CorEnergy Infrastructure Trust, Inc.
Form 10-Q
May 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-33292

CORENERGY INFRASTRUCTURE TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland	20-3431375
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1100 Walnut, Ste. 3350 Kansas City, MO	64106
(Address of Principal Executive Offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act)
Yes o No x
As of April 30, 2017, the registrant had 11,894,028 common shares outstanding.

CorEnergy Infrastructure Trust, Inc.
FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2017
TABLE OF CONTENTS

This report should be read in its entirety. No one section of the report deals with all aspects of the subject matter. It should be read in conjunction with the consolidated financial statements, related notes, and with the Management's Discussion & Analysis ("MD&A") included within, as well as provided in the Annual Report on Form 10-K, for the year ended December 31, 2016.

The consolidated unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information, the instructions to Form 10-Q, and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2017, are not necessarily indicative of the results that may be expected for the year ended December 31, 2017 or for any other interim or annual period. For further information, refer to the consolidated financial statements and footnotes thereto included in the CorEnergy Infrastructure Trust, Inc. Annual Report on Form 10-K, for the year ended December 31, 2016.

GLOSSARY OF DEFINED TERMS

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

Accretion Expense: the expense recognized when adjusting the present value of the GIGS ARO for the passage of time

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

Alerian MLP Index: a float-adjusted, capitalization-weighted index of energy Master Limited Partnerships

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

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

ARO: the Asset Retirement Obligation liabilities assumed with the acquisition of GIGS

ASC: FASB Accounting Standards Codification

Bbls: standard barrel containing 42 U.S. gallons

BB Intermediate: Black Bison Intermediate Holdings, LLC, the holding company of Black Bison Water Services

Black Bison Loans: the financing notes between Corridor Bison and CorEnergy BBWS and BBWS

BBWS: Black Bison Water Services, LLC, the borrower of the Black Bison financing notes, as well as all of the other collateral securing the Black Bison Loans

Company: CorEnergy Infrastructure Trust, Inc. and its subsidiaries, collectively

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

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

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

CorEnergy Credit Facility: the Company's $45 million CorEnergy Term Loan, together with the upsized $105 million CorEnergy Revolver and the $3 million MoGas Revolver with Regions Bank

CorEnergy Revolver: the Company’s $105 million secured revolving line of credit facility with Regions Bank

CorEnergy Term Loan: the Company's $45 million secured term loan with Regions Bank that is part of the CorEnergy Credit Facility

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

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

Corridor MoGas: Corridor MoGas, Inc., a wholly-owned taxable REIT subsidiary of CorEnergy and the holding company of MoGas, United Property Systems and CorEnergy Pipeline Company, LLC

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

CPI: Consumer Price Index

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

GLOSSARY OF DEFINED TERMS (Continued from previous page)

EXXI: Energy XXI Ltd, the parent company (and guarantor) of our tenant on the Grand Isle Gathering System lease, emerged from a reorganization under Chapter 11 of the US Bankruptcy Code on December 30, 2016, with the succeeding company named Energy XXI Gulf Coast, Inc. Throughout this document, references to EXXI will refer to both the pre- and post- bankruptcy entities.

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

FASB: Financial Accounting Standards Board

FERC: Federal Energy Regulatory Commission

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

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

Four Wood Notes: the financing notes between Four Wood Corridor and Corridor Private and SWD

GAAP: U.S. generally accepted accounting principles

GIGS: the Grand Isle Gathering System, owned by Grand Isle Corridor, LP and triple-net leased to a wholly-owned subsidiary of Energy XXI Gulf Coast, Inc.

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

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

Grand Isle Lease Agreement: the June 2015 agreement pursuant to which the Grand Isle Gathering System assets are triple-net leased to EXXI Tenant

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

Management Agreement: references to the Management Agreement as in effect prior to May 1, 2015 mean the Management Agreement that became effective July 1, 2013, as amended effective January 1, 2014, while references to the Management Agreement as in effect on and after May 1, 2015 mean the new Management Agreement entered into May 8, 2015, effective as of May 1, 2015, between the Company and Corridor

MMBTu: Million British Thermal Units, a measurement of natural gas

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

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

MoGas Revolver: a $3 million secured revolving line of credit facility at the MoGas subsidiary level with Regions Bank

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

Mowood/Omega Revolver: a $1.5 million revolving line of credit facility at the Mowood subsidiary level with Regions Bank

NAREIT: National Association of Real Estate Investment Trusts

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

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

Pinedale Credit Facility: a $70 million secured term credit facility, with the Company and Prudential as current lenders, used by Pinedale Corridor, LP to finance a portion of the acquisition of the Pinedale LGS. See Note 10, Credit Facilities, for a more in-depth discussion of this agreement.

