Western Metals Corporation

Audited Financial Statements
As of and for the Years Ended December 31, 2018 and 2017, and
Independent Auditors' Report

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Independent Auditors' Report

Stockholders and
Board of Directors
Western Metals Corporation

Report On The Financial Statements

We have audited the accompanying financial statements of Western Metals Corporation, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations and comprehensive income, cash flows and stockholders' equity for the years then ended, and the related notes to the financial statements.

Management's Responsibility For The Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Metals Corporation as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, Western Metals Corporation changed how changes in the fair value of equity security investments are recognized in 2018 due to the adoption of ASU 2016-01, *Financial Instruments – Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Liabilities.*

RubinBrown LLP

October 14, 2019

Western Metals Corporation
Balance Sheets
As of December 31, 2018 and 2017
(Dollars in thousands)

	As of December 31,			
		2018		**2017**
Assets				
Current Assets:				
Cash and cash equivalents	$	2,300	$	49
Restricted cash		165		164
Accounts receivable, (net of allowances of $9 in each year)		17		42
Marketable securities		5,055		7,976
Other current assets		47		43
Total current assets		7,584		8,274
Oil and gas properties, net		181		181
Total Assets	$	7,765	$	8,455
Liabilities and Stockholders' Equity				
Current Liabilities:				
Accounts payable	$	25	$	13
Future abandonment costs – short-term		150		-
Other current liabilities		31		38
Total current liabilities		206		51
Future abandonment costs – long-term		73		124
Total Liabilities		279		175
Commitments and contingencies				
Stockholders' Equity				
Preferred stock, no par value, 2,000,000 shares authorized, none issued and outstanding		-		-
Common stock, no par value, 20,000,000 shares authorized, 13,369,326 issued and outstanding as of December 31, 2018 and 2017		11,229		11,229
Accumulated other comprehensive income		3		913
Accumulated deficit		(3,746)		(3,862)
Total stockholders' equity		7,486		8,280
Total Liabilities and Stockholders' Equity	$	7,765	$	8,455

The accompanying notes are an integral part of these financial statements

Western Metals Corporation
Statements of Operations and
Comprehensive Income (Loss)
For the Years Ended December 31, 2018 and 2017
(Dollars in thousands, except per share amounts)

	For the Years Ended December 31, 2018	For the Years Ended December 31, 2017
Revenues	$ 230	$ 138
Cost of sales	240	136
Gross income/(loss)	(10)	2
Selling, general and administrative expenses		
Compensation expense	100	100
Insurance expense	35	32
Business licenses and taxes	4	5
Professional fees	46	51
Other expenses	11	10
Loss from operations	(206)	(196)
Interest and dividend income	406	403
Gain/(loss) on marketable securities	(970)	107
Other expenses	(7)	(7)
Net income/(loss) before income taxes	(777)	307
Provision for income taxes	-	-
Net income/(loss)	$ (777)	$ 307
Earnings/(loss) per common share		
Basic	$ (0.06)	$ 0.02
Weighted average shares outstanding		
Basic	13,369,326	13,369,326
Comprehensive income/(loss)		
Net income/(loss)	$ (777)	$ 307
Other comprehensive income/(loss), net of no tax	(17)	667
Comprehensive income/(loss)	$ (794)	$ 974

The accompanying notes are an integral part of these financial statements

Western Metals Corporation
Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017
(Dollars in thousands)

	For the Years Ended December 31, 2018	For the Years Ended December 31, 2017
Cash flows from operating activities		
Net income/(loss)	$ (777)	$ 307
Adjustments to reconcile net income/(loss) to net cash provided by operating activities		
Depletion	92	23
Loss/(gain) on marketable securities	970	(107)
Noncash interest expense	7	7
Changes in operating assets and liabilities		
Accounts receivable and other current assets	21	(16)
Accounts payable and other current liabilities	5	7
Net cash provided by operating activities	318	221
Cash flows from investing activities		
Purchases of marketable securities	(1,717)	(2,928)
Proceeds from sales of marketable securities	3,651	1,886
Net cash provided by (used in) investing activities	1,934	(1,042)
Net change in cash, cash equivalents and restricted cash	2,252	(821)
Cash, cash equivalents and restricted cash at beginning of period	213	1,034
Cash, cash equivalents and restricted cash at end of period	$ 2,465	$ 213
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ -	$ -

