.

The Company is subject to future minimum rental payments for operating leases for office space and future minimum rental commitments for the period and years ended December 31, are as follows:

<u>December 31,</u>		
2023	\$	35,265
2024		<u>11,755</u>
	\$	<u>47,020</u>

Total rental expense for all operating leases except those with terms of a month or less that were not renewed was \$19,592 and \$19,079 for the three months ended March 31, 2023 and 2022, respectively.



## **GAIL Global (USA) Inc. and Subsidiary**

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### **Notes to Consolidated Financial Statements**

**March 31, 2023**

#### **NOTE 10 - SUBSEQUENT EVENTS**

In April 2023, GGULL entered into a new credit agreement for a Working Capital Line of Credit Committed amount of \$65,000,000 and an Uncommitted Working Capital Line of Credit of \$25,000,000 both of which mature in April 2024. Borrowings under the Working Capital Line of Credit accrue interest at the one-month SOFR plus 1.40% and is payable monthly. The Working Capital Line of Credit has a commitment fee equal to 0.15% 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.

In April 2023, \$69,105,800 of the issued letters of credit under the Letter of Credit Line was withdrawn and canceled leaving outstanding issued letters of credit under the Letter of Credit Line totaling \$100,000,000. Additionally, the Letter of Credit Line was reduced by \$69,105,800 and the amount available to the Company is \$100,000,000.

The Company has evaluated subsequent events through May 8, 2023, the date the consolidated financial statements were available to be issued and have determined that there are no other subsequent events to be reported.