20141002161733
Filed Date: 10/02/2014
State Corporation Commission
of Kansas

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of American Energies Gas Service, LLC, to Change its Rates for Natural Gas Service and for Approval of its New Agreements with American Energies Pipeline, LLC	)	Docket No. 15-AEGG-_____-RTS

APPLICATION

American Energies Gas Service, LLC ("AEGS") files this application to change its rates for natural gas service pursuant to K.S.A. 66-117 and K.A.R. 82-1-231b. In support of its application, AEGS states as follows:

1. AEGS is a Kansas limited liability company with its principal offices and place of business in Kansas located at 136 N. Main Street, Canton, Kansas 67428. AEGS holds certificates of convenience and necessity issued by the Kansas Corporation Commission ("Commission") to provide natural gas service to customers in Harvey, McPherson and Marion Counties, in Kansas and to provide wholesale gas transportation service to the Cities of Hesston, Kansas and Moundridge, Kansas. AEGS currently provides natural gas service to 165 residential customers, 48 commercial and irrigation customers and two wholesale transportation customers.

2. AEGS is operated by American Energies Pipeline, LLC ("AEPL") pursuant to an Operational Services Agreement. AEGS also purchases its natural gas from AEPL pursuant to a Natural Gas Sales Agreement. AEGS and AEPL are affiliated companies, as defined under the Kansas Public Utility Act. AEGS is owned by Trek AEC, LLC and AEPL is owned by Trek AEC, LLC and Trek SOC, LLC, both being Texas limited liability companies with their principal offices in Dallas,

Texas. Both Trek AEC, LLC and Trek SOC, LLC are partially owned by Trek Resources, Inc., a privately held Delaware corporation with its principal offices also located in Dallas, Texas (collectively "Trek"). Trek Resources, Inc. owns and operates a diversified portfolio of energy assets, including exploration and production operations primarily located in Kansas, Texas, Louisiana and Oklahoma. AEGS and AEPL were acquired by Trek in 2012. Trek's acquisition of AEGS and AEPL was approved by the Commission in Docket No. 12-AEGS-913-ACQ (2012).

3. During the first quarter of 2014, AEGS was notified by AEPL that AEPL intended to terminate its Operational Services Agreement and Natural Gas Sales Agreement with AEGS effective March 1, 2015, and wished to replace those two agreements with new agreements that reflected AEPL's actual cost of operating AEGS's utility and the gas gathering system used to provide natural gas to AEGS's customers. Trek retained the services of Mr. Dick Rohlfs, who has performed many Kansas natural gas and electric utility cost of service studies for Westar, Western Resources, Kansas Power & Light Company, Kansas Gas and Electric Company, and the Commission Staff, to conduct a cost of service study to determine AEPL's actual cost of operating AEGS's utility and AEPL's actual cost of operating the gas gathering system used to provide natural gas to AEGS's customers. Based upon those cost of service studies performed by Mr. Rohlfs, AEGS has entered into a new Operational Services Agreement and Natural Gas Sales Agreement with AEPL (collectively "New Agreements"). Copies of the New Agreements are included as part of this application and are incorporated herein by reference. The New Agreements are conditioned upon their approval by the Commission. As part of this Application, AEGS is seeking approval of the New Agreements.

4. Based upon the cost of service studies performed by Mr. Rohlfs, the monthly operating fee in the new Operational Services Agreement that AEGS will pay to AEPL beginning March 1,

2015, is being increased from \$10,650.00 per month to \$12,444.00 per month, and the gas gathering fee in the new Natural Gas Sales Agreement that AEGS will pay to AEPL beginning March 1, 2015, is being increased from \$0.27 per MMBtu to \$0.81 per MMBtu. The purpose of this rate case filing is to reflect these changes in AEGS's rates. Specifically, AEGS is seeking to increase its monthly customer charges from residential (\$6.00), commercial (\$10.00) and wholesale transportation (\$25.00) to residential (\$13.00), commercial (\$23.00) and wholesale transportation (\$52.00) to recover (1) the \$21,528.00[1] rate increase resulting from the monthly operating fee being increased from \$10,650.00 per month to \$12,444.00 per month; and the \$1,858.00 per year loss of revenues relating to the loss of the City of Moundridge as a transportation customer. The \$0.54 per MMBtu increase in the gas gathering fee reflected in the new Natural Gas Sales Agreement if approved by the Commission would be passed on by AEGS to its utility customers through AEGS's monthly gas purchase cost adjustment ("PGA") clause. Based upon test year sales volumes of 36,316 MMBtu sold to AEGS's residential and commercial customers, the annual increase in the cost of gas due to the \$0.54 per MMBtu increase in gas gathering costs, would be \$19,252.00. For a residential customer using 84 MMBtu per year, the proposed annual rate increase due to the increase in customer charge and gas gathering costs would be \$129.36, or \$10.78 per month. AEGS would note that based upon its review of previous Commission dockets, AEGS does not believe that the current \$0.27 gas gathering rate included in the current Natural Gas Sales Agreement between AEGS and AEPL was based upon an actual cost of service study. AEGS would also note assuming the new rates would go into effect on March 1, 2015, that its customers will not have experienced an increase in rates during the approximately three years

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[1] The increase in the monthly operating fee reflects the actual cost incurred by AEPL to operate AEGS for the test year ended December 31, 2013, the estimated cost of this rate filing amortized over three years and an adjustment to remove 50% of contributions.

since AEGS has been owned by Trek, and perhaps as much as seven years since the previous owners last increased rates to customers.

5. AEGS is also seeking permission to change some of its service charges and fees as shown in its fee schedule based upon the increase in its cost to provide such services to its customers.

6. This Application is being filed pursuant to the less extensive filing requirements set forth in K.A.R. 82-1-231b, which applies to natural gas utilities which are not class A utilities (defined as utilities whose gross annual income is less than $1 million, K.A.R. 82-1-204a(a)). AEGS's gross annual income for the test year (12-month period ending December 31, 2013) was $370,845.00.

7. This Application includes supporting schedules prepared by Mr. Rohlfs as required by the Commission supporting his cost of service studies relating to the actual cost incurred by AEPL in operating AEGS's utility operations and the actual cost incurred by AEPL in operating the gas gathering system used to provide natural gas to AEGS's utility customers. This application includes a financial statement for AEGS and AEPL. This application also includes copies of the New Agreements, which are subject to Commission approval. This application includes a copy of AEGS's most recent rate tariffs with red-lined proposed changes to those rate tariffs.

8. AEGS submitted its notice of intent to file a rate application on August 29, 2014. AEGS met with technical and legal staff of the Commission to inform them of AEGS's approximate revenue requirement and its proposed rate design. As soon as a docket number is assigned to this application filing, AEGS will prepare a notice of public meeting for the Staff's review and approval and upon the notice being approved by the Staff, AEGS will mail the notice to its customers and hold the public meeting as required by K.A.R. 82-1-231b(b)(2)(C).

WHEREFORE, for the reasons set forth herein, AEGS requests that its application for approval of its rate increase be approved; that its application for approval of the New Agreements be approved; and for such other relief deemed necessary by the Commission relating to this Application.

James G. Flaherty, #11177
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jflaherty@andersonbyrd.com
Attorneys for American Energies Gas Service, LLC

VERIFICATION

STATE OF KANSAS, COUNTY OF FRANKLIN, ss:

James G. Flaherty, of lawful age, being duly sworn upon oath, deposes and says that he is attorney for American Energies Gas Service, LLC; that he has read the above and foregoing Application; and the statements contained therein are true.

James G. Flaherty

SUBSCRIBED AND SWORN to before me this 2nd day of October, 2014.

NOTARY PUBLIC - State of Kansas
RONDA ROSSMAN
My Appt. Exp. 5/25/2018

Notary Public

Appointment/Commission Expires:

American Energies Gas Services
Gas System Operations
Summary of Pro Forma Rate Base and Operating Income
Test Year Ended December 31, 2013

Line No.	Description Col. 1	Schedule Reference Col. 2	Total Company Pro Forma Adjusted Total Col. 3	KCC Pro Forma Adjusted Total Col. 4
	Electric Operations Rate Base			
1	Electric Plant in Service	3-B	$103,811	$103,811
2	Less: Accumulated Provision for Depreciation and Amortization	3-B	13,436	13,436
3	Less: Cost Free Items	3-B	0	0
4	Net Electric Plant in Service		90,376	90,376
5	Working Capital	3-B	18,845	18,845
6	Electric Operations Rate Base		$109,221	$109,221
	Electric Operations			
7	Operating Revenues	3-B	$368,987	$368,987
8	Operating Expenses	3-B	376,989	376,989
9	Operating Income - Present Rates		($8,002)	($8,002)
	Electric Operations Rate of Return			
10	Return on Present Rates (Line 9 / Line 6)		-7.3262%	-7.3262%
11	Required Return on Rate Base	7-A	8.0000%	8.0000%
12	Operating Income Requirement (Line 6 X Line 11)		$8,738	$8,738
	Revenue Requirement to Earn Required Rate of Return			
13	Additional Operating Income (Line 12- Line 9)		$16,740	$16,740
14	Associated Income Taxes		$5,579.89	$5,579.89
15	Revenue Increase Required		$22,320	$22,320

American Energies Gas Services
Gas System Operations
Summary of Rate Base, Operating Income and Pro Forma Adjustments
Test Year Ended December 31, 2013

Line No.	Description	Schedule Reference	Balance Per AEGS Ledger	Total Company Pro Forma Adjustments	KCC Pro Forma Adjusted Balance
	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5
	Electric Operations Rate Base				
1	Electric Plant in Service	4-A	$103,811	$0	$103,811
2	Less: Accumulated Provision for Depreciation and Amortization	5-A	13,436	0	13,436
3	Less: Cost Free Items	14-A	0	0	0
4	Net Electric Plant in Service		90,376	0	90,376
5	Working Capital	6-A	18,845	0	18,845
6	Electric Operations Rate Base		$109,221	$0	$109,221
	Electric Operations				
7	Operating Revenues	9-A	$370,845	($1,858)	$368,987
8	Operating Expenses	9-A	372,998	3,991	376,989
9	Operating Income - Present Rates		($2,153)	($5,849)	($8,002)

American Energies Gas Services
Gas System Operations
Summary of Rate Base, Operating Income and Pro Forma Adjustments
Test Year Ended December 31, 20113

Line No.	Description	Schedule Reference	Balance AEGS ###############	IS-1 Donations at 50%	IS-2 Rate Case Expense Amortization	IS-3 Remove Revenue from City of Moundridge	AEGS Pro Forma Total Balance
	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7
	Electric Operations Rate Base						
1	Electric Plant in Service	4-A, 4-C	$103,811				$103,811
2	Less: Accumulated Provision for Depreciation and Amortization	5-A	13,437				13,437
3	Less: Cost Free Capital	14-A	0				0
4	Net Electric Plant in Service		90,375				90,375
5	Working Capital	6-A	18,845				18,845
6	Electric Operations Rate Base		$109,221				$109,220
	Electric Operations						
7	Operating Revenues	9-A	$370,845	$0	$0	($1,858)	$368,987
8	Operating Expenses w/o Income Taxes	9-A	372,998	(60)	6,000		378,938
9	Income Taxes	9-A	0				0
10	Operating Income - Present Rates		($2,153)	$60	($6,000)	($1,858)	($9,951)

American Energies Gas Services
Gas System Operations
Functional Classification of Plant in Service
Test Year Ended December 31, 2013