Table of Contents Glossary of Defined Terms

GLOSSARY OF DEFINED TERMS (Continued from previous page)

Pinedale LGS: the Pinedale Liquids Gathering System, a system consisting of approximately 150 miles of pipelines and four above-ground central gathering facilities located in the Pinedale Anticline in Wyoming, owned by Pinedale LP and triple-net leased to a wholly-owned subsidiary of Ultra Petroleum
Pinedale Lease Agreement: the December 2012 agreement pursuant to which the Pinedale LGS assets are triple-net leased to a wholly owned subsidiary of Ultra Petroleum
Pinedale LP: Pinedale Corridor, LP
Pinedale GP: the general partner of Pinedale LP
Portland Lease Agreement: the January 2014 agreement pursuant to which the Portland Terminal Facility is triple-net leased to Arc Terminals, a wholly owned subsidiary of Arc Logistics Partners LP
Portland Terminal Facility: a petroleum products terminal located in Portland, Oregon
Prudential: The Prudential Insurance Company of America
QDI: qualified dividend income
REIT: real estate investment trust
SEC: Securities and Exchange Commission
Series A Preferred: the Company's 7.375% Series A Cumulative Redeemable Preferred Stock, par value $0.001 per share, of which there currently are outstanding 22,500 shares represented by 2,250,000 depositary shares, each representing 1/100th of a whole share of Series A Preferred
SWD: SWD Enterprises, LLC, a wholly-owned subsidiary of Four Wood Energy Partners, LLC
TRS: taxable REIT subsidiary
Ultra Petroleum: Ultra Petroleum Corp.
Ultra Wyoming: Ultra Wyoming LGS LLC, an indirect wholly-owned subsidiary of Ultra Petroleum
United Property Systems: United Property Systems, LLC, an indirect wholly-owned subsidiary of CorEnergy, acquired with the MoGas transaction in November 2014
VIE: Variable interest entity
WTI: West Texas Intermediate, grade of crude oil used for benchmarking price

Table of Contents Glossary of Defined Terms

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Quarterly Report on Form 10-Q may be deemed "forward-looking statements" within the meaning of the federal securities laws. In many cases, these forward-looking statements may be identified by the use of words such as "will," "may," "should," "could," "believes," "expects," "anticipates," "estimates," "intends," "projects," "goals," "objectives," "targets," "predicts," "plans," "seeks," or similar expressions. Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumptions, forward-looking statements are not guarantees of future performance or results and we can give no assurance that these expectations will be attained. Our actual results may differ materially from those indicated by these forward-looking statements due to a variety of known and unknown risks and uncertainties. You should also understand that it is not possible to predict or identify all such factors and should not consider the following list to be a complete statement of all potential risks and uncertainties. Factors that could cause our actual results to differ materially from the results contemplated by such forward-looking statements include:

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

our ability to maintain internal controls and processes to ensure all transactions are accounted for properly, all relevant disclosures and filings are timely made in accordance with all rules and regulations, and any potential fraud or embezzlement is thwarted or detected;

- changes in federal income tax regulations (and applicable interpretations thereof), or in the composition or performance of our assets, that could impact our ability to continue to qualify as a real estate investment trust for federal income tax purposes;

