

MID SOUTH PETROLEUM CORPORATION

FINANCIAL STATEMENTS

September 30, 2021



**Mayers
& Company P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

Richard M. Mayers, C.P.A.

Member
American Institute
of Certified Public
Accountants

Alabama Society
of Certified Public
Accountants

To Management
Mid South Petroleum Corporation
P.O. Box 1169
Vernon, Alabama 35592

Management is responsible for the accompanying financial statements of Mid South Petroleum Corporation (a corporation), which comprise the balance sheet as of September 30, 2021, and the related statements of income, comprehensive income and retained earnings and cash flows for the year then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Service Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. We do not express an opinion, a conclusion, nor provide any assurance on these financial statements.

We are not independent with respect to MidSouth Petroleum Corporation.

Mayers and Company P.C.

Mayers and Company, P.C., CPA
Vernon, Alabama
February 3, 2022

MID SOUTH PETROLEUM CORPORATION

BALANCE SHEET

September 30, 2021

ASSETS

Current Assets

Cash and cash equivalents	\$	438,584
Accounts receivable		4,105,245
Prepaid Taxes		7,563
Inventory		1,570,852

Total current assets		\$ 6,122,244
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Property and Equipment

Land and land improvements	166,000
Buildings and parking lot	1,742,681
Machinery and equipment	24,337,824
Transportation equipment	3,317,230
Other	459,773
Less: Accumulated depreciation	(15,745,954)

Property and equipment – net	14,277,554
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Other Assets

Investments – Coop	4,000
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Total other assets	4,000
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Total assets	\$ 20,403,798
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See accompanying notes and Independent Accountant's Review Report.

MID SOUTH PETROLEUM CORPORATION

BALANCE SHEET

September 30, 2021

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 2,494,974
Payroll deductions payable	9,030
Sales taxes payable	2,824
Income tax payable	1,515
Retirement payable	6,512
Notes payable (Credit lines)	3,187,558
Current maturities of long-term debt	<u>981,395</u>

Total current liabilities \$ 6,683,808

LONG-TERM LIABILITIES

Deferred Income	1,093,116
Notes payable	6,033,085
Current maturities of long-term debt	<u>(981,395)</u>

Total long-term liabilities 6,144,806

Total liabilities 12,828,614

STOCKHOLDERS' EQUITY

Common stock (\$1 par value, 1,000,000 shares authorized, 1,000 shares issued and outstanding)	1,000
Retained earnings	5,829,912
Accumulated other comprehensive Income (loss)	<u>1,744,272</u>

Total stockholders' equity 7,575,184

Total liabilities and stockholders'
equity \$ 20,403,798

See accompanying notes and Independent Accountant's Review Report.

MID SOUTH PETROLEUM CORPORATION

STATEMENT OF INCOME, COMPREHENSIVE INCOME, AND RETAINED EARNINGS

For the Year Ended September 30, 2021

SALES		\$ 207,425,142
COST OF SALES		<u>189,109,727</u>
Gross profit		18,315,415
OPERATING EXPENSES		
Salaries	2,698,281	
Taxes and licenses	821,026	
Insurance	857,910	
Legal and accounting	148,558	
Repairs	1,803,271	
Depreciation	2,292,603	
Truck expense	660,489	
Usage expense	7,890,665	
Commission	1,760,913	
Supplies	123,643	
Miscellaneous	<u>1,188,895</u>	
Total operating expenses		<u>20,246,254</u>
Operating income (loss)		(1,930,839)
OTHER INCOME (EXPENSE)		
Interest	33,285	
Interest expense	(341,955)	
Rental Income	3,364,065	
Gain (loss) on sale of equipment	(17,542)	
Other Income – PPP	<u>637,258</u>	
Total other income (expense)		<u>3,675,111</u>
Income before income taxes		1,744,272
Income tax expense		()
Net income		<u>\$ 1,744,272</u>
Retained earnings – October 1, 2020		5,829,912
Net Income		<u>1,744,272</u>
Retained earnings – September 30, 2021		<u>\$ 7,574,184</u>

See accompanying notes and Independent Accountant's Review Report.

MID SOUTH PETROLEUM CORPORATION

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2021

Cash Flow From Operating Activities

Net Income		\$1,744,272
Adjustments to reconcile by Operating Activity		
Depreciation	\$2,292,603	
Increase in Accounts Receivable	(2,188,134)	
Decrease in Inventory	35,880	
Increase in Prepaid Taxes	(3,930)	
Increase in Accounts Payable	423,367	
Increase in PR tax/Retirement	5,706	
Decrease in Sales Tax Payable	(2,526)	
Decrease in Income Tax Payable	(7,860)	
Total Adjustments		<u>\$555,106</u>
Net Cash provided(used) by Operations		<u>\$2,299,378</u>

Cash Flow From Investing Activities

Purchase of Property and Equipment	(2,103,353)	
Sale of Property and Equipment	<u>57,689</u>	
Net Cash used in Investing Activities		<u>(\$2,045,664)</u>

Cash Flow From Financing Activities

Proceeds from Long Term Debt and Other	2,649,390	
Repayments of Long-Term Debt and Other	(3,374,066)	
Increase in Deferred Revenue	<u>78,724</u>	
Net Cash used in Financing Activities		<u>(\$645,952)</u>
Net Increase in Cash and Cash Equivalents		<u>(\$392,238)</u>
Cash and Cash Equivalents, Sept 30, 2020		<u>\$830,823</u>
Cash and Cash Equivalents, September 30, 2021		<u><u>\$438,584</u></u>

See accompanying notes and Independent Accountant's Review Report.

MID SOUTH PETROLEUM CORPORATION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2021

Note 1. Nature of Business and Significant Accounting Policies

Nature of Business:

Mid South Petroleum Corporation (the Company) is a distributor of petroleum and petroleum related products in Alabama and Mississippi. The Company was incorporated May, 1990. The Company grants credit to customers located in the vicinity of the operating locations.

Significant Accounting Policies:

Basis of accounting:

The financial statements are prepared on an accrual basis, which recognizes all revenue as gross income when earned, and cost of goods sold and operating expenses as deductions from gross income when incurred.

Use of estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and cash equivalents:

The Company considers cash equivalents to be all highly liquid debt instruments purchased with a maturity of three months or less.

The Company maintains cash balances with several financial institutions located in various cities in Alabama and Mississippi. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At September 30, 2021, cash on deposit was not in excess of the federally insured limits.

Trade accounts receivable:

Trade accounts receivable are stated at the amount management expects to collect from customers. Management provides for probable uncollectible amounts through a charge to earnings and a credit to an allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance. Changes in the allowance have not been material to the financial statements.

MID SOUTH PETROLEUM CORPORATION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2021

Inventories:

Inventory is stated at the lower of cost or market value. Cost is determined under the first-in, first-out (FIFO), specific cost and average cost method.

Property and equipment:

Property and equipment are recorded at cost. Repairs and maintenance and small equipment purchases are charged to expense when incurred. Expenditures that significantly increase assets' values or extend useful lives are capitalized. Depreciation expense is recognized using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is recognized using the straight-line method over the lesser of the useful life of the improvement or the remaining term of the lease at the time the improvement is placed in service.

Depreciation and amortization are being recognized over the following periods:

	<u>Years</u>
Office furniture and equipment	5-7
Equipment	5-7
Automobiles and trucks	3-7
Leasehold improvements	5-7
Pumps and improvements	3-39
Bulk storage plant	3-15

Long-lived assets:

The Company evaluates its long-lived assets for indicators of possible impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The Company compares the carrying amount to estimated future net undiscounted cash flows expected to be generated by such assets. Should an impairment exist, the impairment loss would be measured based on the excess carrying value of the asset over the asset's fair value.

Shipping and handling charges:

The Company reports shipping and handling fees charged to customers as part of net sales and the associated expense as part of cost of sales.

MID SOUTH PETROLEUM CORPORATION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2021

Presentation of sales tax:

The States of Alabama and Mississippi and cities and counties within Alabama impose a sales tax on some of the Company's sales. The Company collects that sales tax from customers and remits the entire amount to the States and local governments. The Company's accounting policy is to exclude the tax collected and remitted to the States from revenue and cost of sales.

Advertising:

The Company expenses advertising as incurred. Advertising expense was \$366,602 for the year ended September 30, 2021.

Income taxes:

Deferred income taxes are not provided.

Note 2. Inventories

The components of inventories consist of gasoline, diesel fuel, other petroleum products, equipment and parts, and convenience store items which total \$1,570,852.

Note 3. Property and Equipment

Major classes of property and equipment and accumulated depreciation and amortization are as stated on the Balance Sheet.

Depreciation and amortization expense for the year ended September 30, 2021, was \$2,292,603.

Note 4. Line of Credit

The Company has a \$3,000,000 line of credit with a local bank of which \$2,530,733 is outstanding and due on October 23, 2021. The line bears interest at the prime-lending rate. The balance is due on demand and is secured by inventory, accounts receivable and all real estate.

The Company has a \$1,200,000 line of credit with a local bank of which \$0 is outstanding. The line bears interest at 4.0% per annum. The balance is secured by accounts receivable and inventories and certain real estate. Co-borrowers, Tiger and High Cotton have has drawn \$818,000 and \$30,000 respectfully as of September 30, 2021.

MID SOUTH PETROLEUM CORPORATION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2021

Note 5. Long-Term Debt

Long-term debt consists of the following:

Note payable to financial institution
due in monthly installments of \$18,261
with interest at 4.45%; final installment
due 2/17/2024; collateralized by
first mortgage on certain real estate and
certain personal property \$ 549,019

Note payable to financial institution
due in monthly installments of \$50,575
with interest at prime; final installment
due June 27, 2028; collateralized
by real estate, inventory, and accounts
receivable 3,302,778

Note payable to financial institution
due in monthly installments of \$32,178
with interest at prime; final installment
due August 15, 2028; collateralized
by real estate, inventory, and accounts
receivable 2,181,288

Less current installments 6,033,085
(981,395)
\$5,051,690

Aggregate maturity of long-term debt:

2022	\$ 981,394
2023	981,394
2024	965,859
2025	793,210
2026 and after	2,311,228
	<u>\$ 6,033,085</u>

MID SOUTH PETROLEUM CORPORATION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2021

Note 6. Operating Leases

The Company is lessee of various real estate under different agreements with different terms. During the year ended September 30, 2021, the Company paid \$7,890,665 rents for these leases.

The minimum rental commitments during the next five years are as follows:

September 30, 2022	\$ 7,890,665
September 30, 2023	7,890,665
September 30, 2024	7,890,665
September 30, 2025	7,890,665
September 30, 2026	7,890,665
	<u>\$ 39,453,325</u>

Note 7. Income Taxes

The income tax expense of the Company consists of the following:

Federal	\$ -0-
State	5,585
Total	<u>\$ 5,585</u>

Note 8. Related Party Transactions

The Company's major stockholder provides accounting services to the Company and owns various real estate, which is leased to the Company. Also, the Company's major stockholder owns 70% of Sipsey River Oil Corporation, 55% of High Cotton Oil Company, Inc. 55% of Cadillac Jack Oil Company, Inc., and 25% of Silver Dollar Capital Inc. all of which owns and leases real estate to the Company.

Note 9. Deferred Revenue

The Company has received revenue from certain oil companies of \$1,093,116 to reimburse the company for imaging costs. These costs are booked as depreciable assets with depreciation taken over the estimated useful lives. The advances given to the company are forgiven in future years. As the amounts are forgiven, the company recognizes the forgiven amounts as income in the year forgiven.

MID SOUTH PETROLEUM CORPORATION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2021

Note 10. Employee Benefit Plans

The company maintains a SIMPLE retirement plan covering all employees who meet the eligibility requirement set forth in the plan. Expenses of the plan are recorded as employee benefit expenses and were \$37,358 for the year.

Note 11. Income Taxes

The tax years ending September 30, 2017, 2018, 2019, and 2020 remain subject to examination by the Internal Revenue Service and Alabama Department of Revenue.

The Company follows the guidance of FASB Topic ASC 740, *Accounting for Uncertainty in Income Taxes*. As of September 30, 2021, the Company had no known uncertain tax positions that qualify for disclosure in the financial statements.

Note 12. Variable Interest Entity

Generally accepted accounting principles in Financial Accounting Standards Board Interpretation 46R require that variable interest entities be consolidated into the financial statements of primary beneficiaries. One such legal entity with respect to the Company is Sipsey River Oil Corporation which leases real estate to the Company. The majority shareholder of the Company owns 72.5% of the outstanding common stock of Sipsey River Oil Corporation.

The Company has not consolidated this entity in the enclosed financial statements.

Note 13. Subsequent Events

Management has evaluated subsequent events through February 3, 2022 the date which the financial statements were available to be issued.