Line No.	Description Col. 1	Balance Per AEGS Ledger Col. 2	Pro Forma Adjustments Col. 3	Pro Forma Balance Col. 4
1	Intangible Plant - Systems Software	$0	$0	$0
2	Distribution Plant	98,323	0	98,323
3	General Plant	5,488	0	5,488
4	Total Gas Plant in Service	$103,811	$0	$103,811

No relevant history exists as AEGS was acquired in 2012

American Energies Gas Services
Gas System Operations
Accumulated Provision for Depreciation and Amortization
Test Year Ended March 31, 2011

Line No.	Description Col. 1	Balance Per AEGS Ledger Col. 2	Total Pro Forma Adjustments Col. 3	Pro Forma Adjusted Balance Col. 4
	Accumulated Provision For Depreciation			
1	Intangible Plant - Systems Software	$0	$0	$0
2	Distribution Plant	11,090	0	$11,090
3	General Plant	2,346	0	2,346
4	Total Accumulated Provision for Depreciation	$13,436	$0	$13,436

No relevant history exists as AEGS was acquired in 2012

American Energies Gas Services
Gas System Operations
Summary of Working Capital Components
Test Year Ended December 31, 2013

Line No.	Description	Balance Per AEGS Ledger	Pro Forma Adjustments	KCC Jurisdiction Pro Forma Average
	Col. 1	Col. 2	Col. 3	Col. 4
1	Materials and Supplies	$18,110	$0	$18,110
2	Prepayments	735	0	735
3	Working Funds	$ -	$ -	$ -
4	Total Working Capital	$18,845	$0	$18,845

American Energies Gas Services
Gas System Operations
Summary of Working Capital Components
Test Year Ended December 31, 2013

Line No.	Description Col. 1	Hypothetical Ratios Col. 2	Assumed Cost of Capital Col. 3	KCC Jurisdiction Cost of Capital Col. 4
1	Margin on gas service	100%	8%	8.00%
2	Total Working Capital	100%		8.00%

No relevant history exists as AEGS was acquired in 2012

American Energies Gas Services
Gas System Operations
Pro Forma Operating Income Statement
Test Year Ended December 31, 2013

Description	Schedule Reference	Balance Per AEGS Ledger	Pro Forma Adjustments	KCC Pro Forma Adjusted Balance
Col. 1	Col. 2	Col. 3	Col. 4	Col. 5
Operating Revenue				
Retail Gas Customers		$307,374	($1,858)	$305,516
Wholesale Gas Customers		$51,276	$0	$51,276
Service and Other		12,195	0	12,195
Total Revenue		$370,845	($1,858)	$368,987
Operating Expenses				
Gas Purchases		$154,297	$0	$154,297
Gas Operating Expenses		82,325	0	82,325
General and Administrative Expenses		124,390	5,940	130,330
Other Income - Expenses		3,333	0	3,333
Total Operating Expenses		$364,345	$5,940	$370,285
Depreciation and Amortization		$8,653	$0	$8,653
Income Taxes - Current		0	(1,950)	(1,950)
Total Expenses		$372,998	$3,991	$376,989
Operating Income - Present rates		($2,153)	($5,849)	($8,002)

American Energies Gas Services
Gas System Opertions
Summary of Pro Forma Adjustments to
Operating Revenues and Expenses for
the Test Year Ending December 31, 2013

Line No.	Description	IS-1 Donations at 50%	IS-2 Rate Case Expense Amortization	IS-3 Remove City of Moundridge	Pro Forma Adjustments	KCC Pro Forma Adjustments
	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6
	Operating Revenue					
1	Electric Revenue	$0	$0	($1,858)	($1,858)	($1,858)
2	Service and Other	0	0	0	0	$0
3	Total Revenue	$0	$0	($1,858)	($1,858)	($1,858)
	Operating Expenses					
4	Gas purchases	$0	$0	$0	$0	$0
5	Insurance Property/GL	0	0	0	0	0
6	Pipeline Workers Billed	0	0	0	0	0
7	Pipeline Supervisors Billed	0	0	0	0	0
8	ROW Rental Payments	0	0	0	0	0
9	Kansas One Call Line Marking	0	0	0	0	0
10	Repairs & Maintenance, Lines	0	0	0	0	0
11	Taxes, Fees, and Lisc	0	0	0	0	0
12	Regulatory/Safety	0	0	0	0	0
13	Meters & Measurement	0	0	0	0	0
14	Meters, Repairs & Maintenance	0	0	0	0	0
15	On Call Expenses	0	0	0	0	0
16	Compressor Rent, R&M	0	0	0	0	0
17	Chemicals & Treatments	0	0	0	0	0
18	PL Supplies	0	0	0	0	0
19	Site Maintenance/Mowing	0	0	0	0	0
20	Utilities	0	0	0	0	0
21	Vehicle Fuel & Repair	0	0	0	0	0
22	Miscellaneous Exp	0	0	0	0	0
23	Rebillable Customer Charges	0	0	0	0	0
24	**Total Operations**	$0	$0	$0	$0	$0

American Energies Gas Services
Gas System Opertions
Summary of Pro Forma Adjustments to
Operating Revenues and Expenses for
the Test Year Ending December 31, 2013

	General and Administrative Expenses					
25	Administrative & Accounting	$0	$0	$0	$0	$0
26	Advertising/Business Promotion	0	0	0	0	0
27	Audit & Tax Prep	0	6,000	0	6,000	6,000
28	Bad Debt Expense	0	0	0	0	0
29	Bank Charges	0	0	0	0	0
30	Computer Programs & Supplies	0	0	0	0	0
31	Consulting Fees	0	0	0	0	0
32	Contract Labor- G&A	0	0	0	0	0
33	Contributions/Donation	(60)	0	0	(60)	(60)
34	Dues & Subscriptions	0	0	0	0	0
35	Insurance- GL & Umbrella - G&A	0	0	0	0	0
36	Legal Services	0	0	0	0	0
37	Miscellaneous	0	0	0	0	0
38	Office Equipment Rental	0	0	0	0	0
39	Office Supplies	0	0	0	0	0
40	Payroll - Salaries	0	0	0	0	0
41	Payroll - Bonuses	0	0	0	0	0
42	Payroll Tax Expense	0	0	0	0	0
43	Payroll Expense - Benefits/Ins	0	0	0	0	0
44	Payroll Exp- Workers' Comp Ins	0	0	0	0	0
45	Postage & Fed Ex	0	0	0	0	0
46	Recording - Filing Fees	0	0	0	0	0
47	Office Repairs & Maintenance	0	0	0	0	0
48	Seminars / Training	0	0	0	0	0
49	Telephone	0	0	0	0	0
50	Travel	0	0	0	0	0
51	Utilities - Office	0	0	0	0	0
52	**Total G&A Expense**	(60)	6,000	0	5,940	5,940
53	Other Income - Expenses	0	0	0	0	0
54	**Impact on Operating Income before taxes**	60	(6,000)	(1,858)	(7,798)	(7,798)

American Energies Gas Services
Gas System Operations
Explanation of Pro Forma Adjustments to Operating Revenues and Expenses
Test Year Ended December 31, 2013

Description Col. 1	Increase Col. 2	Decrease Col. 3
Adjustment IS-1 - Removal of 50% of Contributions - Donations		
General and Administrative Expenses		
Donations and Contributions		$60
To reflect the KSA 66		
Adjustment IS-2- Rate Case Expense		
General and Administrative Expenses		
Audit & Tax Prep	6,000	0
To reflect one-third of the estimate cost to prepare, file and Commission assessments to AEGS on this rate proceeding		
Adjustment IS-3- Reflect the loss of wholesale customer		
City of Mounridge		1,858
To reflect the loss of a transport customer		

American Energies Gas Services
Gas System Operations
Pro Forma Depreciation and Amortization Expense
Test Year Ended December 31, 2013

Line No.	Description	Balance AEGS December 31, 2013	Pro Forma Adjustments	KCC Jurisdictional Pro Forma Balance
	Col. 1	Col. 2	Col. 3	Col. 4
	Depreciation Expense			
1	Office Equipment	$994	$0	$994
2	Creative Technologies office equipment	$559	0	559
3	CEM systems	$12	0	12
4	Pipeline to Hesston	2,589	0	2,589
5	Pipeline to Moundridge	2,114	0	2,114
6	Meters American Energies 2012	4	0	4
7	Meters	2,286	0	2,286
8	Meters New 2012	95	0	95
9	Total Depreciation Expense	$8,653	$0	$8,653

American Energies Gas Services
Gas Service Operations
Pro Forma Taxes Chargeable to Operations
Test Year Ended December 13, 2013

Line No.	Description Col. 1	Balance Per AEGS Ledger Col. 2	Pro Forma Adjustments Col. 3	KCC Pro Forma Adjusted Balance Col. 4
	Income Taxes:			
1	Income Taxes - Current	$0	($1,950)	($1,950)
2	Total Income Taxes	$0	($1,950)	($1,950)
3	Total Taxes Chargeable to Operations	$0	($1,950)	($1,950)

This Section is Not Applicable

American Energies Gas Services
Gas Service Operations
Description of Increases/Decreases to
Operating Income Before Income Taxes
Test Year Ended December 13, 2013

Line No.	Description Col. 1	Increase Col. 2	Decrease Col. 3
1	Charitable Contributions	15	0
2	Rate Case Expense	0	(1,500)
3	Remove City of Moundridge Revenue		(465)

American Energies Gas Services
Gas Service Operations
Description of Increases/Decreases to
Operating Income Before Income Taxes
Test Year Ended December 13, 2013

Line No.	Description Col. 1	Increase Col. 2	Decrease Col. 3
1	Charitable Contributions	15	0
2	Rate Case Expense	0	(1,500)

American Energies Gas Services
Gas Service Operations
Pro Forma Current Income Taxes
Test Year Ended December 13, 2013

This Section is Not Applicable

American Energies Gas Services
Gas Service Operations
Pro Forma Deferred Income Taxes
Test Year Ended December 13, 2013

This Section is Not Applicable

This Section is Not Applicable

This Section is Not Applicable

American Energies Gas Services
Gas Service Operations
Accumulated Deferred State Investment Credits
Annual Charges and Credits
Test Year Ended December 13, 2013

This Section is Not Applicable

This section is not applicable

This section is not applicable

American Energies Gas Service
Financial Statements
Fiscal Year Ended September 30, 2013

Consolidated Trek AEC LLC
INCOME STATEMENT
(Unaudited)
January 2013 Thru September 2013

Description	AEC	AEPL	MKGG	AEGS	ELIMINATIO ENTRIES	COMBINED TREK AEC
Revenue Oil & Gas Sales - Wells	8,686,164	0	0	0	0	8,686,164
Pipeline revenue	0	4,205,066	0	0	(564,502)	3,640,564
Utility Revenue	0	8,043	0	263,040	(8,043)	263,040
Revenue from Field Services	75,334	223	0	0	(4,833)	70,724
Total Revenue	8,761,497	4,213,331	0	263,040	(577,377)	12,660,492
Operating Costs and Expenses:						
Lease Operating Expense	4,134,158	0	0	0	(14,185)	4,119,972
Field Services Expenses	205,310	(0)	0	0	0	205,309
Pipeline / Utility Expenses	0	3,812,778	0	170,683	(563,192)	3,420,270
General & Administrative	644,539	283,858	0	95,962	0	1,024,359
Depreciation & Depletion	1,911,161	117,737	0	6,403	0	2,035,300
Total Operating Costs and Expenses	6,895,166	4,214,372	0	273,048	(577,377)	10,805,210
Ordinary Income	1,866,331	(1,041)	0	(10,009)	0	1,855,281
Other Income (expense):						
Interest Expense	(385,320)	0	0	0	0	(385,320)
Acquisition / Divestiture Exp	(11,772)	0	0	0	0	(11,772)
Retention Bonus	(279,902)	(137,106)	0	0	0	(417,008)
Other Income (Expense)	82,622	5,927	0	3,334	0	91,883
Total Other Income (Expense)	(594,373)	(131,179)	0	3,334	0	(722,218)
Income before Unrealized G/L Hedges	$ 1,271,958	$ (132,220)	$ 0	$ (6,675)	$ 0	$ 1,133,064
Unrealized G\L- Hedges	(105,449)	0	0	0	0	(105,449)
Net Income Before Taxes	1,166,509	(132,220)	0	(6,675)	0	1,027,615

TREK AEC, LLC
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

**Period from May 15, 2012 (Inception)
through December 31, 2012 and for the period from
January 1, 2013 through September 30, 2013
with Report of Independent Auditors**

TREK AEC, LLC
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

**Period from May 15, 2012 (Inception)
through December 31, 2012 and for the period from
January 1, 2013 through September 30, 2013
with Report of Independent Auditors**

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REPORT OF INDEPENDENT AUDITORS

To the Members of
Trek AEC, LLC

We have audited the accompanying consolidated balance sheets of Trek AEC, LLC and subsidiaries as of September 30, 2013 and December 31, 2012, and the related consolidated statements of operations, changes in members' capital, and cash flows for the period from January 1, 2013 through September 30, 2013, and the period from May 15, 2012 (Inception) through December 31, 2012, 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 audits 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 auditor's 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Trek AEC, LLC and subsidiaries as of September 30, 2013 and December 31, 2012, and the results of its operations and its cash flows for the period from January 1, 2013 through September 30, 2013, and the period from May 15, 2012 (Inception) through December 31, 2012, in conformity with GAAP.

Whitley Penn LLP

Dallas, Texas
December 19, 2013

TREK AEC, LLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 2,229,151	$ 2,744,371
Accounts receivable	1,750,436	2,243,574
Accounts receivable, related party	18,639	105,566
Prepaid expenses and other current assets	29,434	40,253
Total current assets	4,027,660	5,133,764
Property and equipment:		
Oil and natural gas properties, full cost method of accounting	26,915,124	28,446,791
Other property and equipment	2,180,043	2,063,072
	29,095,167	30,509,863
Less accumulated depletion, depreciation, and amortization	(3,256,593)	(1,269,342)
Property and equipment, net	25,838,574	29,240,521
Other assets	517,330	563,375
Total assets	$ 30,383,564	$ 34,937,660
Liabilities and Members' Capital		
Current liabilities:		
Accounts payable	$ 440,556	$ 785,773
Accounts payable, related parties	241,661	570,476
Accrued liabilities	898,594	1,190,197
Current portion derivative contracts	755,142	375,993
Current portion asset retirement obligation	838,946	1,014,947
Total current liabilities	3,174,899	3,937,386
Long-term derivative contracts	209,180	493,767
Long-term asset retirement obligation	315,797	350,408
Long-term debt	10,500,000	15,000,000
Total liabilities	14,199,876	19,781,561
Commitments and contingencies		
Members' capital	15,374,397	14,300,531
Non-controlling interest	809,291	855,568
Total liabilities and members' capital	$ 30,383,564	$ 34,937,660

See accompanying notes to consolidated financial statements.

TREK AEC, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Period from January 1, 2013 through September 30, 2013	Period from May 15, 2012 (Inception) through December 31, 2012
Revenues:		
Oil and natural gas revenues	$ 8,649,567	$ 4,504,954
Pipeline revenues and gathering fees	3,640,564	2,018,838
Utility service revenues	263,041	130,343
Oilfield services income	70,724	73,530
Total revenues	12,623,896	6,727,665
Operating expenses:		
Oil and natural gas operating expenses	3,925,274	3,548,335
Pipeline operating expenses	3,249,588	757,790
Utility service operating costs	170,684	43,425
Depletion, depreciation, and amortization	2,035,300	1,269,342
General and administrative	1,453,133	1,523,417
Total operating expenses	10,833,979	7,142,309
Income (loss) from operations	1,789,917	(414,644)
Other income (expense):		
Interest expense	(385,321)	(323,515)
Unrealized loss on derivatives	(105,449)	(869,760)
Realized loss on derivatives	(400,035)	(103,750)
Other income	128,477	61,723
Total other expense	(762,328)	(1,235,302)
Net income (loss)	1,027,589	(1,649,946)
Less: net income (loss) attributable to non-controlling interest	(46,277)	49,523
Net income (loss) attributable to Trek AEC, LLC	$ 1,073,866	$ (1,699,469)

See accompanying notes to consolidated financial statements.

TREK AEC, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' CAPITAL

Periods from May 15, 2012 (Inception) through December 31, 2012 and from January 1, 2013 through September 30, 2013

	Members' Capital	Non-controlling Interest	Total
Balance at May 15, 2012 (Inception)	$ -	$ -	$ -
Contributions	16,000,000	-	16,000,000
Non-controlling interest	-	806,045	806,045
Net income (loss)	(1,699,469)	49,523	(1,649,946)
Balance at December 31, 2012	$ 14,300,531	$ 855,568	$ 15,156,099
Net income (loss)	1,073,866	(46,277)	1,027,589
Balance at September 30, 2013	$ 15,374,397	$ 809,291	$ 16,183,688

See accompanying notes to consolidated financial statements.

TREK AEC, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Period from January 1, 2013 through September 30, 2013	Period from May 15, 2012 (Inception) through December 31, 2012
Operating Activities		
Net income (loss)	$ 1,027,589	$ (1,649,946)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depletion, depreciation and amortization	2,035,300	1,269,342
Accretion of asset retirement obligation	45,950	52,518
Gain on sale of other property and equipment	(48,049)	-
Unrealized loss on derivatives	105,449	869,760
Changes in operating assets and liabilities:		
Accounts receivable	493,138	1,356,572
Accounts receivable, related party	86,927	(105,566)
Prepaid expenses and other current assets	10,819	(38,037)
Other assets	46,045	361,625
Accounts payable	(345,217)	223,146
Accounts payable, related parties	(328,815)	570,476
Accrued liabilities	(302,490)	1,071,971
Net cash provided by operating activities	2,826,646	3,981,861
Investing Activities		
Purchases of other property and equipment	(240,839)	-
Purchases of oil and natural gas properties	(1,732,118)	(1,100,473)
Proceeds from the sale of oil and gas properties	2,911,573	-
Proceeds from the sale of other property and equipment	219,518	-
Cash used for acquisition of American Energies Corporation and subsidiaries, net of cash received	-	(14,637,017)
Net cash provided by (used in) investing activities	1,158,134	(15,737,490)
Financing Activities		
Payments on long-term debt	(4,500,000)	(1,500,000)
Contributions	-	16,000,000
Net cash provided by (used in) financing activities	(4,500,000)	14,500,000
Net increase (decrease) in cash and cash equivalents	(515,220)	2,744,371
Cash and cash equivalents at beginning of period	2,744,371	-
Cash and cash equivalents at end of period	$ 2,229,151	$ 2,744,371
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 456,695	$ 137,177
Non-cash Items:		
Net change in asset retirement obligations	$ 256,562	$ 1,312,837
Acquisition of subsidiaries through long-term debt	$ -	$ 16,500,000

See accompanying notes to consolidated financial statements.

A. Nature of Business

Trek AEC, LLC (the "Company"), a Texas limited liability company, was created on May 15, 2012 (Inception), and effectively began operating on August 1, 2012, when the Company purchased the stock of American Energies Corporation. American Energies Corporation was then merged into the Company. The Company is a domestic oil and gas acquisition, exploration, and production company with oil and gas assets primarily in Kansas.

The Company's 65% owned subsidiary, American Energies Pipeline, LLC ("AEPL") a Kansas limited liability company, owns, operates, and maintains natural gas pipelines located in Kansas.

The Company's wholly-owned subsidiary, American Energies Gas Services, LLC ("AEGS") a Kansas limited liability company, owns, operates, and maintains a gas utility service company located in Kansas.

The Company's corporate office is located in Dallas, Texas and its operations facilities are located in Wichita and Canton, Kansas.

During 2013 the Company's board of directors approved a change in the Company's fiscal year end from December 31, to September 30, effective as of January 1, 2013.

B. Summary of Significant Accounting Policies

A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Basis of Accounting

The accounts are maintained and the consolidated financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates and assumptions.

B. Summary of Significant Accounting Policies – continued

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned or majority controlled subsidiaries AEPL and AEGS. All significant intercompany accounts and transactions have been eliminated in consolidation.

Non-controlling Interests

The Company follows Accounting Standards Codification ("ASC") Topic 810, *Consolidation*, to account for the non-controlling interest in AEPL. ASC 810 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income (loss) attributable to the parent and to the non-controlling interest, changes in a parent's ownership interest and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. ASC 810 also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interest of the parent and the interests of the non-controlling owner.

Business Combinations

The Company accounts for business combinations under the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*. The acquisition method requires that assets acquired and liabilities assumed including contingencies be recorded at their fair values as of the acquisition date.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At September 30, 2013 and December 31, 2012, the Company had no such investments. The Company maintains deposits primarily in two financial institutions, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). The Company has not experienced any losses related to amounts in excess of FDIC limits.

Concentration of Credit Risk and Accounts Receivable

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents, accounts receivable, and derivative financial instruments. The Company places its cash and cash equivalents with high credit quality financial institutions and its derivative financial instruments with financial institutions and other firms that management believes have high credit ratings. For a discussion of the credit risks associated with the Company's derivative financial instruments, see Note C. The majority of the Company's accounts receivable are due from either purchasers of crude oil and natural gas or participants in crude oil and natural gas wells for which the Company serves as the operator.

B. Summary of Significant Accounting Policies – continued

Concentration of Credit Risk and Accounts Receivable – continued

Generally, operators of crude oil and natural gas properties have the right to offset future revenues against unpaid charges related to operated wells. The Company also has receivables from its utility customers of AEGS. The Company's receivables are generally unsecured. The Company has had minimal bad debts since inception; therefore, no allowance for doubtful accounts has been recorded as of September 30, 2013 and December 31, 2012.

Other Property and Equipment

Other property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets for financial reporting purposes. Expenditures for major renewals and betterments that extend the useful lives are capitalized. Expenditures for normal maintenance and repairs are expensed as incurred. The cost of fixed assets sold or retired and the related accumulated depreciation are eliminated from the accounts and any gains or losses are recognized in the consolidated statement of operations of the respective period.

The estimated useful lives by classification are as follows:

Office equipment	3-5 years
Fleet vehicles and equipment	5 years
Building and leasehold improvements	10-39 years
Pipeline and gathering systems	7-15 years
Meters, dehydrators, and separators	7-10 years

Oil and Natural Gas Properties

The Company follows the full cost method of accounting for its oil and gas exploration and producing activities. Under the full cost method, all costs incurred in connection with the acquisition, exploration, and development of oil and gas properties are capitalized when incurred. Costs include lease acquisition, geological and geophysical expenditures, the cost of drilling both productive and nonproductive wells, and overhead associated directly with exploration and land acquisition activities. All capitalized costs, plus the undiscounted estimated future development costs of proved undeveloped reserves and estimated future dismantlement and abandonment costs, are depleted using the unit-of-production method based on total proved reserves. Support equipment and facilities are depreciated using the unit-of-production method based on total field-level reserves. Costs associated with unproved properties that are not subject to amortization are periodically assessed for impairment. If determined to be impaired, such costs are reflected in the full-cost pool, subject to the ceiling limitation as described below. When properties are disposed of, the proceeds from disposition are applied as a reduction of capitalized costs and no gain or loss is recognized unless such disposition significantly changes the reserve quantities.

B. Summary of Significant Accounting Policies – continued

Oil and Natural Gas Properties – continued

Costs capitalized under the full-cost method of accounting are subject to a ceiling limitation whereby the net capitalized costs of oil and gas properties, less related deferred income taxes, cannot exceed the sum of the estimated future net revenues from the properties, discounted at 10%; unevaluated costs not being amortized; and the lower of cost or estimated fair value of unproved properties being depleted, less income tax effects related to differences between the financial statement basis and tax basis of oil and gas properties.

Revenue Recognition

Revenues from oil and gas activities are generally recorded using the sales method, net of royalties and net profits interest. Under the sales method, revenues are recorded based on the Company's net revenue interest in production taken for delivery. Whenever deliveries exceed the Company's entitlement, and the cumulative overproduced amount is greater than its share of remaining estimated reserves, the Company recognizes the imbalance as a liability on its balance sheet. A receivable may also be recognized in cases where the remaining reserves of underproduced wells are insufficient to settle imbalances. The Company's proved reserves may be subject to adjustment in the case of producer imbalances. Imbalances were not significant at September 30, 2013 and December 31, 2012.

Utility energy revenues related to regulated deliveries of natural gas are recorded when consumed; the Company reads meters and bills customers on a monthly basis.

Pipeline and gathering fee revenue is recorded in two forms (1) transportation fees charged to customers as gas volumes are shipped through the pipeline systems; and (2) from the sales of purchased natural gas when the product is delivered to third party processing plants.

Impairment of Long-Lived Assets

The Company reviews its long-term assets for impairment in accordance with the provision of ASC 360-10, *Impairment of Long-Lived Assets*. ASC 360-10 requires that when events or circumstances indicate the carrying amount of an asset may not be recoverable, the Company should determine if impairment of value exists. If the estimated undiscounted future net cash flows are less than the carrying amount of the assets, impairment exists and an impairment loss must be calculated and recorded. If impairment exists, the impairment loss is calculated based on the excess of the carrying amount of the asset over the asset's fair value. Any impairment loss is treated as a permanent reduction in the carrying value of the assets. Through September 30, 2013, no events or circumstances have arisen which would require the Company to record a provision for impairment on its long-lived assets.

B. Summary of Significant Accounting Policies – continued

Income Taxes

The Company is organized as a limited liability company for federal income tax purposes. As a result, income or losses are taxable or deductible to the members rather than at the Company level; accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements.

Financial Accounting Standards Board ("FASB") ASC 740 prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. In accordance with FASB ASC 740, the Company must determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. The Company believes it has no such uncertain positions.

The Company files income tax returns in the United States federal jurisdiction. At September 30, 2013, tax returns related to the period from May 15, 2012 (Inception) through December 31, 2012, and the period from January 1, 2013 through September 30, 2013, remain open to possible examination by the tax authorities. No tax returns are currently under examination by any tax authorities. The Company did not incur any penalties or interest during the period ended September 30, 2013 or December 31, 2012.

Hedging and Derivative Financial Instruments

Derivative financial instruments are reported on the balance sheet at fair value and, if the derivative is not designated as a hedging instrument, changes in fair value are recognized in earnings in the period of change. If the derivative is designated and qualifies as a hedge, and to the extent such hedge is determined to be effective, changes in fair value are either offset by the change in fair value of the hedged asset or liability (if applicable) or reported as a component of other comprehensive income in the period of change, and subsequently recognized in earnings when the offsetting hedged transaction occurs. The change in fair value, to the extent the hedge is determined to be ineffective, is recorded in current earnings. For the period ended September 30, 2013 and December 31, 2012, all derivative contracts purchased were not designated as hedging instruments.

Asset Retirement Obligation

ASC 410, *Asset Retirement and Environmental Obligations*, establishes accounting requirements for retirement obligations associated with tangible long-lived assets including: (1) the timing of the liability recognition, (2) initial measurement of the liability, (3) allocation of asset retirement cost to expense, (4) subsequent measurement of the liability, and (5) financial statement disclosures. ASC 410 requires that asset retirement cost should be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method.

B. Summary of Significant Accounting Policies – continued

Asset Retirement Obligation – continued

The following table shows the approximate changes in the balance of the asset retirement obligation during the periods ended September 30, 2013 and December 31, 2012:

Asset retirement obligation, inception	$ -
Accretion expense	53,000
Additions to retirement obligation	1,312,000
Asset retirement obligation, December 31, 2012	1,365,000
Accretion expense	46,000
Reduction for sale of oil and gas properties	(301,000)
Revisions	(46,000)
Additions to retirement obligation	91,000
Asset retirement obligation, September 30, 2013	$ 1,155,000

Based on the expected timing of payments, approximately $839,000 and $316,000 are classified as current and long-term asset retirement obligations, respectively, at September 30, 2013.

Fair Value of Financial Instruments

In accordance with the reporting requirements of ASC 825, the Company calculates the fair value of its assets and liabilities which qualify as financial instruments and includes this additional information in the notes to the financial statements when the fair value is different than the carrying value of those financial instruments. The estimated fair value of cash and cash equivalents, accounts receivable, accounts receivable - related party, prepaid expenses, other assets, accounts payable, accounts payable - related parties, and accrued liabilities approximate their carrying amounts due to the relatively short maturity of these instruments. The carrying value of long-term debt also approximates fair value because this instrument bears a market rate of interest. None of these instruments are held for trading purposes.

Fair Value Measurements

ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about assets and liabilities measured at fair value. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a three-tier hierarchy that is used to identify assets and liabilities measured at fair value. The hierarchy focuses on the inputs used to measure fair value and requires that the lowest level input be used. The three levels defined are as follows:

B. Summary of Significant Accounting Policies – continued

Fair Value Measurements – continued

- Level 1 — observable inputs that are based upon quoted market prices for identical assets or liabilities within active markets.
- Level 2 — observable inputs other than Level 1 that are based upon quoted market prices for similar assets or liabilities, based upon quoted prices within inactive markets, or inputs other than quoted market prices that are observable through market data for substantially the full term of the asset or liability.
- Level 3 — inputs that are unobservable for the particular asset or liability due to little or no market activity and are significant to the fair value of the asset or liability. These inputs reflect assumptions that market participants would use when valuing the particular asset or liability.

The Company's derivative contract positions are included in Level 2 of the fair value hierarchy contained in ASC 820.

The Company accounts for additions to asset retirement obligations at fair value on a non-recurring basis. The Company's accounting policies and reconciliations for asset retirement obligations are provided in Note B for the periods presented. For purposes of fair value measurement, the Company determined that additions and revisions to the asset retirement obligation should be classified as Level 3. The Company recorded net additions and revisions of approximately $45,000 and $1,312,000 during the periods ended September 30, 2013 and December 31, 2012.

C. Commodity Derivative Activities

The Company has implemented a comprehensive hedging strategy to reduce the effects of volatility of natural gas and crude oil prices on the Company's results of operations.

Inherent in the Company's portfolio of natural gas and crude oil derivative contracts are certain business risks, including market risk and credit risk. Market risk is the risk that the price of natural gas and crude oil will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by the Company's counterparty to a contract. The Company does not require collateral from its counterparties.

As of September 30, 2013 and December 31, 2012, the Company had derivative contracts covering approximately 160,000 and 180,000 barrels of crude oil, respectively. The Company recognized an unrealized loss on derivatives of approximately $105,000 and $870,000 during the periods ended September 30, 2013 and December 31, 2012, respectively, and realized losses of approximately $400,000 and $104,000 during the periods ended September 30, 2013 and December 31, 2012. At September 30, 2013 and December 31, 2012, the fair value of the Company's commodity derivative contracts was a net liability of approximately $964,000 and $870,000, respectively.

C. Commodity Derivative Activities – continued

At September 30, 2013, the Company had the following open derivative contracts related to crude oil:

Effective Dates	Daily Volume (in Bbls)	Swap Contract
10/1/2013 – 12/31/2013	33	$ 102.95
1/1/2014 – 12/31/2014	33	$ 97.97
1/1/2015 – 7/31/2015	33	$ 93.79
10/1/2013 – 12/31/2013	100	$ 81.01
1/1/2014 – 12/31/2014	100	$ 81.62
1/1/2015 – 7/31/2015	100	$ 81.93
10/1/2013 – 7/31/2015	33	$ 89.65

D. Other Property and Equipment

Other property and equipment at September 30, 2013 and December 31, 2012, consist of the following:

	September 30, 2013	December 31, 2012
Office equipment	$ 33,544	$ 27,844
Land	20,000	20,000
Building and leasehold improvements	52,715	52,715
Fleet vehicles and equipment	149,108	333,657
Pipeline and gathering systems	1,604,249	1,409,605
Meters, dehydrators, and separators	320,427	219,251
	2,180,043	2,063,072
Less accumulated depreciation	222,784	107,084
	$ 1,957,259	$ 1,955,988

E. Notes Payable

On July 31, 2012, the Company entered into a loan agreement with a bank for a secured credit facility that permits the Company to borrow up to $18 million on a revolving basis, subject to borrowing base limitations. The outstanding principal balance as of September 30, 2013 and December 31, 2012, was $10,500,000 and $15,000,000, respectively. The loan bears interest equal to the lesser of LIBOR plus 3.5% or the Prime rate plus 1.5% (4.75% as of September 30, 2013). At no time may the Company have more than three tranches of borrowing that bear interest at LIBOR plus 3.5%. Interest is payable monthly and the outstanding loan balance is due on July 31, 2015. Under the terms of the facility, the Company is required, among other things, to comply with interest coverage, leverage ratio, current ratio, and other covenants that are customary for a credit facility of this type. The Company was in compliance with all aforementioned debt covenants as of September 30, 2013. The credit facility is secured by all of the Company's assets.

F. Acquisitions

Effective August 1, 2012, the Company purchased all of the outstanding stock of American Energies Corporation. American Energies Corporation was a domestic oil and gas acquisition, exploration, and production company with oil and gas assets primarily in Kansas. American Energies Corporation's subsidiary, AEPL, owns, operates, and maintains natural gas pipelines located in Kansas. American Energies Corporation's subsidiary, AEGS, owns, operates, and maintains a gas utility service company located in Kansas. The total consideration paid for the American Energies Corporation acquisition was $34,254,376. The following table summarizes the assets acquired and liabilities assumed as of the closing date:

Cash	$ 3,117,359
Accounts receivable	3,373,573
Oil and gas well equipment inventory	925,000
Prepaid expenses and other current assets	2,216
Property and equipment	412,000
Other assets	226,573
Utility services assets	300,000
Pipeline and gathering assets	1,500,000
Oil and natural gas properties	25,078,508
Total assets acquired	$ 34,935,229
Accounts payable	$ 548,804
Accrued expenses	132,049
Total liabilities assumed	$ 680,853
Net assets acquired	$ 34,254,376

The operations of American Energies Corporation and its subsidiaries have been included in the accompanying consolidated financial statements effective August 1, 2012.

G. Related Party Transactions

The Company currently shares office space, employees, and other overhead expenses with Trek Resources, Inc. ("Trek"), a member of the Company. All such activities are billed to the Company at actual rates incurred. For the periods ended September 30, 2013 and December 31, 2012, the Company was billed by Trek $620,350 and $708,238, respectively, for employee costs, office space, and other services that the Company received from Trek, and $0 and $764,111, respectively, for American Energies Corporation acquisition costs. These amounts were included as components of general and administrative expenses in the accompanying consolidated statement of operations and are included in accounts payable, related party, in the accompanying consolidated balance sheets. At September 30, 2013 and December 31, 2012, accounts payable, related party included approximately $242,000 and $570,000, respectively, due to Trek.

The Company recorded pipeline and gathering fee revenue from a related party, Trek SOC, LLC, during the periods ended September 30, 2013 and December 31, 2012. At September 30, 2013 and December 31, 2012, accounts receivable - related party included approximately $19,000 and $106,000, respectively, due to Trek SOC, LLC related to these fees.

H. Significant Customers

The Company currently sells its oil and gas production to approximately 18 separate purchasers, of which four accounted for 24%, 18%, and 16%, of total revenues for the period ended September 30, 2013. During 2012 the Company sold its oil and gas production to approximately 20 separate purchasers, of which three accounted for 25%, 19%, and 17% of total revenues for the period ended December 31, 2012. In the aggregate, approximately $595,000 and $970,000 of outstanding accounts receivable at September 30, 2013 and December 31, 2012, were due from these three purchasers. The Company's pipeline and gathering service line has one significant operator that represented 11% and 10% of total revenues for the periods ended September 30, 2013 and December 31, 2012, respectively.

The Company does not believe that the loss of any single purchaser of its crude oil and natural gas, or an operator, would have a material adverse effect on its operations.

I. Commitments and Contingencies

Leases

The Company leases a facility under a non-cancelable operating lease. The lease agreement expires in September 2014. Rent expense for the periods ended September 30, 2013 and December 31, 2012, was approximately $56,000 and $28,000, respectively.

I. Commitments and Contingencies – continued

Leases – continued

Future approximate minimum payments under the non-cancelable operating lease consisted of the following at September 30, 2013:

2014	$ 56,000
Thereafter	-
Total minimum lease payments	$ 56,000

Litigation

The Company is subject to legal proceedings and claims that arise in the ordinary course of operations. As of September 30, 2013, the Company has no known material legal contingencies.

Environmental Remediation

Various federal, state, and local laws and regulations covering the discharge of materials into the environment, or otherwise relating to the protection of the environment, may affect the Company's operations and the costs of its crude oil and natural gas exploration, development, and production operations. The Company does not anticipate that it will be required in the near future to expend significant amounts in relation to the consolidated financial statements taken as a whole by reason of environmental laws and regulations, and appropriately no reserves have been recorded.

J. Oil and Gas Reserve Data (Unaudited)

The following table summarizes the Company's estimates of its proved oil and gas reserves as prepared by an independent petroleum engineer as of September 30, 2013 and December 31, 2012. The Company emphasizes that reserve estimates are approximate and are expected to change as additional information becomes available. Future cash inflows for the reserve report were computed by applying the average of the closing price on the first day of each month for the 12-month period prior to September 30, 2013 and December 31, 2012, to estimated future production. Future production and development costs are computed by estimating the expenditures to be incurred in developing and producing the proved oil and natural gas reserves at year end, based on year-end costs and assuming continuation of existing economic conditions.

Reservoir engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact way and the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Accordingly, there can be no assurance that the reserves set forth herein will ultimately be produced.

J. Oil and Gas Reserve Data (Unaudited) – continued

	Oil (Bbls)	Natural Gas (Mcf)
Proved reserves as of:		
September 30, 2013	1,218,900	3,741,600
December 31, 2012	1,354,900	3,268,900
Proved developed reserves as of:		
September 30, 2013	1,218,900	3,741,600
December 31, 2012	1,354,900	3,268,900

K. Subsequent Events

Management has evaluated all subsequent events for potential recognition or disclosure through December 19, 2013, which is the date these consolidated financial statements were available for issuance.

American Energies Gas Service

TEST YEAR ENDED12/31/2013	Total Company	Net Plant in Service Net Investment Ratio	Settlement Cap structure Jurisdictional Capital	Percent of Total Capital	Cost of Capital	Weighted Cost of Capital	Taxable Components	Tax Reciprocal	Tax on Equity Rev Effect
Capital Cost -									
Long Term debt	[redacted]	100.0000%		0.0000%	0.0000%	0.0000%			0.0000%
Preferred/preference stock		100.0000%		0.0000%	0.0000%	0.0000%	0.0000%		0.0000%
Short Term debt		100.0000%		0.0000%	0.0000%	0.0000%			0.0000%
Customer Capital Cost Free									
Customer Deposits									
Common Equity	[redacted]	100.0000%		100.0000%	8.0000%	8.0000%	8.0000%		8.0000%
Post 1970 ITC									
Total capitalization	0		0	100.0000%		8.0000%	8.0000%		8.0000%

OVERALL CAPITAL STRUCTI	0 0	Department	Per cent of total capital	Cost of capital	Weighted cost of capital	Taxable Components	Tax Reciprocal	Tax On Equity Rev Effect
	0							
Long Term debt	0	0	0.0000%	0.0000%	0.0000%			0.0000%
Preferred/preference stock	0	0	0.0000%	0.0000%	0.0000%	0.0000%		0.0000%
Short Term debt	0	0	0.0000%	0.0000%	0.0000%			0.0000%
Customer Capital Cost Fre	0	0	0.0000%	0.0000%	0.0000%			0.0000%
Customer Deposits	0	0	0.0000%	0.0000%	0.0000%			0.0000%
Common Equity	0	0	100.0000%	8.0000%	8.0000%	8.0000%	75.0000%	10.6667%
Post 1970 ITC	0	0	0.0000%	0.0000%	0.0000%			0.0000%
Total capitalization	0	0	100.00%		8.0000%	8.0000%		10.6667%

Hyphetical capital structure taken from Docket No. 04-AEGG-465-RTS
Cost of capital taken from Docket No. 04-AEGG-465-RTS

American Energies Gas Services
Gas System Operations
Summary of Current Rates for Gas Service
Test Year Ended December 31, 2013

Line No.	Description	Test Year End Number of Customers	Test Year Delivered Energy	Current Customer Charge	Current Per MCF Charge	Total Annualized Revenue (1)
	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6
1	Residential Customer Service	165.00	13,815	$6	$ 3.4210	$ 59,141.12
2	Commercial Oil/Gas Service	18	14,204	10	$ 3.4210	50,751.88
3	Commercial Gas Service	17	7,632	10	$ 3.4210	28,149.07
4	Irrigation Gas Service	13	1,963	10	$ 3.4210	8,275.42
5	Wholesale Transportation Service	3	218,637	25	$ 0.2300	51,186.51
6	Total current revenue	216	35,651			$ 197,504.00

(1) Annualized revenue does not include the Cost of Gas.

American Energies Gas Services
Gas System Operations
Summary of Proposed Rates for Gas Service

Line No.	Description Col. 1	Test Year End Number of Customers Col. 2	Test Year Delivered Energy Col. 3	Current Customer Charge Col. 4	Current Per MCF Charge Col. 5	Total Annualized Revenue (1) Col. 6
1	Residential Customer Service	165.00	13,815	$13	$ 3.4210	$ 73,001.12
						-
2	Commercial Oil/Gas Service	18	14,204	23	$ 3.4210	53,559.88
						-
3	Commercial Gas Service	17	7,632	23	$ 3.4210	30,801.07
						-
4	Irrigation Gas Service	13	1,963	23	$ 3.4210	10,303.42
						-
5	Wholesale Transportation Service	3	218,637	52	$ 0.2300	52,158.51
6	Total current revenue	216	35,651			$ 219,824.00
	Increase in utility revenue					22,320
	Target revenue change					22,320

THE STATE CORPORATION COMMISSION OF KANSAS Index No. ___

American Energies Gas Service, LLC
(Name of Issuing Utility)

Schedule GGS-6

KANSAS GAS OPERATIONS
(Territory to which schedule is applicable)

Replacing: Schedule GGS-5, Sheet __ of __
which was filed October 9, 2003

No supplement or separate understanding shall modify the tariff as shown hereon.

Sheet 1 of 1

GENERAL GAS SERVICE

AVAILABILITY

Natural Gas Service under this schedule is available to rural customers adjacent to the Company's mainlines who have executed the Company's Gas Service Agreement for gas service, subject to priority of service, in accordance with the Company's Service Rules and Regulations.

MONTHLY RATES

Residential -

$~~6.00~~**13.00** Customer Charge, plus

$3.4210 Per Mcf for all Mcf delivered, plus applicable adjustments and charges provided in Company's Cost of Gas Rider

Commercial, Industrial and Irrigation/Dryer -

$~~10.00~~**23.00** Customer Charge, plus

$3.4210 Per Mcf for all Mcf delivered, plus applicable adjustments and charges provided in Company's Cost of Gas Rider

PAYMENT

Shall be in accordance with Company's Rules and Regulations. The net monthly bill shall not be less than the customer charge plus any minimum charge set forth in the Company's Rules and Regulations and the Customer's Service Agreement.

RULES AND REGULATIONS

Service hereunder is subject to the Company's Rules and Regulations and supplements thereto, including its PGA-2 Schedule, on file with the Commission.

Issued ______________________
Month Day Year

Effective ______________________
Month Day Year

By ______________________
Signature Title

THE STATE CORPORATION COMMISSION OF KANSAS Index No. ___

American Energies Gas Service, LLC
(Name of Issuing Utility)

Schedule WTS-1

American Energies Gas Service System
(Territory to which schedule is applicable)

Replacing: NEW, Sheet ___ of ___
which was filed October 9, 2003

No supplement or separate understanding shall modify the tariff as shown hereon.

Sheet 1 of 2

WHOLESALE TRANSPORTATION SERVICE

AVAILABILITY

Available to utilities, municipal gas systems and/or their agent at single locations on American Energies Gas Service, LLC's transmission system for transportation of gas for resale outside Company's service territory. Service is subject to DEFINITIONS AND CONDITIONS section below.

NET MONTHLY BILL

$~~25.00~~**52.00**	Service Charge plus Delivery Charge
$0.23	per Mcf for all gas delivered

The Net Monthly Bill shall be no less than the Service Charge, plus any minimum charges set forth in a customer's Service Agreement.

DEFINITIONS AND CONDITIONS

1. Annual deliveries of at least 3,000 Mcf during the preceding 12 billing periods shall qualify a customer for service under this schedule. A customer, once qualified, shall remain eligible for service under this schedule.

2. A customer shall meet all conditions of the following tariffs to maintain service under this rate schedule:
a. Electronic Flow Measurement Meter.
b. Company's General Terms and Conditions for Gas Service (GTC).

Issued ______________________
Month Day Year

Effective ______________________
Month Day Year

By ______________________
Signature Title

WHOLESALE TRANSPORTATION SERVICE (Cont.)

3. The Delivery Charge may be reduced by American Energies Gas Service, LLC to meet a competitive alternative to American Energies Gas Service, LLC's delivery service. Discounts shall be subject to the following conditions:

a. The rate reduction must be necessary to retain or obtain a customer who has a credible competitive alternative available.

b. The amount of the discount from the maximum approved tariff rate must be the least necessary to retain or obtain the customer.

c. Under the discounted rate, the customer must, at a minimum, cover all incremental costs of serving that customer, plus make a contribution to common fixed costs.

d. American Energies Gas Service, LLC's decision to enter into a discounted service agreement and the amount of the discount shall be subject to review at Company's next rate case.

e. In situations where the discounted service agreement involves an affiliate, American Energies Gas Service, LLC shall file with the Commission a copy of the agreement with all supporting documentation and worksheets, within 10 days of the date of the agreement.

4. Transportation service is provided for the charge specified in the NET MONTHLY BILL section when supplied from Company's existing facilities. When additional facilities are needed to serve a customer, an additional charge may be required.

5. Multiple meter installations, installed at a single location for a customer's convenience, shall be billed additional Service Charges for each additional meter installation. Usage recorded on these multiple meters shall be aggregated for purposes of qualifying for this rate schedule.

6. Transportation service under this rate schedule is subject to the provisions and applicable charges contained in American Energies Gas Service, LLC GTC, or successor documents, approved by the Commission.

7. All provisions of this rate schedule are subject to changes made by order of the Commission.

Issued ______________________
Month Day Year

Effective ______________________
Month Day Year

By ______________________
Signature Title

THE STATE CORPORATION COMMISSION OF KANSAS Index No. ___

American Energies Gas Service, LLC
(Name of Issuing Utility)

Schedule SF-04

KANSAS GAS OPERATIONS
(Territory to which schedule is applicable)

Replacing: Schedule SF-03, Sheet __ of __
which was filed October 9, 2003

No supplement or separate understanding shall modify the tariff as shown hereon.

Sheet 1 of 1

SERVICE FEES AND CHARGES
GENERAL GAS SERVICE

APPLICABLE

Service fees and charges under this schedule shall be applicable to all classes of natural gas service customers at each service location in accordance with the Company's Rules and Regulations.

TYPE AND AMOUNT

1.	Connection Charge	$~~5.00~~**25.00**
2.	Temporary Service Minimum Fee	30.00
3.	Meter Reading Fee	10.00
4.	Returned Check Charge	~~30.00~~**35.00**
5.	Collection Charge	~~12.00~~**20.00**
6.	Disconnection Charge	~~12.00~~**15.00**
7.	Reconnection Charge	~~20.00~~**25.00**
8.	Meter Test Fee	~~20.00~~**25.00**

PAYMENT

In accordance with Company's Rules and Regulations.

Issued ____________________
Month Day Year

Effective ____________________
Month Day Year

By ____________________
Signature Title

OPERATIONAL SERVICES AGREEMENT
Between
American Energies Gas Service, LLC
and
American Energies Pipeline, LLC
("Agreement")

This Agreement is entered into and effective as of the 1st day of March, 2015 (the "Effective Date"), by and between American Energies Gas Service, LLC ("AEGS") and American Energies Pipeline, LLC ("AEPL").

For the mutual promises and covenants set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I. DEFINITIONS

For purposes of this Agreement, the following definitions have the meaning set forth below:

1.01 **Affiliate.** Each person that such person controls, each person that controls such person, and each person that is under common control with such person.

1.02 **Agreement**. This Agreement as identified in the introductory paragraph, and including by reference any clearly identified and duly executed schedules exhibits, attachments or other amendments, whether executed contemporaneously with or subsequent to the Effective Date.

1.03 **Bankruptcy or bankrupt**. With respect to any person that (a) such person (i) makes a general assignment for the benefit of creditors; (ii) files a voluntary bankruptcy petition; (iii) becomes the subject of an order for relief or is declared insolvent in any federal or state bankruptcy or insolvency proceeding; (iv) files a petition or answer seeking for such person a reorganization, arrangement, composition, readjustment, liquidation, dissolution, or similar relief under any Bankruptcy Law; (v) files an answer or other pleading admitting or failing to contest the material allegations of the petition filed against such Person in a proceeding of the type described in subclauses (i) through (iv) of this clause (a); or (vi) seeks, consents to, or acquiesces in the appointment of a trustee, receiver, or liquidator of such person or of all or any substantial part of such person's proper ties; or (b) against such person, a proceeding seeking reorganization, arrangement, composition, reassessment, liquidation, dissolution, or similar relief under any Bankruptcy Law has been commenced and 120 Days have expired without dismissal thereof or with respect for which, without such person's consent or acquiescence, a trustee, receiver, or liquidator of such person or all or any substantial part of such person's properties has been appointed and 90 Days have expired without the appointments having been vacated or stayed, or 90 Days have expired after the expiration of the stay, if the appointment has not been previously vacated.

1.04 **Business day.** Any day other than a Saturday, a Sunday, or national holiday on which national banking associations in Kansas are closed.

1.05 **Capital and Operating Budget.** The operating plans, capital expenditures, operations and maintenance expenses and staffing levels attributable to AEPL's performance of the Services under this Agreement.

1.06 **Claim.** Any and all judgments, claims, causes of action, demands, lawsuits, suits, proceedings, governmental investigations or audits, losses, assessments, fines, policies, administrative orders, obligations, costs, expenses, liabilities and damages (whether actual, consequential or punitive), including interest, penalties, reasonable attorney's fees, disbursements and costs of investigations, deficiencies, levies, duties and imposts.

1.07 **Contributed assets.** Those certain assets, properties and interests contributed or assigned to AEGS by AEPL.

1.08 **Day.** A calendar day; provided, however, that if any period of days referred to in this Agreement shall end on a day that is not a Business Day, the expiration of such period shall be automatically extended until the end of the first succeeding Business Day.

1.09 **FERC.** The Federal Energy Regulatory Commission or its successor.

1.10 **Year.** The calendar year.

1.11 **KCC.** The State Corporation Commission of the State of Kansas, or its successor.

1.12 **Law (or laws).** Any applicable and binding constitutional provision, statute, act, code, law, regulation, rule, ordinance, order, decree, ruling, judgment or decision of the governmental authority.

1.13 **AEGS Assets.** The assets owned by AEGS at any given time, including the Contributed Assets, the New Facilities, any additions or modifications to the Contributed Assets and New Facilities, and less any dispositions thereof.

1.14 **New Facilities.** Any new facilities to be acquired or constructed by or on behalf of AEGS consisting of pipeline modifications, pipeline extensions, compressor stations and interconnects, whether or not attached to or located near the Contributed Assets.

1.15 **Operations Fee.** See Section 4.01.

1.16 **Party (or parties).** Any party to this Agreement, excluding third parties.

1.17 **Person.** Any natural person, partnership (whether generally limited and whether domestic or foreign), limited liability company, foreign limited liability company, trust, estate, association, corporation, custodian, nominee or any other individual or entity in its own or any representative capacity.

1.18 **Services.** See Section 3.01.

ARTICLE 2
RELATIONSHIP OF THE PARTIES

2.01 **Relationship of the Parties, generally.**

(a) AEGS shall have the right to monitor and consult with AEPL in connection with AEPL's performance of its responsibilities under this Agreement. The Parties agree that AEPL shall be an independent contractor in its relationship to AEGS under this Agreement. In no event shall AEPL be deemed to be a partner, agent or attorney-in-fact of AEGS in the performance of its duties under this Agreement, and AEPL shall have no fiduciary duties to AEGS in the performance of its rights and obligations under this Agreement, whether based on partnership, agency or other principles.

(b) Subject to the limitations in this Agreement, the Parties agree that in no event shall this Agreement be construed to restrict, limit, or prohibit the business activities that AEPL and its Affiliates (other than AEGS) are currently engaged in and agree that AEPL and its Affiliates (other than AEGS) may engage in and possess interests in other business ventures of any and every type and description, independently or with others, including ones in competition with AEGS, with no obligation to offer to AEGS the right to participate therein.

(c) Without limiting the foregoing, AEGS and AEPL contemplate and agree that AEPL and its Affiliates (other than AEGS) are currently engaged in certain activities including natural gas production, marketing and trading, including swaps, exchanges of future positions for physical deliveries and commodity trading, gas processing, gas treating, cogeneration and gas transportation and other commercial activities relating to natural gas, and will continue to engage in these and other activities, which may be based on natural gas shipped on or stored in AEGS's facilities or otherwise made possible or more profitable by reason of AEGS's activities. The Parties further agree that AEPL and its Affiliates are not specifically prohibited by this Agreement from developing or acquiring additional Affiliates or interests which may engage in the activities described in this section.

2.02 **Reporting/reliance.** AEPL shall report to and coordinate its efforts to satisfy its obligations hereunder with AEGS. Unless otherwise directed in writing, AEPL shall be entitled to rely on the action taken by any AEGS officer as the duly authorized and binding action of AEGS for all purposes under this Agreement. AEPL shall be fully protected, and shall not be liable for any act or omission done in accordance with approvals or other actions or failures to act by AEGS.

ARTICLE 3
RESPONSIBILITIES OF AEPL

3.01 **Responsibilities.**

(a) Subject to the other provisions of this Agreement, AEPL agrees to perform or cause to be performed the Services reflected on Schedule 3.01 hereto (collectively, the "Services") on behalf of AEGS, and AEGS hereby authorizes AEPL to perform and be the sole provider of the Services on behalf of AEGS.

(b) AEPL shall perform the Services and any other obligations hereunder with the same degree of diligence and care that AEPL would exercise in performing similar services or obligations with respect to its own property.

3.02 **Contracting on behalf of AEGS.** Subject to the approval of AEGS and other limitations imposed by this Agreement, AEPL is authorized to execute on behalf of AEGS such contracts as are necessary for AEPL to carry out its responsibilities under this Agreement. Without the written approval of AEGS, no contract shall be entered into by AEPL with another Person unless there is contained therein an appropriate provision limiting the claims of such Person and its beneficiaries thereunder to the assets of AEGS and expressly waiving any rights of such Person and beneficiaries to proceed against any AEGS Affiliate individually.

3.03 **Employees, consultants, subcontractors.**

(a) AEPL shall employ or retain, have supervision over, and pay the employees or subcontractors, (including without limitation, consultants and professional service providers and other organizations) required by AEPL to perform its duties and responsibilities hereunder in an efficient and economically prudent manner. Such subcontractors may be Affiliates of AEPL.

(b) All personnel engaged or directed by AEPL to perform AEPL obligations under this Agreement and all contractors (and their subcontractors) and consultants retained by AEPL on its behalf or on behalf of AEGS shall be duly qualified and experienced to perform such obligations. AEPL shall require all contractors and their subcontractors performing Services for the benefit of AEGS or AEGS Assets to maintain in force and effect insurance of the types and in the amounts required by AEPL's standard policies and procedures then in effect. AEPL shall require all employees, contractors, subcontractors, consultants, vendors and suppliers to perform their Services in connection with AEGS Assets in accordance with known and prudent industry practices, which shall be deemed to be AEPL's established practices.

(c) In performing its obligations under this Agreement, AEPL will comply with all Laws, and specifically, AEPL will comply with the requirements of 49 CFR 199, including allowing access to its property and records to the extent described by Part 199. AEPL shall not use or permit a contractor or subcontractor to use an employee (as defined by part 199) on any of the Services anyone who a) refuses to take a drug test required by part 199; or b) fails a drug test required by part 199 and as to whom the medical review officer makes a determination under 49 CFR 199.109, except as specifically exempted from these requirements. AEPL will require each contractor and subcontractor to comply with these requirements and shall require each contractor and subcontractor to indemnify AEGS and its Affiliates against all claims arising out of such subcontractor or contractor's noncompliance with such Laws. This provision shall be applicable to all contractors, subcontractors, consultants and other Persons retained by AEPL lo the extent required by Law.

3.04 **Emergencies.** Notwithstanding any other provision of this Agreement, in case of explosion, fire, flood, extreme cold, freezing, threat to the safety of people or property, or other sudden emergencies, or any accidental major interruption of the operation or construction of the AEGS Assets, or any part thereof, the prior approval of AEGS shall not be a prerequisite to AEPL taking such steps and incurring such cost as, in AEPL's sole discretion, are required to deal with such emergency or interruption or to safeguard life and/or property in such event if, in AEPL's sole discretion, the delay incurred by securing such approval may jeopardize the safety of Persons or property or, the interests of AEGS. In such event, AEPL shall nevertheless notify AEGS as soon as possible following the taking of such action or incurring such costs by AEPL, and AEPL shall endeavor to secure for AEGS any written authorization that might be required for any further action or expenditure. AEPL shall also promptly make any required reports of such emergency or interruption to AEGS and the federal, state and local regulatory authorities having jurisdiction.

3.05 **Reports.** In addition to those duties outlined in Section 3.01, AEPL shall prepare and deliver to AEGS such reports relating to the AEGS Assets as AEGS may reasonably request from time to time and shall consult with AEGS at such times and at such locations as may be reasonably requested by AEGS.

3.06 **Books and records.** AEPL shall retain all charts, records, books of account, plans, design, studies, reports and other documents related to the design, construction, operation and maintenance of the AEGS Assets for the time period required by Law, regulation, or decision of AEGS, but in no event less than five years from the completion of the activity to which such records relate, except those that relate to the AEGS tax returns, which shall be retained for a period of at least ten (10) years. All books and records kept pursuant to this Section shall remain the property of AEGS.

3.07 **Capital and Operating Budgets.** AEPL shall prepare and submit annually by October 15 to AEGS for review, a Capital and Operating Budget. AEGS will provide information which AEPL may request from time to time, to facilitate preparation of the Capital and Operating Budget.

3.08 **Meters.**

(a) At each AEGS receipt point and delivery point, AEPL shall operate and maintain a measuring station. However, if an interconnecting third party or its affiliate requires ownership of such metering station, AEGS shall obtain the right for AEPL to inspect such metering station to determine that it has been installed according to AEPL's specifications. If orifice meters are used in any receipt point or delivery point, they shall be installed and operated in accordance with American Gas Association Report No. 3, and any modifications and amendments thereof, applied in a practical manner. If positive displacement meters, turbine meters, electric flow meters or other measuring devices are used, they shall be installed and operated in accordance with the then current American Gas Association recommendations, when available.

(b) AEGS shall designate which meter installations on the AEGS Assets shall include SCADA and/or electronic measurement systems capable of providing real-time data to AEGS and to AEPL.

(c) AEGS shall at all reasonable times, have access to any metering and regulating equipment for inspection and checking, but the reading, calibration and adjustment of such equipment and the changing of charts, if any, shall be done only by the employees or agents of AEPL. Upon the request of AEGS, AEPL shall submit records or charts from the metering and measuring equipment, together with calculations therefrom, if appropriate, for inspection and verification by AEGS. AEPL shall keep all metering charts or other records on file for at least three years after the last date to which such charts or records pertain.

(d) AEPL shall test the meters and other measuring equipment located on the AEGS Assets, including but not limited to online gas chromatic graphs, in accordance with AEPL's usual practice. However AEPL shall test those meters designated by AEGS at least monthly. Each continuously recording gravitometer shall be checked at least once each month by the use of AEPL's established methods. AEGS shall have the right to have representatives present at the time of any inspecting, repairing, testing, calibrating or adjusting of such meters or other measuring equipment.

(e) Nothing in this section shall preclude AEPL from taking immediate action to correct failures or malfunctions of such meters or other measuring equipment. AEPL shall perform its duties under this Section in a manner consistent with AEPL's usual practice, or otherwise in accordance with the industry standard.

3.09 **Inspection of facilities.** AEGS shall have the right at all reasonable times during normal business hours to inspect the AEGS Assets being constructed and operated hereunder. Such right may be exercised through any agent, employee or representative designated by AEGS. AEGS shall bear all expenses incurred in connection with any inspection it requests.

ARTICLE 4
FINANCIAL, ACCOUNTING AND BILLING PRACTICES

4.01 **Operations Fee.** As compensation for the performance of the Services hereunder (excluding construction, as defined on Schedule 3.01(b) which shall be billed separately by AEPL to AEGS), and subject to this Agreement, and the operations fee being approved by the KCC without conditions unacceptable to AEGS, AEGS shall pay to AEPL a monthly fee in the amount of $ $12,444 ("Operations Fee"), payable on or before the 10th Day of each month. The Operations Fee will remain fixed, and shall be adjusted only as follows:

(a) The Operations Fee shall be adjusted every third year based upon AEPL's actual costs to perform such services plus a reasonable margin not to exceed 8%, and subject to AEGS receiving approval of any increase in the Operations Fee from the KCC.

(b) In accordance with Schedule 3.01, the Operations Fee will be adjusted to compensate AEPL for any additional Services it has agreed to perform that were on any New Facility(ies), whenever any such New Facility(ies) may be proposed, constructed or acquired.

(c) The Operations Fee shall be adjusted at any time to compensate for extraordinary events or expenses. "Extraordinary events or expenses" shall include those caused by acts, omissions or occurrences beyond AEPL's reasonable control, and shall include but not be limited to acts of God or subsequently enacted or amended Laws, which may cause a change in the level of Services performed by AEPL, which causes an increase or decrease i n AEPL's cost of performance by greater than four percent (4%).

CONFIDENTIAL

(d) In the event the KCC approves an Operations Fee which is less than what is allowed for under this Agreement, then AEGS shall notify AEPL of the Operations Fee approved by the KCC. AEPL shall either accept the Operations Fee approved by the KCC, or have the right to cancel this Agreement. In the event AEPL elects to cancel this Agreement, it shall continue operations of the AEGS system at the Operations Fee approved by the KCC until AEGS can obtain another qualified operator.

4.02 **Statements in reimbursement of construction costs**. AEPL shall submit final statements of the cost of construction within a reasonable time after the construction is completed and, in any event, no later than ninety (90) Days thereafter. AEGS shall reimburse AEPL monthly, on or before the 1st Day, for costs of construction.

4.03 **Records of construction costs**. AEPL shall maintain complete books of accounts and records of all costs, expenses and expenditures incurred in constructing New Facilities, in the maintenance and operation of the AEGS Assets, and in otherwise performing any of its obligations under this Agreement, so as to provide AEGS, in accordance with Schedule 3.01, with the information required for accounting, regulatory, tax (including, without limitation, federal, state and local), insurance, financing and other reasonable purposes.

ARTICLE 5
INSURANCE AND TAXES

5.01 **Insurance**.

(a) AEPL shall procure and maintain general liability and auto liability insurance covering claims for bodily injury, personal injury and/or property damage that arise out of or in connection with its performance of the Services under this Agreement, workers compensation insurance to provide the benefits for all of its employees as required by Law, employers liability insurance, or such other insurance as AEGS agrees. AEPL may self-insure against the foregoing risks.

(b) AEPL shall be listed as a named insured on any policies maintained by AEGS to cover damage or liability relating to the AEGS Operations and Assets.

5.02 **Ad valorem taxes**. AEPL shall render for ad valorem taxation all AEGS' Assets that by Law should be rendered for such taxes. AEGS shall pay all such taxes assessed thereon before they become delinquent. AEPL shall bring any tax assessment that AEPL believes in its sole discretion to be unreasonable to the attention of AEGS and, shall upon notification to AEGS, have the sole discretion to determine whether to protest such valuation within a timely manner prescribed by Law and prosecute such protests to a final determination. But when any such protests in valuation shall have been finally determined, AEGS shall pay the assessment, together with any interest and penalty accrued thereto. All ad valorem tax payments shall be treated as costs to be charged to AEGS, in addition to the fees described in Article 4. AEPL shall be fully reimbursed (in addition to the fees provided in Article 4) from AEGS for the costs and expenses (including legal fees and costs incurred in prosecuting tax protests) incurred in performing the duties outlined in this Section.

ARTICLE 6
AUDIT RIGHTS

6.01 **Audit rights.** All books and records kept pursuant to the Services performed under this Agreement are the property of AEGS. AEGS shall have the right to audit, from time to time, during normal business hours of AEPL, all books and records AEPL has maintained pursuant to this Agreement. These audit rights shall exist for so long as such books and records are required by Law or regulations to be retained, but in any event no less than two years after the year of origin of such records (or in the case of audits relating to construction costs of New Facilities, no less than two years following the end of the year in which such construction is completed.) Any audit requests by AEGS may be performed by such nationally recognized firm of independent certified public accountants selected by AEGS. All audit reports shall be submitted to AEGS. Whoever requests an audit shall be responsible solely for the costs and expenses of such audit.

ARTICLE 7
INDEMNIFICATION; FORCE MAJEURE

7.01 **Indemnification.**

(a) Subject to the limitations in Section 10.13, AEGS shall indemnify, hold harmless and defend AEPL, including its officers, agents, representatives and employees, against all claims which are caused or attributable to the negligence of AEGS.

(b) Subject to the limitations in Sections 2.02 and 10.13, AEPL shall indemnify, hold harmless and defend AEGS, including its officers, agents, representatives and employees, against all claims which are caused by or attributable to the negligence of AEPL.

(c) Each Party will waive all rights of subrogation against the other Party.

7.02 **Force majeure.** If performance by either Party of any of its obligations hereunder (other than obligations to make payments) is prevented or delayed by force majeure , as defined herein below, it is agreed that if such Party gives notice and full particulars of such force majeure in writing or by telephone (followed promptly by written notice) as soon as practicable after the occurrence of the cause relied upon, the obligations so affected shall be suspended during the continuance of the prevention or delay so caused. Force majeure shall be defined to include any failure to perform the terms of this Agreement when such failure results from any of the following: acts of God; strikes, lockouts, or industrial disputes or disturbances; civil disturbances; arrest and restraint of people; interruptions by government, court order or Law; present and future Laws; acts of the public enemy; wars; riots; blockades; insurrections; an inability to secure labor or inability to secure materials, including inability to secure materials by reason of allocations promulgated by authorized governmental agencies; epidemics; landslide; and lightning; earthquakes; fire; storm; floods; washouts; tsunami; explosion; breakage, accident, repairs or alterations to lines of pipe or other equipment; freezing of wells or pipelines; inability to obtain easements or rights-of-way; or any other cause, whether of the kind herein enumerated or otherwise, not reasonably within the control of the Party claiming force majeure; provided, that any such cause shall, so far as possible, be remedied with all reasonable dispatch. The settlement of matters of Law, strikes, lockout, or industrial disputes with disturbances shall be entirely within the discretion of the Party having the difficulty, and the requirement that any force majeure cause shall be remedied with all reasonable dispatch shall not require the settlement of matters of Law, strikes, lockout, or industrial disputes with disturbances by acceding to any demands when such course is inadvisable in the discretion of the Party having the difficulty.

ARTICLE 8
TERM AND TERMINATION

8.01 **Term.** Subject to this Agreement being approved by the KCC, this Agreement shall continue in full force and effect for a primary term beginning on the Effective Date and ending on the 3rd anniversary of the Effective Date, and a secondary term of three years in length unless cancelled by either party within one year prior to the end of the primary term.

8.02 **Termination by AEGS.** AEGS shall also have the right to terminate this Agreement upon the occurrence of any of the following events:

(a) AEPL commits a material breach of this Agreement; or

(b) The bankruptcy of AEPL.

8.03 **Termination by AEPL.** AEPL shall have the right to terminate this Agreement in whole or in part, upon the occurrence of any of the following events:

(a) Delivery of not less than one (1) year's prior written notice to AEGS;

(b) AEPL and any Affiliate thereof shall cease to collectively own at least 51% of the equity of AEGS;

(c) AEGS commits a material breach of this Agreement; or

(d) The bankruptcy of AEGS.

8.04 **Effect of termination.** The termination of this Agreement shall not relieve either Party of its obligations to provide Services and pay amounts of money due hereunder which accrued prior to such termination. Upon termination, AEPL shall promptly deliver to AEGS all of its books and records relating to AEPL's duties under this Agreement.

ARTICLE 9
DISPUTE RESOLUTION

9.01 Except as may be otherwise provided in this Agreement with respect to a disagreement or dispute, any disagreement or dispute arising under this Agreement will be settled in the following manner: (i) the parties to the disagreement or dispute will negotiate in good faith to attempt to resolve the disagreement or dispute; (ii) if the disagreement or dispute is not resolved by such good faith negotiations, such parties shall select by mutual consent an independent third party to mediate such disagreement or dispute, but the recommendations or decisions of the mediator will not be binding on any of the parties; and (iii) if such disagreement or dispute is not resolved as contemplated by (i) and (ii) within a reasonable period not to exceed sixty (60) days after the disagreement or dispute is mediated by the mediator, the parties may then, but only after the expiration of such period, commence litigation to resolve such disagreement or dispute and obtain such rights and remedies as may be available to them. The written decision of the mediator shall be admissible in any case filed in accordance with this paragraph. The provisions of this paragraph shall not apply to the enforcement or collection of any claim for costs and expenses incurred in the construction or operation of the AEGS Assets as provided in this Agreement unless the validity or amount of such claim is in dispute. If such parties are unable to agree upon an independent third party to serve as mediator, a mediator shall be chosen by the senior Judge of the District Court of Sedgwick County, Kansas. Each party to the dispute shall bear its own costs and expenses in resolving any disagreements or disputes under this clause. The parties to the disagreement or dispute shall split equally the cost of the mediator.

9.02 Nothing in paragraph 9.01 above shall prevent any party hereto from seeking judicial relief if necessary to prevent serious or irreparable harm to persons or property.

ARTICLE 10
OTHER PROVISIONS

10.01 **Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

10.02 **Captions.** The Article and Section headings used in this Agreement are for convenience only and shall not be determinative in construing the meaning, effect or application of any Article, Section or provision hereof.

10.03 **Binding effect**. The rights and obligations set forth in this Agreement shall be binding upon, and inure to the benefit of each of the Parties hereto and their respective permitted successors and assigns.

10.04 **Entire Agreement; Superseding effect.** This Agreement constitutes the entire Agreement of the Parties and their Affiliates relating to the subject matters contained herein and supersedes all provisions and concepts contained in all prior contracts or agreements between the Parties and/or any of their Affiliates with respect to the subject matters contained herein.

10.05 **Severability**. If any provision of this Agreement or the application thereof shall be invalid, illegal or unenforceable to any extent and for any reason, the remainder of this Agreement and the application of such remainder shall not be affected thereby and shall be enforced to the greatest extent permitted by Law.

10.06 **Applicable Law; Venue.** This Agreement and the obligations of the Parties hereto shall be governed by and interpreted in accordance with the Law of the State of Kansas without regard to the principles of conflicts of Law or the principles that might refer to the governance or the construction of this Agreement to the Law of another jurisdiction. Subject to the limitations in Article 9, any lawsuit arising from or relating to this Agreement shall be filed and maintained in any court of competent jurisdiction in Wichita, Kansas.

10.07 **Waiver.** Except as otherwise provided in this Agreement, no waiver by any Party of any default by any other Party in the performance of any provision, condition, covenant or requirement herein contained shall be deemed to be waiver of, or in any manner release, such other Party from performance of any other provision, condition, covenant or requirement herein contained; nor be deemed to be a waiver of, or in any manner release of, such other Party from future performance of the same provision, condition, covenant or requirement. Except as otherwise provided in this Agreement, any delay or omission of the Party in exercising any right hereunder shall not impair the exercise of any such right, or any like right, accruing to it thereafter.

10.08 **Further assurances.** Each of the Parties hereto agrees to execute and deliver such other and additional instruments and documents, provide such information and do or refrain from doing such other acts as may be reasonably necessary to effectuate this Agreement.

10.09 **Notices**. Except for the rights specified in this Agreement, any notice, demand, request, consent for approval required or permitted to be given or made under this Agreement shall be in writing and shall be given either by depositing a writing in the United States mail, addressed to the recipient, postage paid, and registered or certified with return receipt requested or by delivering a writing to the recipient in Person, by courier, by e- mail or by facsimile transmission. The notice, demand, request, consent for approval given under this Agreement is effective on receipt by the Person who receives it. All notices, demands, requests, consents and approvals to be sent to a Party hereunder must be sent to or made at the address for each respective Person set forth below:

If to AEPL: American Energies Pipeline, LLC
4925 Greenville Ave., Ste. 915
Dallas, TX 75206
Phone: 214-373-0318
Fax: 214-373-8035
Kenneth R. Smith, Executive Vice President
Erin Devlin, Landman
ksmith@trekresources.com
edevlin@trekresources.com

If to AEGS: American Energies Gas Service, LLC
4925 Greenville Ave., Ste. 915
Dallas, TX 75206
Phone: 214-373-0318
Fax: 214-373-8035
Kenneth R. Smith, Executive Vice President
Erin Devlin, Landman
ksmith@trekresources.com
edevlin@trekresources.com

10.10 **Pronouns and plurals.** Whenever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns, pronouns and verbs shall include the plural and vice versa.

10.11 **Conflicts.** Unless otherwise specified, in the event there is any conflict between this Agreement and any schedule, exhibit, attachment or amendment hereto, or other agreement referred to herein, the provisions hereof shall be deemed controlling.

10.12 **Not for benefit of third parties.** This Agreement is intended to be solely for the benefit of AEGS and AEPL and their permitted successors and assigns and except as may be specifically set forth herein, is not intended to and shall not confer on any other Person any other rights or benefits.

10.13 **Limitation of remedies.** Notwithstanding any other provision contained herein, including the provisions of Articles 1, 7 and 9, in no event shall any Party be entitled to punitive, special consequential, incidental or other similar damages from or against the other Party(ies).

10.14 **Confidentiality.** Each of AEPL and AEGS acknowledges that they may receive information from or regarding AEGS or AEPL in the nature of trade secrets or that is otherwise confidential. Each of AEPL and AEGS agrees to hold in confidence any information it receives from the other Party, and such information shall be presumed to be confidential unless clearly identified as a non-confidential item. Without the consent of both AEPL and AEGS, each of AEPL and AEGS agrees not to disclose to any third Party, other than in furtherance of achieving purposes and objectives of this Agreement, any such confidential information, except for disclosures (i) compelled by Law (but the disclosing Party must notify the other Party promptly of any request for the information, before disclosing it if practicable), (ii) to advisers, consultants, representatives of AEPL and AEGS, (iii) of information which is or becomes available to the public generally except through the breach of provisions of this Agreement, or (iv) of information AEPL or AEGS also has received from a source independent of AEPL and AEGS, that AEPL or AEGS, as applicable, reasonably believes obtained that information without breach of any obligation of confidentiality.

10.15 **Use of facsimile/telecopy/e-mail.** Subject to the requirements in Section 10.09, execution of any instruments, notices, consents or other documents required or permitted by this Agreement which have been telecopied, faxed or transmitted by e-mail or other electronic transmission device, and/or following the execution thereof returned by such device, shall be deemed to be effective and constitute original instruments.

10.16 **Effective Date.** This Agreement shall become effective as of the Effective Date, subject to approval (in form acceptable to the Parties and their respective Board of Directors) by the KCC.

Executed as of the Effective Date.

American Energies Gas Service, LLC	**American Energies Pipeline, LLC**
By: Leslie J. Wylie	By: Kenneth R. Smith
Title: Senior Vice President	Title: Executive Vice President

SCHEDULE 3.01
SERVICES TO BE PERFORMED
PURSUANT TO ARTICLE 3 OF THE AGREEMENT

As provided in Section 3.01 of the Agreement, AEPL will perform the following Services in accordance with the standards set forth in the Agreement, and in the manner set forth below:

a. **Operation and maintenance.** Operate and maintain the AEGS Assets. Subject to the other provisions of this Agreement, AEPL will use reasonable efforts to schedule routine and non-emergency maintenance in the manner that is least restrictive to AEGS's commercial use of AEGS Assets.

b. **Construction.** Make recommendations to AEGS regarding construction of New Facilities. Construct or cause to be constructed, New Facilities upon such terms as AEGS may from time to time request, provided that upon each such request, AEPL has been given the option to decline to perform the requested construction.

c. **Administrative and general.** Provide administrative and general services such as: Legal, regulatory, treasury, management information services, accounting and human resources.

d. **Insurance administration.** AEPL shall recommend for AEGS' approval, the amounts and types of liability and property insurance AEPL deems appropriate, to be purchased and maintained for the benefit of AEGS. Upon AEGS' written direction, AEPL shall use reasonable commercial efforts to purchase, obtain and maintain in force for the benefit of AEGS, at AEGS' expense, such policies of liability and properly insurance as AEGS shall require. However, in the event that AEPL is unable to obtain any of the foregoing insurance coverage on terms acceptable to AEGS, AEPL shall have no liability or responsibility to AEGS for failure to procure such insurance, except to give written notice immediately to AEGS of such facts.

e. **Regulatory filings**. Prepare on behalf of AEGS, and file with governmental and other agencies all administrative forms or reports (including, without limitation, any regulatory filings, safety reports, operating reports and any other reports to AEGS) required to provide the Services identified in this Schedule.

f. **Measuring equipment and reports.** Supervise the use of all measuring equipment required in connection with AEGS Assets and submit written or electronic reports to AEGS reporting all such readings and measurements taken by such measuring equipment promptly after readings or measurements have been taken.

g. **Reporting of claims and unusual events**. Immediately report to AEGS at such time it becomes aware of Claims, threatened Claims and litigation and all unusual significant occurrences in relation to AEGS Assets.

h. **Tax returns.** Timely prepare and file, subject to AEGS' approval, AEGS's tax returns. AEGS will submit to AEPL in a timely manner, such records or documents it possesses incident to AEPL's responsibilities under this Subsection, and which are necessary to the preparation of AEGS' tax returns.

CONFIDENTIAL