Table of Contents Glossary of Defined Terms

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

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

Table of Contents Glossary of Defined Terms

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

	March 31, 2017 (Unaudited)	December 31, 2016
Assets		
Leased property, net of accumulated depreciation of $57,203,700 and $52,219,717	$484,274,386	$489,258,369
Property and equipment, net of accumulated depreciation of $10,131,025 and $9,292,712	115,574,493	116,412,806
Financing notes and related accrued interest receivable, net of reserve of $4,100,000 and $4,100,000	1,500,000	1,500,000
Other equity securities, at fair value	8,563,297	9,287,209
Cash and cash equivalents	11,375,702	7,895,084
Accounts and other receivables	20,585,073	19,415,666
Deferred costs, net of accumulated amortization of $2,537,722 and $2,261,151	2,855,478	3,132,050
Prepaid expenses and other assets	841,936	354,230
Deferred tax asset	2,057,135	1,758,289
Goodwill	1,718,868	1,718,868
Total Assets	$649,346,368	$650,732,571
Liabilities and Equity		
Secured credit facilities, net (including $8,061,844 and $8,860,577 with related party)	86,992,738	89,387,985
Unsecured convertible senior notes, net of discount and debt issuance costs of $2,558,308 and $2,755,105	111,441,691	111,244,895
Asset retirement obligation	12,043,572	11,882,943
Accounts payable and other accrued liabilities	4,349,149	2,416,283
Management fees payable	1,745,294	1,735,024
Unearned revenue	513,355	155,961
Total Liabilities	$217,085,799	$216,823,091
Equity		
Series A Cumulative Redeemable Preferred Stock 7.375%, $56,250,000 liquidation preference ($2,500 per share, $0.001 par value), 10,000,000 authorized; 22,500 issued and outstanding at March 31, 2017, and December 31, 2016	$56,250,000	$56,250,000
Capital stock, non-convertible, $0.001 par value; 11,893,146 and 11,886,216 shares issued and outstanding at March 31, 2017, and December 31, 2016 (100,000,000 shares authorized)	11,893	11,886
Additional paid-in capital	348,182,779	350,217,746
Accumulated other comprehensive loss	(8,224)	(11,196)
Total CorEnergy Equity	404,436,448	406,468,436
Non-controlling Interest	27,824,121	27,441,044
Total Equity	432,260,569	433,909,480
Total Liabilities and Equity	$649,346,368	$650,732,571

See accompanying Notes to Consolidated Financial Statements.

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

	For the Three Months Ended	
	March 31, 2017	March 31, 2016
Revenue		
Lease revenue	$17,066,526	$16,996,072
Transportation and distribution revenue	5,010,590	5,099,451
Financing revenue	—	162,344
Total Revenue	22,077,116	22,257,867
Expenses		
Transportation and distribution expenses	1,335,570	1,362,325
General and administrative	3,061,240	3,289,852
Depreciation, amortization and ARO accretion expense	6,005,908	5,296,818
Provision for loan loss and disposition	—	4,645,188
Total Expenses	10,402,718	14,594,183
Operating Income	$11,674,398	$7,663,684
Other Income (Expense)		
Net distributions and dividend income	$43,462	$375,573
Net realized and unrealized loss on other equity securities	(544,208)	(1,628,752)
Interest expense	(3,454,397)	(3,926,009)
Total Other Expense	(3,955,143)	(5,179,188)
Income before income taxes	7,719,255	2,484,496
Taxes		
Current tax benefit	(33,760)	(677,731)
Deferred tax benefit	(298,846)	(577,395)
Income tax benefit	(332,606)	(1,255,126)
Net Income	8,051,861	3,739,622
Less: Net Income attributable to non-controlling interest	382,383	348,501
Net Income attributable to CorEnergy Stockholders	$7,669,478	$3,391,121
Preferred dividend requirements	1,037,109	1,037,109
Net Income attributable to Common Stockholders	$6,632,369	$2,354,012
Net Income	$8,051,861	$3,739,622
Other comprehensive income (loss):		
Changes in fair value of qualifying hedges / AOCI attributable to CorEnergy stockholders	2,972	(211,076)
Changes in fair value of qualifying hedges / AOCI attributable to non-controlling interest	694	(49,350)
Net Change in Other Comprehensive Income (Loss)	$3,666	$(260,426)
Total Comprehensive Income	8,055,527	3,479,196
Less: Comprehensive income attributable to non-controlling interest	383,077	299,151
Comprehensive Income attributable to CorEnergy Stockholders	$7,672,450	$3,180,045
Earnings Per Common Share:		
Basic	$0.56	$0.20
Diluted	$0.56	$0.20
Weighted Average Shares of Common Stock Outstanding:		
Basic	11,888,681	11,943,938
Diluted	11,888,681	11,943,938

Dividends declared per share	$0.750	$0.750

See accompanying Notes to Consolidated Financial Statements.