The accompanying notes are an integral part of these financial statements

Western Metals Corporation
Statements of Stockholders' Equity
For the Years Ended December 31, 2018 and 2017
(Dollars in thousands, except share amounts)

	Common Stock								
	Shares		Amount		Accumulated Other Comprehensive Income/(Loss)		Accumulated Deficit		Total Stockholders' Equity
Balance – 12/31/16	13,369,326	$	11,229	$	246	$	(4,169)	$	7,306
Other comprehensive income	-		-		667		-		667
Net income	-		-		-		307		307
Balance – 12/31/17 – As previously reported	13,369,326	$	11,229	$	913	$	(3,862)	$	8,280
Prior period adjustment: Change in accounting principle	-		-		(893)		893		-
Balance – 12/31/17 – As adjusted	13,369,326	$	11,229	$	20	$	(2,969)	$	8,280
Other comprehensive loss	-		-		(17)		-		(17)
Net loss	-		-		-		(777)		(777)
Balance – 12/31/18	13,369,326	$	11,229	$	3	$	(3,746)	$	7,486

The accompanying notes are an integral part of these financial statements

1—Summary of Significant Accounting Policies

Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Western Metals Corporation, formerly known as Coastcast Corporation, (the "Company") is incorporated under the laws of the State of California. The Company's principal business is the ownership and operation of two natural gas wells located in Solano County, California. The Company is not currently engaged in any exploration activities.

Prior to 2005, the Company was a manufacturer of investment-cast golf clubheads, precision investment castings and related engineering for the medical and other commercial and industrial product industries. The Company has ceased its operations in these businesses.

Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenue and expense during the reporting period. Certain accounting policies involve judgments and uncertainties to such an extent that there is reasonable likelihood that materially different amounts could have been reported under different conditions, or if different assumptions had been used. The Company evaluates its estimates and assumptions on a regular basis. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates and assumptions used in preparation of the Company's financial statements. The most significant estimates with regard to these financial statements relate to the provision for income taxes, the outcome of pending litigation and other unresolved claims, future development and abandonment costs, and estimates of proved natural gas reserve quantities used to calculate depletion, depreciation and impairment of proved natural gas properties and equipment.

Cash, Cash Equivalents and Restricted Cash

In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-18, *Statement of Cash Flows* (Topic 230): *Restricted Cash* ("ASU 2016-18") that changes the presentation of restricted cash and cash equivalents on the statements of cash flows. ASU 2016-18 requires that restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017 and was accordingly adopted by the Company effective January 1, 2018 using the retrospective approach. The Company has restated the statement of cash flows for the year ended December 31, 2017 to comply with 2016-18.

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company places its temporary cash investments with high credit quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

(Dollars in thousands, except per share and per unit amounts)

In the ordinary course of its business, the Company must make certain financial guarantees to certain regulatory bodies in order to assure those regulatory bodies that the Company will be able to fulfill its contractual and regulatory obligations. The Company secures its guarantees with indemnity bonds issued by a commercial insurer, which bonds in turn are secured by letters of credit issued by a commercial bank. The bank requires the Company to collateralize these letters of credit with cash deposits held in the form of certificates of deposit. As such, in both 2018 and 2017 a portion of the Company's cash balances were restricted for this purpose.

The following table displays a reconciliation of cash, cash equivalents and restricted cash reported in the balance sheets to the same amounts reported in the statements of cash flows:

	2018	2017
Cash and cash equivalents	$ 2,300	$ 49
Restricted cash	165	164
Total	$ 2,465	$ 213

Accounts Receivable

The Company's accounts receivable are primarily from the purchaser of its natural gas. This purchaser is a natural gas marketing company that purchases all of the Company's natural gas for purposes of resale into the wholesale natural gas market. This concentration of credit risk has the potential to impact the Company's results of operations. The Company believes it is afforded sufficient credit risk protection due to the short payment terms granted to this customer.

The Company's accounts receivable are recorded at their invoiced amount and do not bear interest.

Accounts receivable have been reduced by an allowance for amounts that may be uncollectible in the future. This estimated allowance is based upon management's evaluation of the collectibility of individual invoices and is based upon management's evaluation of the financial condition of its customers and historical bad debt write-off experience. Write-offs are recorded at the time a customer receivable is deemed uncollectible.

Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other current liabilities approximate their fair values due to the short-term maturities of these instruments.

Oil and Gas Properties

The Company utilizes the successful efforts method of accounting for its natural gas producing activities. Under this method, all costs associated with the acquisition of mineral interests, productive exploratory wells and productive or nonproductive development wells are capitalized while the costs of nonproductive exploratory wells are expensed. Support equipment and other property and equipment are depreciated over their estimated useful lives.

On the sale or retirement of a complete unit of proved property, the cost and related accumulated depreciation, depletion and amortization are eliminated from the property accounts, and the resultant gain or loss is recognized. On the retirement or sale of a partial unit of proved property, the cost is charged to accumulated depreciation, depletion and amortization with a resulting gain or loss recognized in income.

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

Oil and gas properties are reported net of accumulated depletion of $1,680 and $1,589 at December 31, 2018 and 2017, respectively. Depletion expense is provided for utilizing the units of production method and amounted to $92 and $23 for the years ended December 31, 2018 and 2017, respectively.

Long-Lived Assets

The Company evaluates the carrying value of long-lived assets when events or changes in circumstances indicate that the carrying value may not be recoverable. Such events and circumstances include, but are not limited to, significant decreases in the market value of the asset, adverse changes in the extent or manner in which the asset is being used, significant changes in business climate, or current or projected cash flow losses associated with the use of the assets. The carrying value of a long-lived asset is considered impaired when its total projected undiscounted cash flows are separately identifiable and are less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. For long-lived assets to be held for use in future operations and for fixed (tangible) assets, fair value is determined primarily using either the projected cash flows discounted at a rate commensurate with the risk involved or appraisal. For long-lived assets to be disposed of by sale or other than sale, fair value is determined in a similar manner, except that fair values are reduced for disposal costs.

Future Abandonment Costs

Future abandonment costs include costs to dismantle and relocate or dispose of the Company's production equipment, gathering systems and related structures and restoration costs of land, including plugging and abandonment of wells. The Company has estimated these costs for its operating properties based upon relevant factors, including geographic location, type of production structure, well depth, applicable state regulations and currently available procedures through ongoing consultation with petroleum engineering consultants. Because these costs typically extend many years into the future, estimating these future costs is difficult and requires management to make judgments that are subject to future revisions based upon numerous factors, including changing technology and the applicable regulatory environment. The Company reviews its assumptions and estimates of future abandonment costs on an annual basis.

The Company has established a liability for its future abandonment costs. This liability represents the discounted fair value of the asset retirement obligation. The Company records liabilities of this sort in the period in which they are incurred, and the corresponding costs are capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value at the Company's estimated credit-adjusted, risk free interest rate each period, and the capitalized cost is depreciated over the useful life of the related asset.

Income Taxes

Income taxes are accounted for using the asset and liability method. Under this method, income tax assets and liabilities are recognized for temporary differences between financial statement carrying amounts of assets and liabilities and their respective income tax basis. A future income tax asset or liability is estimated for each temporary difference using enacted and substantively enacted income tax rates and laws expected to be in effect when the asset is realized, or the liability settled. A valuation allowance is established, if necessary, to reduce any future income tax asset to an amount that is more likely than not to be realized.

The financial statements of the Company reflect expected future tax consequences of uncertain tax positions presuming the taxing authorities' full knowledge of the position and all relevant facts, but without considering time values.

Environmental

Environmental expenditures are expensed or capitalized, as appropriate, depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations, and that do not have future economic benefit, are expensed. Liabilities related to future costs are recorded on an undiscounted basis when environmental assessments and/or remediation activities are probable and the cost can be reasonably estimated.

Revenue Recognition

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The core principle of the new standard is for entities to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is effective for fiscal years beginning after December 15, 2017 and was accordingly adopted by the Company effective January 1, 2018 using the modified retrospective approach. There was no impact on the measurement or recognition of the Company's revenue as a result of adopting the new standard.

The Company's revenues are earned from the sale of natural gas under spot contracts. Since there is a ready market for natural gas, the Company sells its product soon after production. Revenue is recognized when the Company satisfies its performance obligation to transfer title and control of the natural gas to the customer.

The Company records its share of revenues based on production volumes and contracted sales prices. The sale prices for natural gas are based on prevailing market prices. It is the Company's policy to calculate and pay royalties on natural gas in accordance with the particular contractual provisions of the lease and/or applicable state law. Royalty liabilities are recorded in the period in which the natural gas is produced.

Transaction Price Allocated to Remaining Performance Obligations

Each contract the Company enters into with a customer has a single performance obligation to deliver natural gas to the customer. This performance obligation is satisfied when the Company transfers title and control of the product to the customer which occurs at the commencement of the contract. Accordingly, the Company has no unsatisfied performance obligations.

Contract Balances

The Company invoices its customer once its performance obligation has been satisfied. Payment terms are thirty days and no payments are received in advance. Accordingly, the Company's contracts do not give rise to contract assets or liabilities.

Earnings Per Share

Basic earnings per share is computed by dividing net income (the numerator) by the weighted average number of outstanding shares (the denominator) for the period. Diluted earnings per share are calculated in accordance with the treasury stock method to determine the dilutive effect of any warrants or options, if applicable. The computation of diluted earnings per share include the same numerator, but the denominator is increased to include the number of additional common shares from the exercise of warrants and options that would have been outstanding if potentially dilutive common shares had been issued.

The Company had no warrants or stock options in existence in either 2018 or 2017.

Comprehensive Income (Loss)

Comprehensive income is comprised of net income and other comprehensive income/(loss) ("OCI"). Comprehensive income comprises all changes in stockholders' equity from transactions and other events and circumstances from nonowner sources. The Company's OCI is comprised of unrealized gains and losses resulting from its investments in certain marketable securities classified as available for sale (see Note 3). The Company recorded other comprehensive income/(loss) of ($17) and $667 from those securities for the years ended December 31, 2018 and 2017, respectively.

Commitments and Contingent Liabilities

In the ordinary course of business, the Company enters into purchase and sales contracts as deemed commercially desirable. Purchase contracts are used to ensure the availability of necessary products and services used in the natural gas production process. Sales contracts are utilized to ensure the future sale of produced natural gas.

The Company and its operations from time to time may be parties to or targets of lawsuits, claims, investigations and proceedings including product liability, personal injury, contract, health and safety and environmental matters which are handled and deferred in the ordinary course of business. The Company accrues a liability for such matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. When a single amount cannot be reasonably estimated but the costs can be estimated within a range, the Company accrues the minimum amount.

Segment Reporting

The Company identifies its operating segments when separate financial information is available that is evaluated regularly by its chief operating decision maker in assessing the performance of those segments and in determining how to allocate resources. The Company has determined that it has one reportable segment - natural gas operations.

Subsequent Events

Management evaluates subsequent events through the date the financial statements are available for issue, which is the date of the Independent Auditors' Report.

2—Change in Accounting for Financial Instruments

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities.* One provision of this update requires that equity investments, except those accounted for under the equity method or resulting in consolidation, be measured at fair value and changes in fair value recognized in net income. The provisions of this update are recognized as a cumulative effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. For public business entities, this guidance was effective for years beginning after December 15, 2017.

The new accounting standard related to the recognition and measurement of financial assets and liabilities makes the following changes to prior guidance and requires:

- Certain equity investments to be measured at fair value with changes in fair value now recognized in net income. However, equity investments that do not have readily determinable fair values may be measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer;
- A qualitative assessment of equity investments without readily determinable fair value to identify impairment; and
- Separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements.

The Company adopted the new accounting standard utilizing the modified retrospective method, and, therefore, no adjustments were made to amounts in prior period financial statements. The Company recorded the cumulative effect of adopting the standard as an adjustment to increase the opening balance of retained earnings by $893 related to the impact of unrealized gains and losses primarily on common and preferred stocks.

(Dollars in thousands, except per share and per unit amounts)

The portion of unrealized gains/(losses) for the period related to equity securities still held at the end of the reporting period is summarized as follows:

	2018	2017 (1)
Net gains/(losses) recognized on equity securities	$ (970)	$ 107
Less: net gains/(losses) recognized on equity securities sold during the period	(245)	107
Unrealized losses for the reporting period that relate to equity securities held at the reporting date	$ (725)	$ -

(1) The prior period was not adjusted under the modified retrospective method

3—Marketable Securities

At December 31, 2018 and 2017, the Company had investments in certain trust-preferred debt securities as well as common and preferred stocks. These investments are classified as current assets in the balance sheet. The Company has designated the debt securities as being available-for-sale. Accordingly, they are recorded at fair value, with the unrealized gains and losses, net of taxes, reported as a component of stockholders' equity. These securities were comprised of the following at December 31:

	2018			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value
Trust-preferred securities	$ 483	$ 3	$ -	$ 486

	2017			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value
Trust-preferred securities	$ 483	$ 20	$ -	$ 503

As of December 31, 2018 and December 31, 2017 the Company had no investments in marketable debt securities that were in an unrealized loss position.

(Dollars in thousands, except per share and per unit amounts)

The following table provides information about the contractual maturities of the debt securities:

	2018	
	Adjusted Cost	Fair Value
Matures within one year	$ -	$ -
Matures after one year through five years	-	-
Matures after five years through ten years	-	-
Matures after ten years	483	486
Total	$ 483	$ 486

4—Impairment

The Company evaluates changes in and depletion of estimated reserves to determine whether the carrying value of its oil and gas properties exceeds their projected future undiscounted cash flows, and also whether the carrying value of its oil and gas properties exceed their fair value, with fair value being determined using the projected cash flows of these assets discounted at a rate commensurate with the risk involved. If, as a result of this evaluation, oil and gas properties are considered to be impaired, an impairment charge is recorded. No such impairment charge was recorded in 2018 or 2017.

5—Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following at December 31, 2018 and 2017:

	2018	2017
Accrued workers' compensation claims	$ 10	$ 12
Other	21	26
Total	$ 31	$ 38

The Company remains obligated for certain workers' compensation claims associated with injuries or conditions allegedly incurred by certain workers of its former golf club head manufacturing facility in California. The primary liability is borne by the Company's former insurers under policies covering the years in which the injuries allegedly occurred, but the Company is obligated for a contractual percentage of such claims incurred until the underlying compensation claims are resolved. The Company has estimated its obligations regarding such claims to total $10 and $12 at December 31, 2018 and 2017, respectively.

(Dollars in thousands, except per share and per unit amounts)

6—Future Abandonment Costs

The following table summarizes accrued obligations for long-term future abandonment costs for the years ended December 31:

	2018	2017
Balance at January 1	$ 124	$ 122
Impact of a revision in cost/timing	92	(5)
Accretion expense	7	7
Balance at December 31	$ 223	$ 124

Without considering any estimated effects from inflation, the total undiscounted future abandonment costs of the Company were $300 and $181 at December 31, 2018 and 2017, respectively.

7—Income Taxes

The following table summarizes the provision for income taxes:

	2018	2017
(Loss)/income before taxes	$ (777)	$ 307
Provision/(benefit) for income taxes:		
Current	$ -	$ -
Deferred	-	-
State and other		
Current	-	-
Deferred	-	-
Total	$ -	$ -

Differences between the provision for income taxes computed using the United States federal statutory income tax rate were as follows:

	2018	2017
Amount computed using the statutory rate of 15%	$ -	$ 46
Amount computed using the statutory rate of 21%	(163)	-
State taxes, net	(54)	23
Dividends received deduction	(14)	(22)
Impact of the Tax Cuts and Jobs Act of 2017	-	(1,338)
Change in valuation allowance, inclusive of expiration of NOL carryforwards	231	1,291
Provision for income taxes	$ -	$ -

	2018	2017
Deferred tax assets		
Allowance for doubtful accounts	$ 3	$ 3
Capital loss carryover	172	111
Accrued workers' compensation	3	4
Future abandonment costs	63	47
Marketable securities	203	-
Depletion	456	544
Other	2	-
United States federal tax loss carry forward	4,429	4,406
State tax loss carry forward	38	37
Total deferred tax assets	5,369	5,152
Deferred tax liabilities		
Marketable securities	(1)	(256)
Partnership basis differential	-	(36)
Total deferred tax liabilities	(1)	(292)
Valuation allowance	(5,368)	(4,860)
Net deferred tax assets	$ -	$ -

The valuation allowance increased by $508 and $1,067 in 2018 and 2017, respectively.
The amounts and expiration dates of the Company's United States federal tax loss carryforwards were as follows as of December 31, 2018:

	2018
Year of expiration	
2023	$ 9,912
2024	2,408
2025	6,911
2027	926
2029	478
2030	1
2032	42
2036	198
2037	107
Indefinite	107
Total	$ 21,090

The Company did not recognize a significant change in liability for uncertain tax positions as a result of its implementation of the accounting standards governing the accounting for uncertain tax positions. The Company has no unrecognized tax benefits.

The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months.

The Company records interest and penalties net as a component of income tax expense. As of December 31, 2018 and 2017, the Company had no accrual for interest or tax penalties.

The Company is no longer subject to federal, state, and local income tax examinations by tax authorities for years before 2016. However, to the extent utilized, the Company's net operating loss carryforwards arising in such years remain subject to examination.

On December 22, 2017, the Tax Cuts and Jobs Act (the "TCJA") was enacted. The TCJA provides for an increase in the Company's federal corporate tax rate from 15% to 21% effective January 1, 2018. As a result of the TCJA, The Company recognized one-time increases of $1,338 in net deferred tax assets and the offsetting valuation allowance.

8—Related Party Transactions

The Company's Chairman, Paul A. Novelly, and its President, G. Louis Graziadio III, also are the chairman and president, respectively, of LOTO Energy II, LLC, the Company's largest shareholder. Together Messrs. Novelly and Graziadio constitute one half of the Company's Board of Directors. One of the Company's other directors, William R. Lang, is a business associate of Mr. Graziadio and the president of a company owned by Mr. Graziadio and his siblings. The Company's other director, Richard Lonquist, is a petroleum engineer whose firms periodically perform engineering services for the Company and other businesses owned or controlled by Messrs. Novelly and Graziadio. The Company incurred expenditures to Mr. Lonquist's firms of $4 and $17 in 2018 and 2017, respectively. In 2018 and 2017, the Company paid affiliates of Messrs. Novelly and Graziadio a total fee of $100 for management services provided to the Company. This expense was recorded as compensation expense in the statements of operations.

The Company's other operating officers are employees of a company controlled by Mr. Novelly.

9—Commitments and Contingencies

The Company has contingent liabilities with respect to lawsuits and claims arising in the ordinary course of business. In management's opinion, the ultimate outcome of these contingencies will not have a material adverse effect on the financial condition or results of operations of the Company.

10—Stockholders' Equity

The Company's capital stock consists of 20,000,000 authorized shares of no-par common stock, of which 13,369,326 shares were issued and outstanding as of December 31, 2018 and 2017. The Company has also authorized 2,000,000 shares of preferred stock, issuable in successive series as may be determined by the Board of Directors. There were no shares of preferred stock issued and outstanding as of December 31, 2018 and 2017.

11—Fair Value Measurements

The Company follows ASC Topic 820, *Fair Value Measurements and Disclosures.* The topic requires the use of a fair value hierarchy in order to classify the fair value disclosures related to the Company's financial assets and financial liabilities that are recognized in the balance sheets at fair value.

(Dollars in thousands, except per share and per unit amounts)

The fair value hierarchy has the following levels:

Level 1—Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2—Values based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques for which all significant assumptions are observable in the market. The Company does not currently have any instruments with fair value determined using Level 2 inputs.

Level 3—Values are generated from model-based techniques that use significant assumptions not observable in the market. Valuation techniques could include use of option pricing models, discounted cash flow models and similar techniques. The Company does not currently have any instruments with fair value determined using Level 3 inputs.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The financial assets and financial liabilities, measured at fair value in the consolidated balance sheets, consisted of the following as of December 31, 2018 and December 31, 2017:

	Asset/(Liability)			
		Fair Value Measurements Using Inputs Considered as		
	Fair Value December 31, 2018	Level 1	Level 2	Level 3
Common stock	$ 1,626	$ 1,626	$ -	$ -
Preferred stock	987	987	-	-
Convertible-preferred stock	1,956	1,956	-	-
Trust-preferred stock	486	486	-	-
Total marketable securities	$ 5,055	$ 5,055	$ -	$ -

	Asset/(Liability)			
		Fair Value Measurements Using Inputs Considered as		
	Fair Value December 31, 2017	Level 1	Level 2	Level 3
Common stock	$ 4,375	$ 4,375	$ -	$ -
Preferred stock	1,066	1,066	-	-
Convertible-preferred stock	2,031	2,031	-	-
Trust-preferred stock	504	504	-	-
Total marketable securities	$ 7,976	$ 7,976	$ -	$ -

(Dollars in thousands, except per share and per unit amounts)

12—Supplemental Unaudited Information, For the Years Ended December 31, 2018 and 2017

The following table displays capitalized costs as of December 31:

	2018	2017
Oil and gas properties		
Proved	$ 1,862	$ 1,770
Unproved	-	-
Capitalized costs for oil and gas properties	1,862	1,770
Less: accumulated depletion	1,681	1,589
Net capitalized costs	$ 181	$ 181

The following table displays costs incurred for oil and gas producing activities for the years ended:

	2018	2017
Property acquisition costs		
Proved	$ -	$ -
Unproved	$ -	$ -
Exploration costs	$ -	$ -
Development costs	$ -	$ -
Amortization rate per unit produced	$ 0.69	$ 0.64

The following table displays results of operations for oil and gas producing activities for the years ended December 31:

	2018	2017
Oil and gas sales	$ 230	$ 138
Production costs	(90)	(61)
Depletion	(92)	(23)
	48	54
Income tax expense	-	-
Results of operations for oil and gas producing activities [(a)]	$ 48	$ 54

[(a)] Excludes corporate overhead, financing costs and impairment charges.

The following estimates of net proved developed and net proved undeveloped reserve quantities and related standardized measure of discounted net cash flow are estimates only, and do not purport to reflect realizable values or fair market values of the Company's reserves. The Company emphasizes that net reserve estimates are inherently imprecise and that estimates of new discoveries are more imprecise than those of producing oil and gas properties. Accordingly, these estimates are expected to change as future information becomes available. All of the Company's reserves are located in the United States.

Net proved undeveloped reserves are estimated net reserves of crude oil (including condensate and natural gas liquids) and natural gas that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Net proved developed reserves are those expected to be recovered through existing wells, equipment, and operating methods.

In January 2010, the FASB updated *Extractive Industries - Oil and Gas* (ASC Topic 932) regarding oil and gas reserves estimation and disclosure requirements. For the Company, the principal change in the new guidance is the requirement to use a price based on a twelve-month average for reserve estimation and disclosure instead of a single end-of-year price.

The standardized measure of discounted future net cash flows is computed by applying a trailing twelve-month average price of oil and gas (with consideration of price changes only to the extent provided by contractual arrangements) to the estimated future production of proved oil and gas reserves, less estimated future expenditures (based on year-end costs) to be incurred in developing and producing the proved reserves, less estimated future income tax expenses (based on year-end statutory tax rates, with consideration of future tax rates already legislated) to be incurred on pretax net cash flows less tax basis of the properties and available credits, and assuming continuation of existing economic conditions. The estimated future net cash flows are then discounted using a rate of 10% a year to reflect the estimated timing of the future cash flows.

(Dollars in thousands, except per share and per unit amounts)

	2018		2017	
	Net Oil (bbls)	Net Gas (Mcf)	Net Oil (bbls)	Net Gas (Mcf)
Proved developed and undeveloped reserves				
Beginning of year	909	263,835	464	328,100
Revisions of previous estimates	(803)	297,513	577	(31,283)
Improved recovery	-	-	-	-
Purchases of minerals in place	-	-	-	-
Extensions and discoveries	-	-	-	-
Production	(106)	(58,148)	(132)	(32,982)
Sales of minerals in place	-	-	-	-
End of year	-	503,200	909	263,835
Proved developed reserves				
Beginning of year	909	263,835	464	328,100
End of year	-	503,200	909	263,835
Standardized Measure of Discounted Future Net Cash Flows at December 31:				
Future cash inflows		$ 1,990		$ 862
Future production costs		(71)		(30)
Future operating costs		(907)		(524)
Future income tax expenses		-		-
Future net cash flows		1,012		308
Standardized measure of discounted future net cash flows relating to proved oil and gas reserves		$ 574		$ 219

The following table displays a reconciliation of the change in the standardized measure of discounted future net cash flow during 2018 and 2017:

	2018	2017
Beginning of year	$ 219	$ 250
Sales of oil and gas produced, net of production costs	(89)	(29)
Net changes in prices and production costs	150	13
Extensions, discoveries, and improved recovery, less related costs	-	-
Previously estimated development costs incurred during the year	-	-
Net change in estimated future development costs	-	-
Revisions of previous quantity estimates	426	(26)
Purchases of minerals in place	-	-
Accretion of discount	22	25
Net impact of cash flow timing revisions and other	(154)	(14)
End of year	$ 574	$ 219

None of the Company’s quantities of oil or gas are subject to purchase under long-term supply, purchase, or similar agreements.