Table of Contents Glossary of Defined Terms

CorEnergy Infrastructure Trust, Inc.
CONSOLIDATED STATEMENT OF EQUITY

	Capital Stock		Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Non-Controlling Interest	Total
	Shares	Amount	Amount					
Balance at December 31. 2016	11,886,216	$11,886	$56,250,000	$350,217,746	$(11,196)	$ —	$27,441,044	$433,909,480
Net income	—	—	—	—	—	7,669,478	382,383	8,051,861
Amortization related to de-designated cash flow hedges	—	—	—	—	2,972	—	694	3,666
Total comprehensive income (loss)	—	—	—	—	2,972	7,669,478	383,077	8,055,527
Series A preferred stock dividends	—	—	—	—	—	(1,037,109)	—	(1,037,109)
Common stock dividends	—	—	—	(2,282,293)	—	(6,632,369)	—	(8,914,662)
Reinvestment of dividends paid to common stockholders	6,930	7	—	247,326	—	—	—	247,333
Balance at March 31, 2017 (Unaudited)	11,893,146	$11,893	$56,250,000	$348,182,779	$(8,224)	$ —	$27,824,121	$432,260,569

See accompanying Notes to Consolidated Financial Statements.

Table of Contents Glossary of Defined Terms

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

	For the Three Months Ended March 31, 2017	March 31, 2016
Operating Activities		
Net Income	$8,051,861	$3,739,622
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax, net	(298,846)	(577,395)
Depreciation, amortization and ARO accretion	6,474,779	5,945,501
Provision for loan loss	—	4,645,188
Net distributions and dividend income, including recharacterization of income	148,649	(117,004)
Net realized and unrealized loss on other equity securities	544,208	1,628,751
Unrealized gain on derivative contract	(27,073)	(71,363)
Changes in assets and liabilities:		
Increase in accounts and other receivables	(1,169,407)	(3,240,409)
Decrease in financing note accrued interest receivable	—	95,114
Increase in prepaid expenses and other assets	(99,573)	(161,354)
Increase in management fee payable	10,270	130,365
Increase in accounts payable and other accrued liabilities	1,932,866	1,935,402
Increase in unearned revenue	—	2,761,202
Net cash provided by operating activities	$15,567,734	$16,713,620
Investing Activities		
Purchases of property and equipment, net	—	(101,919)
Proceeds from asset foreclosure and sale	—	223,451
Increase in financing notes receivable	—	(202,000)
Return of capital on distributions received	31,055	1,165
Net cash provided (used) by investing activities	$31,055	$(79,303)
Financing Activities		
Debt financing costs	—	(224,586)
Dividends paid on Series A preferred stock	(1,037,109)	(1,037,109)
Dividends paid on common stock	(8,667,329)	(8,795,460)
Advances on revolving line of credit	—	44,000,000
Principal payments on secured credit facilities	(2,413,733)	(52,346,250)
Net cash used by financing activities	$(12,118,171)	$(18,403,405)
Net Change in Cash and Cash Equivalents	$3,480,618	$(1,769,088)
Cash and Cash Equivalents at beginning of period	7,895,084	14,618,740
Cash and Cash Equivalents at end of period	$11,375,702	$12,849,652

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

Table of Contents Glossary of Defined Terms

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

	For the Three Months Ended	
	March 31, 2017	March 31, 2016
Supplemental Disclosure of Cash Flow Information		
Interest paid	$1,047,357	$1,398,422
Income taxes paid (net of refunds)	$—	$10,683
Non-Cash Investing Activities		
Net change in Assets Held for Sale, Property and equipment, Prepaid expenses and other assets, Accounts payable and other accrued liabilities and Liabilities held for sale	$—	$(1,776,549)
Non-Cash Financing Activities		
Reinvestment of distributions by common stockholders in additional common shares	$247,333	$159,313

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
March 31, 2017
1. INTRODUCTION AND BASIS OF PRESENTATION
Introduction
CorEnergy Infrastructure Trust, Inc. ("CorEnergy" or "the Company"), was organized as a Maryland corporation and commenced operations on December 8, 2005. The Company's common shares are listed on the New York Stock Exchange under the symbol “CORR” and the depositary shares representing its Series A Preferred are listed on the New York Stock Exchange under the symbol "CORR PrA "
The Company is primarily focused on acquiring and financing real estate assets within the U.S. energy infrastructure sector and concurrently entering into long-term triple-net participating leases with energy companies. The Company also may provide other types of capital, including loans secured by energy infrastructure assets. Targeted assets include pipelines, storage tanks, transmission lines, and gathering systems, among others. These sale-leaseback or real property mortgage transactions provide the energy company with a source of capital that is an alternative to other sources such as corporate borrowing, bond offerings, or equity offerings. Many of the Company's leases contain participation features in the financial performance or value of the underlying infrastructure real property asset. The triple-net lease structure requires that the tenant pay all operating expenses of the business conducted by the tenant, including real estate taxes, insurance, utilities, and expenses of maintaining the asset in good working order. CorEnergy considers its investments in these energy infrastructure assets to be a single business segment and reports them accordingly in its financial statements.
In 2013 CorEnergy qualified, and in March 2014 elected (effective as of January 1, 2013), to be treated as a REIT for federal income tax purposes. Because certain of the Company's assets may not produce REIT-qualifying income or be treated as interests in real property, those assets are held in wholly-owned Taxable REIT Subsidiaries ("TRSs") in order to limit the potential that such assets and income could prevent the Company from qualifying as a REIT. The Company's use of TRSs enables it to continue to engage in certain businesses while complying with REIT qualification requirements and also allows it to retain income generated by these businesses for reinvestment without the requirement of distributing those earnings. In the future, the Company may elect to reorganize and transfer certain assets or operations from its TRSs to the Company or other subsidiaries, including qualified REIT subsidiaries. Taxable REIT subsidiaries hold the Company's securities portfolio, operating businesses and certain financing notes receivable.
Basis of Presentation and Use of Estimates
The accompanying consolidated financial statements include CorEnergy accounts and the accounts of its wholly owned subsidiaries and have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) set forth in the Accounting Standards Codification ("ASC"), as published by the Financial Accounting Standards Board ("FASB"), and with the Securities and Exchange Commission (“SEC”) instructions to Form 10-Q, and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The accompanying consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the Company's financial position, results of operations, and cash flows for the periods presented. There were no adjustments that, in the opinion of management, were not of a normal and recurring nature. All intercompany transactions and balances have been eliminated in consolidation, and the Company's net earnings are reduced by the portion of net earnings attributable to non-controlling interests.
Operating results for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 or any other interim or annual period. These consolidated financial statements and Management's Discussion and Analysis of the Financial Condition and Results of Operations should be read in conjunction with CorEnergy's Annual Report on Form 10-K, for the year ended December 31, 2016, filed with the SEC on March 2, 2017 (the "2016 CorEnergy 10-K").

Table of Contents Glossary of Defined Terms

2. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09 "Revenue from Contracts with Customers", which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard was originally effective for interim and annual periods beginning after December 15, 2016 and permits the use of either the retrospective or cumulative effect transition method. On July 9, 2015, the FASB approved a one-year deferral of the effective date making the standard effective for interim and annual periods beginning after December 15, 2017. The Company is currently planning to use the modified retrospective transition method. However, it does not expect that adoption of the standard will have have a significant impact on its consolidated financial statements, as a substantial portion of its revenue consists of rental income from leasing arrangements, which is specifically excluded from ASU 2014-09.

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

In February 2016, the FASB issued ASU No. 2016-02 "Leases" which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU No. 2016-02 is effective for fiscal years and interim periods beginning after December 31, 2018, with early adoption permitted. At adoption, the standard will be applied using a modified retrospective approach. Management is in the process of evaluating the impact of the standard on its consolidated financial statements and related disclosures.

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

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

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

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment", which simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test.

Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Under the amendments in ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The standard is effective for annual or interim tests performed in fiscal years beginning after December 15, 2019. Early adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. Effective January 1, 2017, Management has elected to early adopt this standard in connection with its goodwill impairment testing performed subsequent to January 1, 2017. As the standard will be applied prospectively, for measurement of goodwill impairment losses when an impairment is indicated, the impact of adoption to the financial statements will depend on various factors. However, elimination of the second step will reduce the complexity and cost of measuring any such impairment.

3. LEASED PROPERTIES AND LEASES

As of March 31, 2017, the Company had three significant leased properties located in Oregon, Wyoming, Louisiana, and the Gulf of Mexico, which are leased on a triple-net basis to major tenants, described in the table below. These major tenants are responsible for the payment of all taxes, maintenance, repairs, insurance, and other operating expenses relating to the leased properties. The long-term, triple-net leases generally have an initial term of 11 to 15 years with options for renewals. Lease payments are scheduled to increase at varying intervals during the initial terms of the leases. The following table summarizes the significant leased properties, major tenants and lease terms: