

OJAI OIL



COMPANY

2021

ANNUAL
REPORT

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TO OUR SHAREHOLDERS:

As shown on the accompanied financial statements for 2021, our self storage business has given us another year of record performance. We are hoping to continue this trend in 2022, as we continue to navigate through this changing environment. We ended 2021 with thanks to all our corporate staff and storage managers for persevering under these continuing COVID issues.

Our corporate office has adapted to a hybrid work from home and office policy with the help of new software. Economic uncertainty brought by the pandemic provided further testament to the stability of self storage. Our innovative technological investments have driven improved processes and enhanced our ability to serve customers. To remain competitive within the self storage sector, we are focusing on developing and acquiring new properties and enhancing our current capabilities.

We are happy to announce our Blue Diamond facility in Las Vegas opened in April 2021 and has had a steady increase in economic occupancy now approaching 60%. This facility uses modern technology to enable “no lock needed” capabilities, additional levels of security, and an ideal customer experience. We hope to use this facility as a model for our additional growth in this business.

In 2021, we began permitting a facility redevelopment and an oil well re-abandonment project at our Santa Fe Springs location. This on-site oil well was drilled in 1922 and previously abandoned in 1944, not to present day standards. Before allowing us to build a new self storage facility, the State required us to re-abandon the well. In August we ran into some downhole mechanical problems which increased the length of the project by approximately four months. We recently completed the well re-abandonment and have just started construction. This new three-story state of the art self storage facility should be completed in early 2023 – Golden State Storage Santa Fe Springs!

We continue to produce a small amount of crude oil at our old Upper Ojai and South Mountain facilities, which is profitable during these high crude prices. But over the years we will continue to face declining production, which is now coupled with a surge in environmental regulations. A bad omen for our oil industry in California.

Referencing the Consolidated Statements of Income, the 2021 Operating Income is approximately \$945,369 greater than 2020. We have continued our policy of increasing dividends to a total of \$2.15 per share in 2021. A dividend of 0.60 per share, amounting to \$ \$172,082.40 was paid in May, 2021 to stockholders of record as of April 19, 2021 and a dividend of \$1.55 per share, amounting to \$444,546.20 was paid on December 20, 2021 to stockholders of record as of December 1, 2021. There were 286,804 shares outstanding as of December 31, 2021. Retained earnings increased by \$1,683,134.

Our annual meeting will be held via the video conferencing app Zoom at 10 a.m. on Tuesday, April 26, 2021. We hope to see you there. For more information on our meeting please visit www.ojaioil.com/investors

Sincerely,

A handwritten signature in blue ink, appearing to read 'C. Douglas Off', is written over a light blue horizontal line.

C. Douglas Off, President

Corporate Office

4081 Mission Oaks Boulevard, Suite A
Camarillo, California 93012
(805) 388-5858

Transfer Agent

The Company acts as its own transfer agent and registrar.

Stock Symbol

OJOC

Accountants

Andrew Keifer
CBIZ, MHM, LLC
300 East Esplanade Drive, Suite 205
Oxnard, CA 93036
(805) 988-3222

Legal Council

Patrick T. Loughman
Lowthorp Richards
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Oxnard, California 93036
(805) 981-8555

Officers

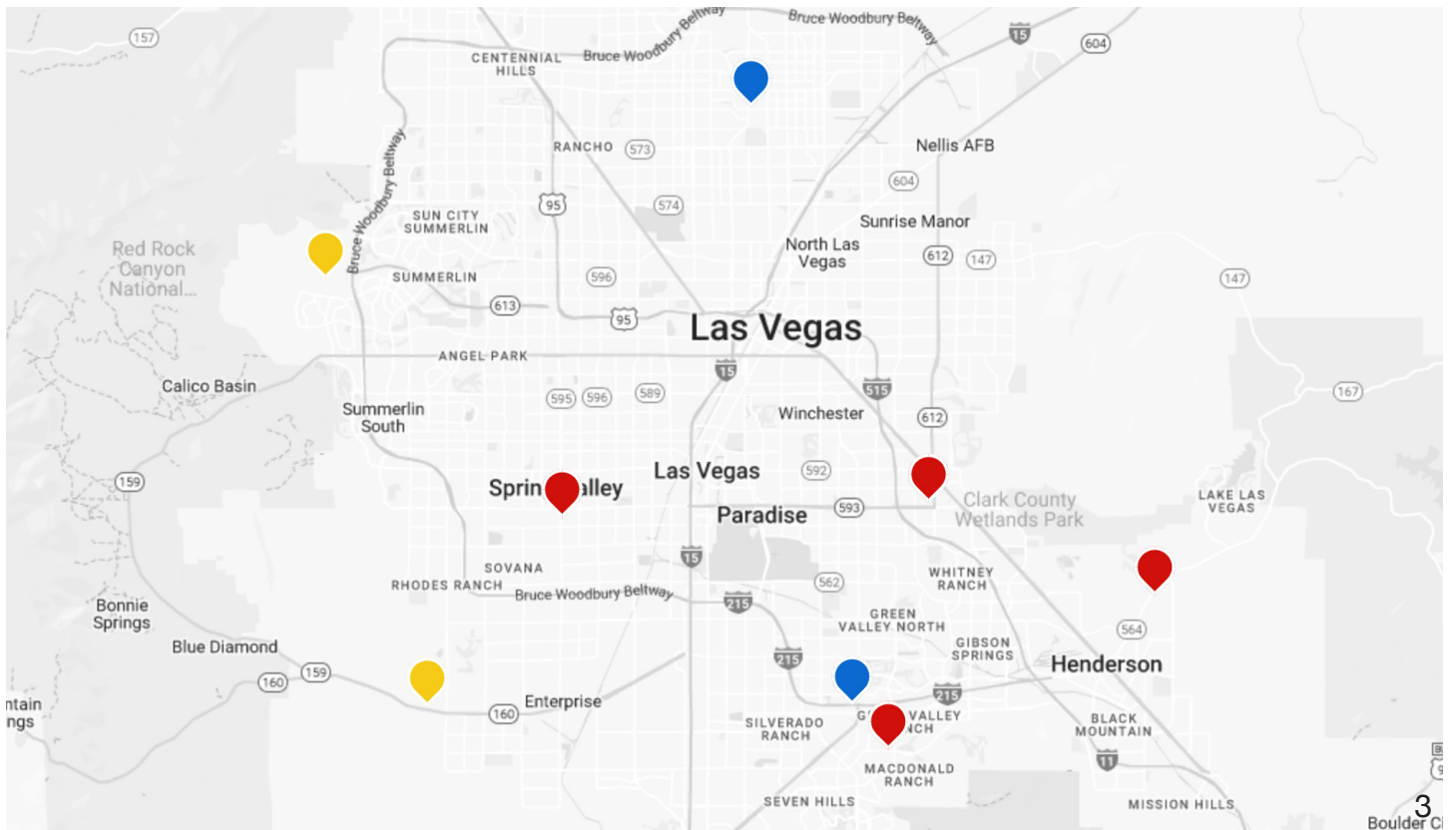
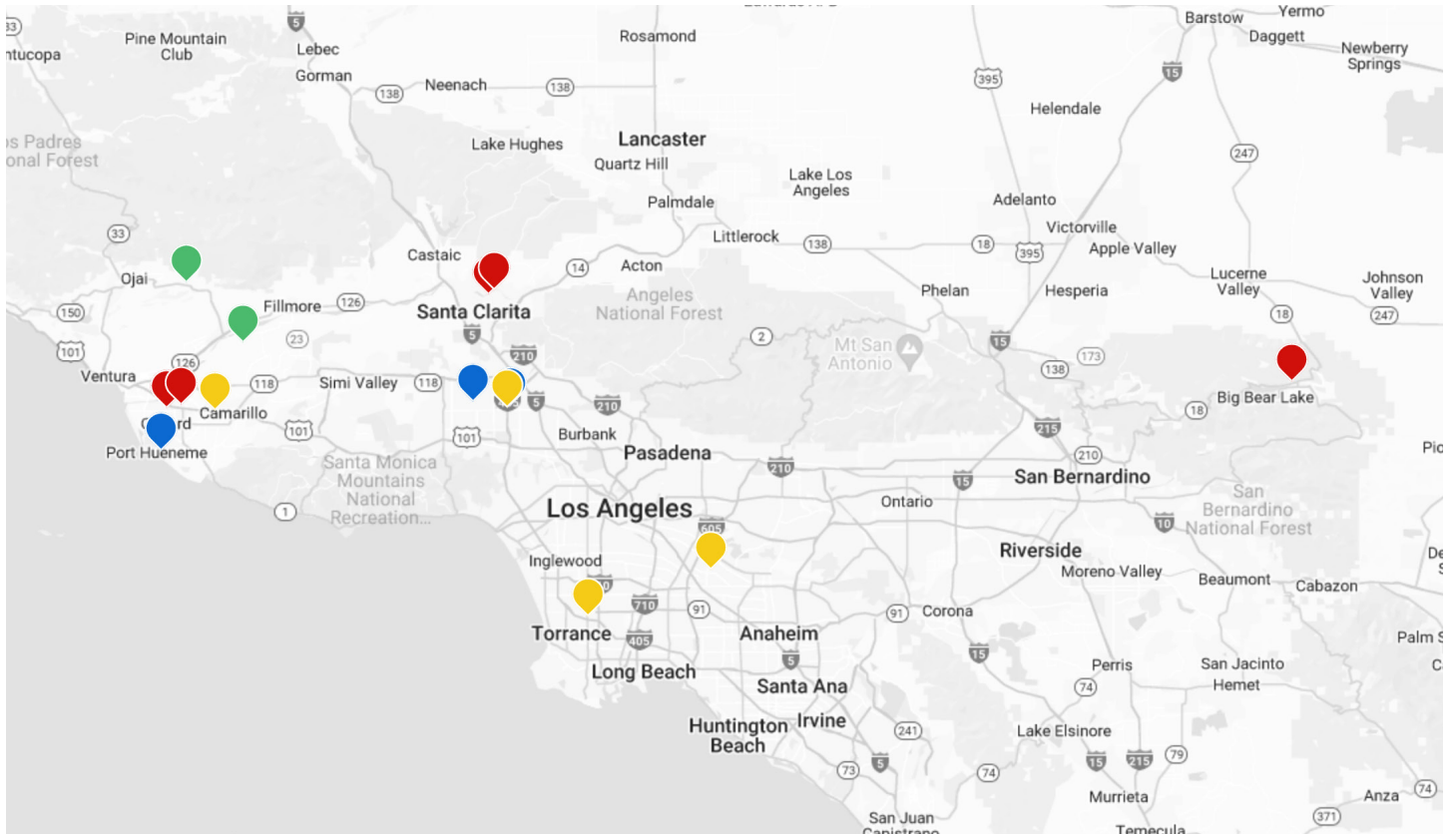
C. Douglas Off - Chairman of the Board, President, and Director
David C. Edward - Senior Vice President, Treasurer, and Director
Ryan D. Off - Vice President, Secretary, and Director
Tracy A. Off - Vice President, Assistant Secretary, and Director
Sarah Monroe-Allen - Assistant Secretary-Treasurer
Shawn McPherson - Assistant Secretary-Treasurer
Shelly Walters - Assistant Secretary-Treasurer

Other Directors

Frank McEnulty - President, Meghan Matthews, Inc.
Laureston McLellan - President, Windward Asset Management, Inc.
Dudley Muth – Real Estate and Securities Attorney/Consultant
Steve Richardson - Richardson Consulting, Inc., California Professional Geologist

Storage Facility Locations

Red pins are 100% owned by the company. Yellow pins are partially owned in partnerships. Blue pins are managed only, the company has no ownership. Green pins are the company oil fields.



Forward Looking Statements

Certain statements in this Annual Report may constitute forward-looking statements within the meaning of the federal securities laws, and often contain words such as “plan”, “anticipate”, “expect”, “believe” or similar expressions. Forward looking-statements are based on the company’s current assumptions regarding future business and financial performance. Such statements involve known and unknown risks and other factors which may cause actual results to be materially different from those expressed in forward-looking statements. We do not undertake to update our forward-looking statements. You should use caution in relying on any forward-looking statements to anticipate future results.

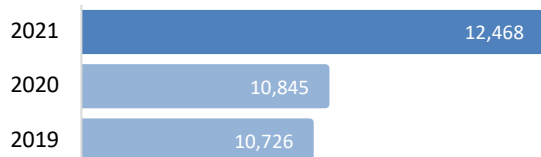
Five-Year Summary of Selected Financial Data

Dollar amounts in thousands, except for per-share amounts and shares outstanding

For the years ended

December 31	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
RESULTS OF OPERATIONS					
Revenues	\$12,468	\$10,845	\$10,726	\$9,935	\$8,484
Expenses	8,370	7,692	8,166	7,033	6,007
Operating Income	4,098	3,153	2,560	2,902	2,477
Net Income	2,300	1,864	1,053	3,580	1,236
Earnings per common share	8.02	6.50	3.66	12.31	4.25
FINANCIAL POSITION					
Total assets	61,068	54,421	52,411	45,197	34,016
Long-term debt	26,881	27,133	27,852	13,333	14,083
Stockholders' equity	27,851	24,372	21,434	21,182	17,947
DIVIDENDS PER SHARE					
	2.15	1.65	1.65	1.35	1.25
SHARES OUTSTANDING					
	286,804	286,804	286,804	290,702	290,702

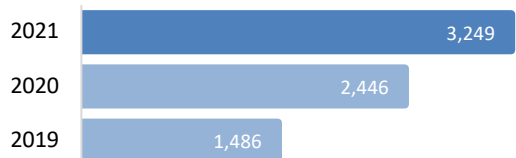
Gross Revenues
\$ in thousands



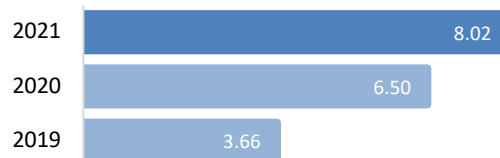
Net Cash Flow from Operations
\$ in thousands



Pre-tax Profit
\$ in thousands

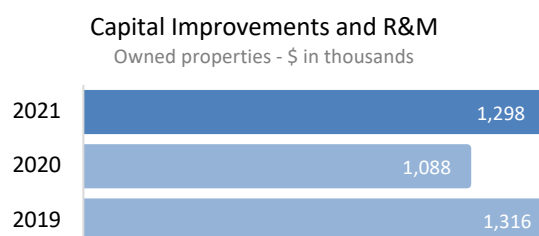
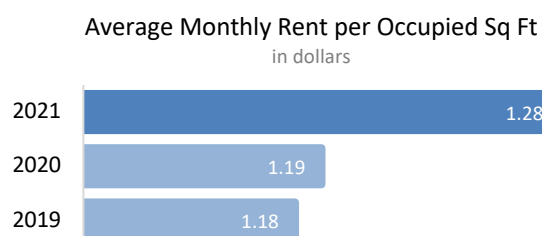
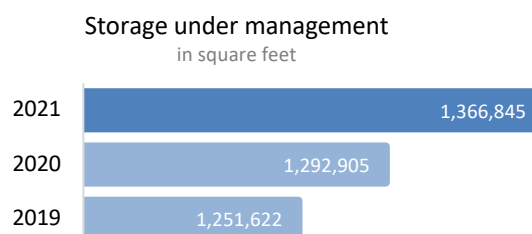
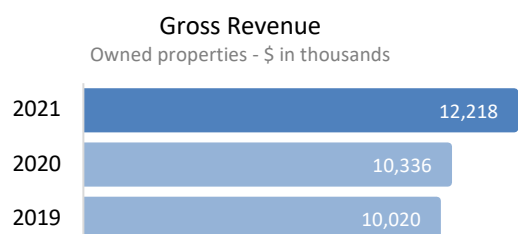


Earnings per Share
in dollars



Self Storage Operations

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Revenues	\$12,218	\$10,336	\$10,020
Operating expenses	<u>5,217</u>	<u>4,184</u>	<u>4,210</u>
Income from self-storage operations	<u>\$7,001</u>	<u>\$6,152</u>	<u>\$5,810</u>



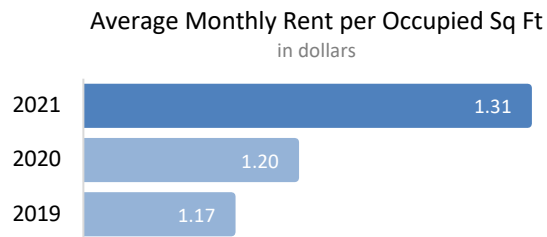
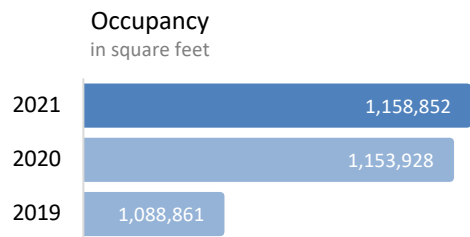
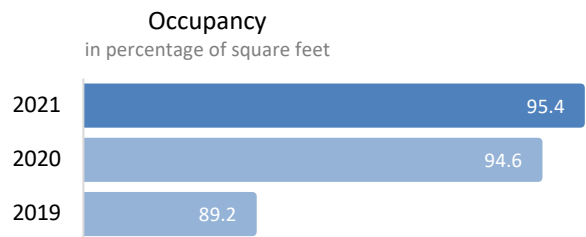
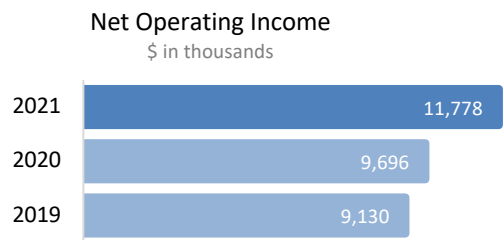
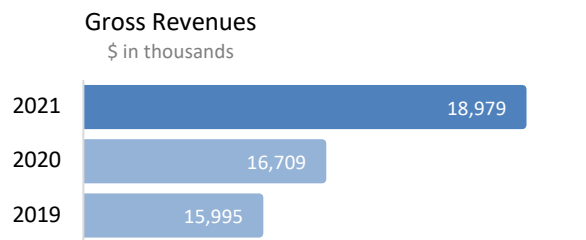
The performance in 2021 of those 14 facilities which are wholly or partially owned by the Company was very impressive - revenue was up by almost 18%. In 2020 we had PPP Loan income from the Federal Government, which we did not have in 2021. Operating expenses rose slightly faster as we performed maintenance which had been mothballed during the worst of the pandemic. Overall, we had net income growth of almost 14%, which is good as we had some tenants whom we could not collect rent from and whom we could not take through the lien sale process due to emergency ordinance except by mutual release. Those renters have either left or are now current.

Demand for storage in 2021 was even stronger than at the end of 2020. People continued to move to places outside of urban centers and were replaced by people able to sell their existing homes and acquire a new home with historically low financing. Many types of discretionary spending were curtailed, such as eating out and vacations, increasing demand for other discretionary spending such as self-storage and RV parking.

Demand for storage normally peaks in the Summer and drops for the rest of the year. In 2021 it was much stronger than normal. The year started with a vacancy rate of 5.4%, fell to 1.8% in August and rose to 3.4% by year's end. By comparison, December vacancy was 5.43% and 11.3% in 2020 and 2019 respectively.

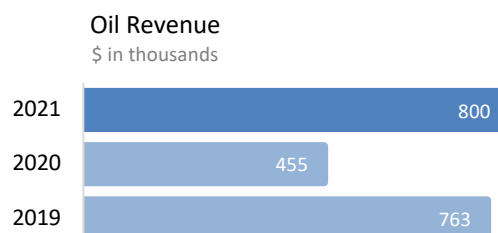
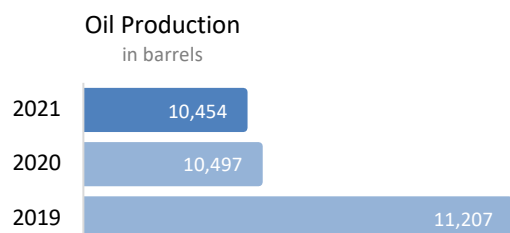
Same Store Data – 3 Year Comparison

Based on 16 self storage facilities in California and Nevada that are currently active, and the company has managed for the past 3 years. This includes facilities both owned and not owned by Ojai Oil Company.



Oil Operations

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Revenues	\$800	\$455	\$763
Operating expenses	295	460	394
Income from oil operations	<u>\$505</u>	<u>\$ -5</u>	<u>\$369</u>

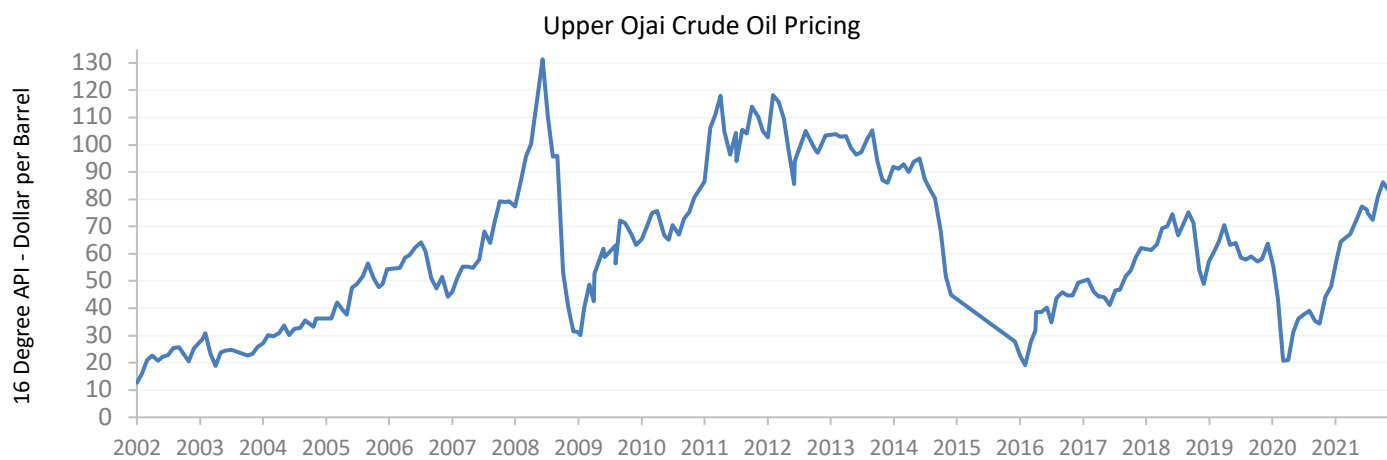


Revenue from oil production and royalties increased in rough proportion to the price of our Upper Ojai and South Mountain crude, which increased from \$48 per barrel to \$75 throughout 2021. Expenses were lower as we had less repair and maintenance than the prior year, giving us a healthy increase in oil property operation's profit.

The 12 small wells in Upper Ojai sit on a 58 acre parcel with associated oil equipment, state protected oak trees, two homes, and two olive orchards. Given the continuing oil operations on the property, there seems to be very few choices for development of the land other than agriculture. The question of abandoning the wells and cleaning up the property continually comes up as a topic of discussion.

Ojai Oil owns acreage and communication towers on the top of South Mountain that produce revenue from oil royalty and lease income, along with a 70% interest in operations on a lease managed by Homeland Oil and Gas. Both royalty and operational income for these properties substantially increased over 2020 primarily due to crude oil pricing.

As of writing, the price of our crude oil is now about \$110/bbl, giving us a good outlook for 2022.



Managed Properties Fee Income

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Revenues	<u>\$537</u>	<u>\$456</u>	<u>\$450</u>

“Managed properties” includes five self-storage facilities in which Ojai Oil Company has no equity ownership, and the management of two small mineral trusts. As the economy re-opened, the demand for oil surged, supply could not keep pace (some producers were in bankruptcy) and the price rose. Although very small, the mineral trust management fee income increased by 50%. This contributed to the increase in revenue of almost 18% but the bulk was higher storage rents in general, as well as a full year of income from the most recent management contract.

The managed storage portfolio ranges from small, inner city locations - with the inherent challenges one might expect - to large Class A facilities in suburbs with better demographics. It is a testament to our team that such differing types of stores are handled with equal expertise.

A priority for most third party owners is to keep expenses down. Possibly the biggest challenge in 2021 was the turnover of staff at the store level. Higher turnover translates into higher costs. We were fortunate to be in a period of exceptional demand and rising rents to offset this expense. Higher inflation has led to higher payroll in 2022 and we expect to see this repeated in 2023.

General and Administrative Expenses

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Expenses	<u>\$1,965</u>	<u>\$1,724</u>	<u>\$1,783</u>

General and Administrative Expenses (not including depreciation or a provision for income taxes) for 2021 rose from the previous year mostly due to a remodel on a rental house, but also due to incremental cost increases and reclassification of some expenses. These expenses include office staff wages, professional services, medical and workers’ compensation expenses, office rent, director fees, profit share 401(k) costs, and other costs associated with managing our properties.

Acquisitions and Development

In April 2021, we opened our new 824-unit Golden State Storage - Blue Diamond in south west Las Vegas. Throughout the year the facility continued to rent up quicker than projections.

As mentioned in the president’s letter, we are in the middle of a redevelopment of our Golden State Storage Santa Fe Springs facility. Throughout 2021, we moved-out the 320 existing tenants, demolished the existing buildings, and then started work on the re-abandonment of an old underground oil well. The oil well work took longer than expected and was completed in April 2022. As of writing, we just broke ground on the new construction. We anticipate opening for customers in Q2 of 2023.

In partnership with The Midby Companies, we are developing a new ground up storage facility in the west Summerlin area of Las Vegas, that we call Redpoint. This will be one of the few storage and RV parking facilities in this quickly growing upscale neighborhood. We anticipate starting construction soon and expect to open the facility in the summer of 2023.

The company continued to pursue its strategy of diversification by investing in two syndicated self storage developments: \$100,000 in Gelt Cloud Storage LLC in Burbank, CA and \$50,000 in Cedar Rapids LLC in Cedar Rapids, IA. These are the Company's third and fourth self storage syndication investments.

To aid in developments and acquisitions, we hope to start syndications of our own and look for partners to invest with us in new opportunities.

Throughout 2021, we also pursued the acquisition of a few other storage facilities and development opportunities, although none of the deals made it to fruition.

In 2022, we continue to aim to purchase a few storage facilities or development opportunities in California, Nevada, Oregon, Washington, Arizona, or New Mexico and also invest in other self-storage syndications or partnerships. Ojai Oil Company also continues to consider other investments in commercial real estate, private equity, and venture capital.



Santa Fe Springs Redevelopment

Two days after the demolition process began, June 28 2021



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Oil well re-abandonment process on March 15 2022



Facility architectural rendering. Expected to open in Q2 2023





OJAI OIL COMPANY AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020



Mayer Hoffman McCann P.C.

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Main: 805.988.3222 ■ Fax: 805.988.3220 ■ www.mhmcpa.com

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors
Ojai Oil Company
Camarillo, California

We have reviewed the accompanying consolidated financial statements of Ojai Oil Company (a California corporation) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

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

Accountants' Responsibility

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

We are required to be independent of Ojai Oil Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews.

Accountants' Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Restriction on Use of Report

This report is intended solely for the information and use of the current stockholders and management of Ojai Oil Company and its banks, and is not intended to be, and should not be, used by anyone other than these specified parties.

Oxnard, California
March 29, 2022



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OJAI OIL COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2021 and 2020

	<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
CURRENT ASSETS			
Cash and cash equivalents		\$ 3,778,202	\$ 3,023,591
Marketable securities, available-for-sale		5,067,738	5,581,629
Rent and other receivables, net		141,577	117,617
Prepaid expenses and refundable income taxes		1,094,819	360,552
TOTAL CURRENT ASSETS		10,082,336	9,083,389
INVESTMENTS			
General partnerships, equity method investments		1,681,943	1,882,687
Other investments, at cost		621,839	676,039
TOTAL INVESTMENTS		2,303,782	2,558,726
LAND, BUILDING AND EQUIPMENT, net		48,648,301	42,757,186
OTHER ASSETS		33,556	21,754
TOTAL ASSETS		\$ 61,067,975	\$ 54,421,055
	<u>LIABILITIES</u>		
CURRENT LIABILITIES			\$
Accounts payable and accrued liabilities		\$ 553,782	262,514
Deferred revenue		146,834	175,324
Lines of credit		2,220,000	-
Current portion of long-term debt, net		762,100	721,819
TOTAL CURRENT LIABILITIES		3,682,716	1,159,657
LONG TERM LIABILITIES			
Long-term debt, net, less current portion above		26,881,031	27,133,483
Abandonment retirement obligation		1,516,551	1,011,501
Deferred income tax liabilities		1,136,291	744,062
TOTAL LONG TERM LIABILITIES		29,533,873	28,889,046
TOTAL LIABILITIES		33,216,589	30,048,703
COMMITMENTS AND CONTINGENCIES (NOTE 12)			
	<u>EQUITY</u>		
CAPITAL CONTRIBUTED			
Capital stock-stated value, 750,000 shares authorized; shares issued and outstanding: 286,804 and 286,804 shares, respectively		195,854	195,854
RETAINED EARNINGS		24,209,230	22,526,096
ACCUMULATED OTHER COMPREHENSIVE INCOME		2,119	8,931
TOTAL OJAI OIL COMPANY STOCKHOLDERS' EQUITY		24,407,203	22,730,881
NON-CONTROLLING INTEREST		3,444,183	1,641,471
TOTAL EQUITY		27,851,386	24,372,352
TOTAL LIABILITIES AND EQUITY		\$ 61,067,975	\$ 54,421,055

OJAI OIL COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Years Ended December 31, 2021 and 2020

	2021	2020
REVENUES		
Rental income from self storage facilities	\$ 10,262,470	\$ 8,612,702
Oil and gas sales and royalties	800,580	454,668
Equity income from self storage partnerships	652,600	965,155
Management fee income	536,975	456,190
Other income - houses and cell tower leases	215,261	356,272
TOTAL REVENUES	12,467,886	10,844,987
OPERATING EXPENSES		
Self storage operating expenses	3,914,052	3,425,849
Depreciation, depletion, amortization and accretion expense	2,105,020	1,983,467
General and administrative expenses	1,965,430	1,723,734
Oil and gas operating expenses	295,297	459,927
Other operating expenses	90,062	99,354
TOTAL OPERATING EXPENSES	8,369,861	7,692,331
OPERATING INCOME	4,098,025	3,152,656
OTHER INCOME (EXPENSE)		
Interest expense	(1,370,445)	(1,339,519)
Unrealized holding gain on marketable securities	337,616	142,881
Interest and dividend income	131,311	227,393
Realized gain (loss) on sale of marketable securities	52,979	(14,017)
Paycheck Protection Program forgivable grant (Note 8)	-	372,840
Loss on disposals of land, building, and equipment	-	(95,742)
TOTAL OTHER EXPENSE	(848,539)	(706,164)
INCOME BEFORE INCOME TAXES	3,249,486	2,446,492
INCOME TAX EXPENSE	1,047,011	633,224
NET INCOME	2,202,475	1,813,268
NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	(97,288)	(50,639)
NET INCOME ATTRIBUTABLE TO OJAI OIL COMPANY	2,299,763	1,863,907
OTHER COMPREHENSIVE INCOME		
Unrealized holding gain (loss) on marketable securities arising during the year (net of deferred taxes of \$0)	(6,812)	(8,232)
COMPREHENSIVE INCOME	\$ 2,292,951	\$ 1,855,675
BASIC EARNINGS PER SHARE ON NET INCOME ATTRIBUTABLE TO OJAI OIL COMPANY	\$ 8.02	\$ 6.50

OJAI OIL COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended December 31, 2021 and 2020

	Capital Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Ojai Oil Company Stockholders' Equity	Non- Controlling Interest Equity	Total Equity
	Number of Shares	Stated Value				
Balance, December 31, 2019	286,804	\$ 195,854	\$ 17,163	\$ 21,348,434	\$ 86,110	\$ 21,434,544
Net income (loss)	-	-	-	1,863,907	(50,639)	1,813,268
Unrealized holding loss on marketable securities, net of deferred income taxes of \$0	-	-	(8,232)	(8,232)	-	(8,232)
Dividends	-	-	-	(473,228)	-	(473,228)
Contributions	-	-	-	-	1,606,000	1,606,000
Balance, December 31, 2020	286,804	195,854	8,931	22,730,881	1,641,471	24,372,352
Net income (loss)	-	-	-	2,299,763	(97,288)	2,202,475
Unrealized holding loss on marketable securities, net of deferred income taxes of \$0	-	-	(6,812)	(6,812)	-	(6,812)
Dividends	-	-	-	(616,629)	-	(616,629)
Contributions	-	-	-	-	1,900,000	1,900,000
Balance, December 31, 2021	286,804	\$ 195,854	\$ 2,119	\$ 24,407,203	\$ 3,444,183	\$ 27,851,386

See Notes to Consolidated Financial Statements
See Independent Accountants' Review Report.

OJAI OIL COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 2,202,475	\$ 1,813,268
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation, depletion, amortization, and accretion expense	2,105,020	1,983,467
Amortization of debt issuance costs	38,801	38,801
Deferred income tax expense (benefit)	392,229	(171,407)
Change in allowance for doubtful accounts	38,920	(36,922)
Income from equity method investments	(319,755)	(866,767)
Loss on disposals of land, building, and equipment	-	95,742
Realized (gain) loss on sale of marketable securities	(52,979)	14,017
Unrealized holding gain on marketable securities	(337,616)	(142,881)
Decrease (increase) in operating assets:		
Rent and other receivables	(62,880)	106,327
Prepaid expenses and refundable income taxes	(734,267)	(3,880)
Other assets	(11,802)	(9,077)
Increase (decrease) in operating liabilities		
Accounts payable and accrued liabilities	291,268	(3,551)
Deferred revenue	(28,490)	(48,041)
NET CASH FLOWS FROM OPERATING ACTIVITIES	3,520,924	2,769,096
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of marketable securities	4,388,740	5,525,846
Distributions received from general partnerships	745,500	754,500
Collections received from other investments	204,200	34,169
Purchase of marketable securities	(3,491,066)	(191,693)
Purchase of other investments	(150,000)	(200,000)
Purchase of land, building, and equipment	(7,716,087)	(7,534,265)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(6,018,713)	(1,611,443)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on lines of credit	2,220,000	-
Principal payments on long-term debt	(788,801)	(722,924)
Proceeds received from borrowings on long term debt	537,830	-
Contributions from non-controlling interest	700,000	1,606,000
Collection on subscription receivable	1,200,000	-
Dividends on common stock	(616,629)	(473,228)
NET CASH FLOWS FROM FINANCING ACTIVITIES	3,252,400	409,848
NET CHANGE IN CASH AND CASH EQUIVALENTS	754,611	1,567,501
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,023,591	1,456,090
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,778,202	\$ 3,023,591

See Notes to Consolidated Financial Statements
See Independent Accountants' Review Report.

OJAI OIL COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended December 31, 2021 and 2020

Supplemental Cash Flow Information:

	<u>2021</u>	<u>2020</u>
Cash paid:		
Interest	<u>\$ 1,331,644</u>	<u>\$ 1,300,718</u>
Income taxes	<u>\$ 1,098,614</u>	<u>\$ 785,471</u>

Noncash investing and financing activities:

2021: Land and buildings increased by \$166,971 due to revisions made in the asset retirement obligation.

2020: Land and buildings decreased by \$28,554 due to revisions made in the asset retirement obligation.

2020: Amount for interest of LLC membership under subscription receivable is \$1,200,000.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Nature of operations – Ojai Oil Company (Ojai) operations include the production and sale of oil and gas, income derived from oil royalties, securities investments, the operation and management of self-storage facilities, commercial and residential buildings, participation in partnerships engaged in the operation of self-storage facilities and communication towers. Ojai's major business activities are located primarily in Southern California and Southern Nevada.

Principles of consolidation – The accompanying consolidated financial statements include the accounts of Ojai, Golden State Storage One, LLC (GSS One), SM&O, LLC (SM&O), GSS Blue Diamond, LLC (GSS Blue), GSS Horizon Ridge, LLC (GSS Horizon), GSS Oxnard LP (GSS Oxnard), GSS Management, LLC (GSS Management), and Red Point Storage, LLC (Red Point). GSS One, GSS Horizon, and GSS Management, are separately formed limited liability companies. Ojai is the sole member of these three LLCs. GSS Oxnard is a limited partnership owned by GSS Management and Ojai. SM&O, is a separate limited liability company of which Ojai owns 70%. GSS Blue, is a separate limited liability company of which Ojai owns 72%. Red Point is a separate limited liability company of which Ojai owns 80%. The Company recognizes noncontrolling interests for the percent not owned. All significant intercompany balances and transactions have been eliminated in consolidation.

Ojai and its subsidiaries, GSS One, GSS Horizon, GSS Oxnard, GSS Management, GSS Blue, SM&O, and Red Point are collectively referred to herein as the "Company."

Oil and gas property and equipment – The Company follows the successful efforts method of accounting for its oil and gas exploration costs. Under this method, all costs for development wells, support equipment and facilities, proved mineral interests in oil and gas properties and asset retirement obligation are capitalized. Geological and geophysical costs are expensed when incurred. Costs of exploratory wells are capitalized as Exploratory Well Costs pending determination of whether the wells find proved oil and gas reserves. Exploration costs capitalized in respect of exploration wells are written off unless (a) proved reserves are booked or (b) they have found commercially producible quantities of reserves, and they are subject to further exploration or appraisal activity in that either drilling of additional exploration wells is underway or firmly planned for the near future. Proved oil and gas reserves can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, under existing economic conditions, operating methods and governmental regulations. Existing economic conditions include prices and costs at which economic production from a reservoir is to be determined.

Long-lived assets to be held and used, including proved crude oil and natural gas properties, are assessed for possible impairment by comparing their carrying values with their associated undiscounted, future net before-tax cash flows. Events that can trigger assessments for possible impairments include write-downs of proved reserves based on field performance, significant decreases in the market value of an asset (including changes to the commodity price forecast), significant change in the extent or manner of use of or a physical change in an asset, and a more-likely-than-not expectation that a long-lived asset or asset group will be sold or otherwise disposed of significantly sooner than the end of its previously estimated useful life. Impaired assets are written down to their estimated fair values, generally their discounted, future net before-tax cash flows.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) **Summary of significant accounting policies (continued)**

For proved crude oil and natural gas properties, the Company assessed that there was no impairment in the carrying value in 2021 or 2020.

Oil and gas properties, including all capitalized costs of proved crude oil and gas producing properties, are depreciated and depleted using a unit of production method by individual field as the proved reserves are produced. The cost of producing the well and future abandonment costs are amortized over proved developed reserves. The unit of production rate for the amortization takes into account expenditures incurred to date, together with future capital expenditure expected to be incurred in relation to these common facilities and excluding future drilling costs.

The capitalized costs of all other plant and equipment are depreciated or amortized over their estimated useful lives. In general, the declining-balance and straight-line method are used to depreciate plant and equipment. Gains or losses are not recognized for normal retirements of properties, plant and equipment subject to composite group amortization or depreciation. Gains or losses from abnormal retirements are recorded as expenses, and from sales as "Other income."

Expenditures for maintenance (including those for planned major maintenance projects), repairs and minor renewals to maintain facilities in operating condition are generally expensed as incurred. Major replacements and renewals are capitalized.

Revenue recognition – The Company primarily derives its revenues from three sources: rental of properties, oil and gas sales and royalties, and business management services.

Revenue from self-storage, commercial and residential properties is recognized based upon rental agreements with the occupants, which range from month-to-month to multiple years. Deferred revenue consists of advance payments from customers for revenue to be recognized in subsequent periods. Rent is due on the anniversary date of every month and considered delinquent ten days after the due date.

Revenue from oil and gas sales is recognized at the value of consideration received or receivable, when the performance obligation is satisfied. The performance obligation is satisfied when significant risks and rewards of ownership have been transferred, which is when title passes to the customer, typically upon delivery.

Revenue from business management services are invoiced and recognized as the services are provided. The Company typically invoices these services monthly. Typical payment terms provide that customers pay within 30 days of invoice.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Use of estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management's assumptions include, but are not limited to, future abandonment costs, reserves of oil and gas, collectability of rent receivable, the potential outcome of future tax consequences, and estimated useful lives of buildings and equipment. Management's estimates and assumptions are derived from and are continually evaluated based on available information, judgment, and experience.

Cash and cash equivalents – The Company considers cash and cash equivalents to include all cash accounts, money market funds, and bank sweep accounts. The Company maintains cash balances at several institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. Periodically throughout the years ended December 31, 2021 and 2020, the Company has maintained balances in excess of the insured limits.

Rent and other receivables and allowance for doubtful accounts – Rent and other receivables are carried at cost, less an allowance for doubtful accounts. The Company does not accrue finance charges or interest charges. On a periodic basis, the Company evaluates its receivables and determines the requirement for an allowance for doubtful accounts, based on history of past write-offs, collections and current credit conditions. An account is written off when it is determined that all collection efforts have been exhausted. Recoveries of amounts previously charged off are credited to revenues. As of December 31, 2021 and 2020, the allowance for doubtful accounts was \$50,386 and \$11,466, respectively.

Marketable securities – The Company determines the appropriate classification of marketable securities at the time they are acquired and evaluates the appropriateness of such classification at each balance sheet date. Available-for-sale securities consist of common stock, mutual funds, exchange traded funds, and US Treasuries not classified as trading securities or as held-to-maturity securities.

The Company applies Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-01 *Financial Instruments- Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* and ASU No. 2018-03, *Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The Company's investments in available-for-sale equity securities are carried at fair value, with unrealized gains and losses included in net income. The Company's investments in available-for-sale debt securities are carried at fair value, with unrealized gains and losses recorded as other comprehensive income.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) **Summary of significant accounting policies (continued)**

All gains and losses on non-marketable equity securities, realized and unrealized, are recognized in other income (expense), net.

Realized gains and losses on the sale of available-for-sale securities are determined using the specific-identification method. Marketable securities are considered to be impaired when a decline in fair value is judged to be other-than-temporary.

The Company maintains its investments with Wells Fargo Advisors. The balances are insured by the Securities Investor Protection Corporation (SIPC) up to the effective limit as of December 31, 2021. Periodically throughout the years ended December 31, 2021 and 2020, the Company has maintained balances in excess of the insured limits.

Depreciation and amortization – Depreciation and amortization are computed on the straight-line and double-declining balance methods over the estimated useful lives of the assets which vary from 3 to 39 years.

Leasehold improvements are depreciated over the shorter of their estimated useful lives or the term of the underlying lease. Expenditures for maintenance and repairs are charged to expense as incurred. Major renewals and betterments are capitalized.

Long-lived assets to be held and used are tested for recoverability whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying amount over the fair value of the asset.

Construction in progress for the properties is stated at cost. No provision for depreciation is made on construction in progress until the assets are complete and placed into service.

Abandonment retirement obligations (ARO) – AROs are legal obligations associated with the retirement and removal of long-lived assets. The Company records the fair value of a liability for an asset retirement obligation when it is incurred. When the liability is initially recorded, the Company capitalizes the cost by increasing the carrying amount of the related properties, plant and equipment. Over time the liability increases or decreases for the change in its present value, while the capitalized cost depreciates over the unit of production method. The Company applies FASB Accounting Standards Codification (ASC) 410-20 *Accounting for Asset Retirement Obligations* when accounting for the future abandonment of the Company's oil wells.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Earnings per share – Basic earnings per share are calculated based on the weighted average number of common stock shares outstanding during the year.

Fair value measurements – The Company applies FASB ASC 820-10 *Fair Value Measurements* for financial assets and liabilities. This standard defines fair value and establishes a hierarchy for reporting the reliability of input measurements used to assess fair value for all assets and liabilities. FASB ASC 820-10 defines fair value as the selling price that would be received for an asset, or paid to transfer a liability, in the principal or most advantageous market on the measurement date.

The hierarchy prioritizes fair value measurements based on the types of inputs used in the valuation technique. The inputs are categorized in the following levels:

Level 1 – Observable inputs such as quoted prices in active markets for identical assets or liabilities

Level 2 – Directly or indirectly observable input for quoted and other than quoted prices for identical or similar assets and liabilities in active or non-active markets

Level 3 – Unobservable inputs not corroborated by market data, therefore requiring the entity to use the best information available in the circumstances, including the entity's own data.

The Fair Value Measurements and Disclosures Topic of the FASB ASC Topic 825-10, *Financial Instruments – Overall*, requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial condition. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Certain financial instruments and all nonfinancial instruments are excluded from these disclosure requirements. Accordingly, the aggregate fair value of amounts presented do not represent the underlying value of the Company.

Investment in general partnerships – The Company's investments in partnerships are accounted for using the equity method for partnerships it owns an interest greater than 20% but not more than 50%, and cost method for all others. The partnerships were not evaluated for impairment because (a) it is not practicable to estimate their fair values due to insufficient information being available and (b) management did not identify any events or changes in circumstances that might have a significant adverse effect on the fair value of those investments. The Company did not identify any events or changes in circumstances that might have an adverse effect on fair value.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Income taxes – The Company accounts for income taxes using the liability approach to financial accounting and reporting.

The difference between the financial statement and tax basis of assets and liabilities is determined annually. These differences consist primarily of different depreciation methods and lives, the use of the cash method of accounting for income tax purposes, realized and unrealized gains and losses on marketable securities, and deductibility of certain accruals for income tax purposes.

Deferred income tax assets and liabilities are computed for those currently enacted tax laws and rates that apply to the periods in which they are expected to affect taxable income. Valuation allowances are established, if necessary, to reduce deferred tax asset accounts to the amounts that will more likely than not be realized.

Income tax expense is the current tax expense or refund for the period, plus or minus the net change in the deferred tax asset and liability accounts.

The Company follows the provisions in FASB ASC 740, *Income Taxes* (ASC 740), with respect to accounting for uncertain tax positions. ASC 740 prescribes that a tax benefit from an uncertain tax position may be recognized when it is more-likely-than-not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on technical merits. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon adoption of ASC 740 and in subsequent periods. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, disclosures, and transitions. As of December 31, 2021, the Company does not recognize any liability for unrecognized tax benefits.

The Company files income tax returns in the U.S. federal jurisdiction, and the state of California jurisdiction. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2018 and the state of California income tax examinations by tax authorities for years before 2017.

It is the Company's policy to classify interest and penalties recognized on underpayment of income taxes as income tax expense.

Debt issuance costs – The Company applies the provisions of FASB ASC 835-30 *Imputation of Interest: Simplifying the Presentation of Issuance Costs* which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Company reports such costs as a direct deduction from the face amount of the debt. Similarly, the Company reports amortization of debt issuance costs as interest expense.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Recently issued accounting pronouncements – In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), and issued subsequent amendments to the initial guidance in January 2018, July 2018, December 2018, March 2019, and June 2020 within ASU 2018-01, ASU 2018-10, ASU 2018-11, ASU 2018-20, ASU 2019-01, and ASU 2020-05, respectively. The amendments in these updates require lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date, a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and, a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The amendments in this update will be effective for the annual period beginning after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the impact of this guidance.

(2) Marketable securities

Cost and fair value of marketable securities as of December 31, 2021 and 2020 are as follows:

	December 31, 2021			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Equity and other securities				
Certificates of deposits	\$ 1,960,000	\$ -	\$ (266)	\$ 1,959,734
Common stock	994,647	760,317	(27,210)	1,727,754
Exchange traded funds	200,384	216,092	(1,473)	415,003
Mutual funds	72,927	2,903	(703)	75,127
Total equities securities	<u>3,227,958</u>	<u>979,312</u>	<u>(29,652)</u>	<u>4,177,618</u>
Debt securities				
US Treasury bonds	894,273	-	(4,153)	890,120
Total debt securities	<u>894,273</u>	<u>-</u>	<u>(4,153)</u>	<u>890,120</u>
Totals	<u>\$ 4,122,231</u>	<u>\$ 979,312</u>	<u>\$ (33,805)</u>	<u>\$ 5,067,738</u>

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Marketable securities (continued)

	December 31, 2020			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Equity and other securities				
Certificates of deposits	\$ 2,046,000	\$ -	\$ -	\$ 2,046,000
Common stock	860,767	498,726	(43,521)	1,315,972
Exchange traded funds	180,533	151,491	(885)	331,139
Mutual funds	71,417	2,732	(188)	73,961
Total equities securities	<u>3,158,717</u>	<u>652,949</u>	<u>(44,594)</u>	<u>3,767,072</u>
Debt securities				
US Treasury bonds	1,805,626	8,931	-	1,814,557
Total debt securities	<u>1,805,626</u>	<u>8,931</u>	<u>-</u>	<u>1,814,557</u>
Totals	<u>\$ 4,964,343</u>	<u>\$ 661,880</u>	<u>\$ (44,594)</u>	<u>\$ 5,581,629</u>

Available-for-sale securities are carried in the consolidated financial statements at fair value. For the year ended December 31, 2021, net unrealized holding gain on available-for-sale equity securities in the amount of \$337,616 has been included in net income and net unrealized holding loss on available-for-sale debt securities in the amount of \$6,812 has been included in accumulated other comprehensive income.

For the year ended December 31, 2020, net unrealized holding gain on available-for-sale securities in the amount of \$142,881 has been included in net income and net unrealized holding loss on available-for-sale debt securities in the amount of \$8,232 has been included in accumulated other comprehensive income.

The realized gains and losses on the sale of marketable securities during the year ended December 31, 2021 and 2020 were as follows:

	December 31, 2021		
	Realized gains	Realized losses	Net realized gain
Proceeds from sale	\$ 2,055,380	\$ 2,333,360	\$ 4,388,740
Cost	<u>1,984,546</u>	<u>2,351,215</u>	<u>4,335,761</u>
	<u>\$ 70,834</u>	<u>\$ (17,855)</u>	<u>\$ 52,979</u>

	December 31, 2020		
	Realized gains	Realized losses	Net realized loss
Proceeds from sale	\$ 5,383,721	\$ 142,125	\$ 5,525,846
Cost	<u>5,339,438</u>	<u>200,425</u>	<u>5,539,863</u>
	<u>\$ 44,283</u>	<u>\$ (58,300)</u>	<u>\$ (14,017)</u>

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Marketable securities (continued)

The cost method used in determining the gain on sale of securities is the first-in, first-out method.

US Treasury bonds mature in December 2022 and April 2023.

Certificates of deposit mature from January 2022 to June 2022.

Management evaluates securities for other-than-temporary impairment at least on an annual basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than costs, (2) the financial condition and near-term prospect of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

(3) Land, buildings, and equipment

Land, buildings, and equipment consist of the following as of December 31, 2021 and 2020:

	December 31,	
	2021	2020
Oil and gas property, plant and equipment		
Royalty interests, surface fees and leases	\$ 193,652	\$ 193,652
Wells and abandonment costs	1,422,957	1,255,986
Buildings, well and supporting equipment	1,370,641	1,370,641
Total, at cost	2,987,250	2,820,279
Less accumulated depreciation, depletion, and amortization	(2,193,122)	(2,110,260)
Total oil and gas property, plant and equipment, net	794,128	710,019
Commercial property and equipment		
Land improvements, buildings and equipment	49,553,268	39,647,626
Less accumulated depreciation	(16,825,964)	(15,141,885)
Total land improvements, buildings and equipment, net	32,727,304	24,505,741
Land	14,790,945	9,773,130
Construction in progress	335,924	7,768,296
Total commercial property and equipment, net	47,854,173	42,047,167
Net land, buildings, and equipment	\$ 48,648,301	\$ 42,757,186

The aggregate depreciation, depletion, and amortization on the above property and equipment charged to operations was \$1,766,941 and \$1,975,792 for the years ended December 31, 2021 and 2020, respectively.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) General partnerships, equity investment method

The Company owns 50% interest in Golden State Self Storage (Santa Fe Springs, Gardena, North Hills 1). Condensed unaudited financial statements of assets and liabilities and income statements for the partnership are as follows:

	December 31,	
	2021	2020
ASSETS		
Current assets	\$ 249,614	\$ 89,684
Land, building and equipment (net of depreciation) and other non-current assets	2,202,405	1,602,989
	<u>\$ 2,452,019</u>	<u>\$ 1,692,673</u>
LIABILITIES AND CAPITAL		
Current liabilities	\$ 228,606	\$ 75,929
Line of credit	1,098,438	-
Partners' capital	1,124,975	1,616,744
	<u>\$ 2,452,019</u>	<u>\$ 1,692,673</u>
INCOME STATEMENT		
Revenue	\$ 1,840,893	\$ 2,073,666
Depreciation and amortization	(26,905)	(28,217)
Interest expense	(11,360)	-
Other operating expenses	(1,579,396)	(1,053,705)
NET INCOME	<u>\$ 223,232</u>	<u>\$ 991,744</u>

The Company owns 33% interest in Golden State Self Storage-Camarillo. Condensed unaudited financial statements of assets and liabilities and income statements for the partnership are as follows:

	December 31,	
	2021	2020
ASSETS		
Current assets	\$ 197,496	\$ 236,578
Land, building and equipment (net of depreciation) and other non-current assets	4,419,349	4,590,100
	<u>\$ 4,616,845</u>	<u>\$ 4,826,678</u>
LIABILITIES AND CAPITAL		
Current liabilities	\$ 54,875	\$ 78,040
Long-term debt, net	1,403,044	1,725,134
Partners' capital	3,158,926	3,023,504
	<u>\$ 4,616,845</u>	<u>\$ 4,826,678</u>
INCOME STATEMENT		
Revenue	\$ 2,274,027	\$ 2,056,871
Depreciation and amortization	(170,751)	(191,030)
Interest expense	(83,885)	(98,944)
Other operating expenses	(719,970)	(677,808)
NET INCOME	<u>\$ 1,299,421</u>	<u>\$ 1,089,089</u>

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) Other investments, at cost

Other investments include investments in real estate limited partnerships, Class A membership stock in a corporation, and membership interests in Limited Liability Companies. These investments are carried at cost, which were \$621,839 and \$676,039 as of December 31, 2021 and 2020.

(6) Lines of credit

The Company may borrow up to \$5,300,000 under a revolving line of credit agreement expiring June 2022. The line is secured by a deed of trust on a self-storage facility in Santa Clarita, CA. Interest is payable monthly at 0.5% per annum above the Wall Street Journal Prime Rate, but no less than 3.75% per annum. The agreement also contains various financial and non-financial covenants. The Wall Street Journal Prime Rate in effect at December 31, 2021 and 2020 was 3.25%. As of December 31, 2021 and 2020 the Company has an outstanding balance under this line of credit of \$2,220,000 and \$0, respectively.

Golden State Self Storage (Note 4) may borrow up to \$4,000,000 under a revolving line of credit agreement expiring June 2022. The line is secured by a deed of trust on a self-storage facility in North Hills, CA owned by Golden State Self Storage partnership. The line is also secured with an assignment of rents of the partnership. Interest is payable monthly at 0.5% per annum above the Wall Street Journal Prime Rate, but no less than 3.75% per annum. The agreement also contains various financial and non-financial covenants. The Wall Street Journal Prime Rate in effect at December 31, 2021 and 2020 was 3.25%. As of December 31, 2021 and 2020 Golden State Self Storage has an outstanding balance under this line of credit of \$1,098,438 and \$0, respectively.

Golden State Self Storage (Note 4) may borrow up to \$4,000,000 under a revolving line of credit agreement expiring June 2022. The line is secured by a deed of trust on a self-storage facility in Gardena, CA owned by Golden State Self Storage partnership. The line is also secured with an assignment of rents of the partnership. Interest is payable monthly at 0.5% per annum above the Wall Street Journal Prime Rate, but no less than 3.75% per annum. The agreement also contains various financial and non-financial covenants. The Wall Street Journal Prime Rate in effect at December 31, 2021 and 2020 was 3.25%. As of December 31, 2021 and 2020 Golden State Self Storage has no amounts outstanding under this line of credit.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) Long-term debt

	December 31,	
	2021	2020
<p>Note payable secured by a deeds of trust on the self-storage facilities on North Shore Drive in Big Bear, CA, Oak Street in Santa Clarita, CA and East Tropicana in Las Vegas, NV and other security. The note is payable in monthly installments of \$73,089, including interest at 4.93%. The final payment is due June 2027, representing a balloon payment of approximately \$9,194,000. Under the terms of the loan, a prepayment premium is payable by the Company should there be a prepayment of the loan. The loan also includes provisions whereby the lender has recourse against the Company and guarantors for certain breaches, actions, and/or events. The Conditional Springing Guaranty for "Springing Recourse Events", as defined in the agreement, were executed by certain officers of the Company.</p>	\$ 11,223,811	\$ 11,539,955
<p>Note payable secured by deed of trust on the self-storage facility on Auto Center Drive in Oxnard, CA. The note is payable in monthly installment of \$60,581 including interest at 4.41%. The final payment is due May 2029, representing a balloon payment of approximately \$7,998,000. Under the terms of the loan, a prepayment premium is payable by the Company should there be a prepayment of the loan.</p>	10,339,464	10,604,102
<p>Note payable secured by deed of trust on the self-storage facility on Horizon Ridge Parkway in Henderson, NV. The note is payable in monthly installment of \$25,628 including interest at 3.80%. The final payment is due November 2029, representing a balloon payment of approximately \$4,315,560. Under the terms of the loan, a prepayment premium is payable by the Company should there be a prepayment of the loan.</p>	5,286,732	5,391,205
<p>Note payable secured by deed of trust on the self-storage facility on East Gonzales Road in Oxnard, CA. The note is payable in monthly installment of \$9,284 including interest at 4.67%, final payment due December 2027. Under the terms of the loan, a prepayment premium is payable by the Company should there be a prepayment of the loan.</p>	582,018	664,159

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) Long term debt (continued)

	December 31,	
	<u>2021</u>	<u>2020</u>
Note payable secured by deed of trust on land on Red Point Drive in Las Vegas, NV. The note is payable in semi-annual installment of \$16,539 including interest at 4.67%, final payment due April 2049. Under the terms of the loan, prepayment is payable by Redpoint Storage, LLC should there be a prepayment of the loan.	\$ 516,425	\$ -
Total long-term debt	27,948,450	28,199,421
Less unamortized debt issuance costs	<u>(305,319)</u>	<u>(344,119)</u>
Long-term debt less unamortized issuance costs	27,643,131	27,855,302
Less current portion, net of unamortized debt issuance costs	<u>(762,100)</u>	<u>(721,819)</u>
Noncurrent portion, net of unamortized debt issuance costs	<u>\$ 26,881,031</u>	<u>\$ 27,133,483</u>

Debt issuance costs, related to notes payable, included in interest expense was \$38,801 and \$38,801 for the years ended December 31, 2021 and 2020, respectively.

Future maturities of long-term debt are as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Unamortized debt issuance costs</u>	<u>Total, net</u>
2022	\$ 807,675	(45,575)	762,100
2023	850,155	(45,575)	804,580
2024	889,858	(45,575)	844,283
2025	931,430	(45,575)	885,855
2026	974,958	(45,575)	929,383
Thereafter	23,494,374	(77,444)	23,416,930
	<u>\$ 27,948,450</u>	<u>\$ (305,319)</u>	<u>\$ 27,643,131</u>

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) Paycheck Protection Program loan

The Company applied for and received a forgivable Paycheck Protection Program (PPP) loan of \$372,840 as provided under the Federal Coronavirus Aid, Relief, and Economic Security Act. The loan was funded in May 2020. Under the terms of the loan, the balance is forgivable to the extent the proceeds are used for certain qualified costs for the 8 week period through July 2, 2020 and that certain employment levels are maintained.

The Company received forgiveness of the loan in January 2021. The Company has elected to account for the forgivable note in accordance with International Accounting Standards No. 20 *Accounting for Government Grants and Disclosure of Government Assistance*, and therefore, has recognized a gain of \$372,840 on the amount forgiven over the time period in which the qualifying costs were incurred. The Company included the gain in Other Income in the consolidated financial statements for the year ended December 31, 2020.

(9) Asset retirement obligation

Asset retirement obligation consists of estimated costs of dismantlement, removal, site reclamation and other similar activity with the Company's oil and gas properties. An asset retirement obligation and the related asset retirement cost are recorded at the initial date of measurement. The asset retirement cost is determined and discounted to present value using a credit-adjusted risk free rate. After initial recording the liability is increased for the passage of time with the increase reflected as accretion expense in the Statement of Income and Retained Earnings. Subsequent adjustments in the cost estimate are reflected in the liability and the amounts continue to be amortized over the useful life of the related long-lived asset.

Changes in Asset Retirement Obligations for the years ended December 31, 2021 and 2020 were as follows:

	December 31,	
	2021	2020
Asset retire obligation, beginning of year	\$ 1,011,501	\$ 1,032,380
Increase (decrease) in obligation	166,971	(28,554)
Accretion expense	338,079	7,675
Asset retirement obligation end of year	<u>\$ 1,516,551</u>	<u>1,011,501</u>

The aggregate accretion on the above obligation charged to operations was \$338,079 and \$7,675 for the years ended December 31, 2021 and 2020, respectively.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(10) Income taxes

Income tax expense for the years ended December 31, 2021 and 2020, consists of the following:

	December 31,	
	2021	2020
Current provision		
Federal income tax	\$ 371,167	\$ 556,542
State income tax	283,615	248,089
	<hr/>	<hr/>
Total current provision for income taxes	654,782	804,631
Deferred income tax benefit		
Temporary differences	392,229	(171,407)
	<hr/>	<hr/>
Total income tax expense	<u>\$ 1,047,011</u>	<u>\$ 633,224</u>

The significant temporary differences and their related deferred tax asset (liability) balances are as follows:

	December 31,	
	2021	2020
Depreciable assets	\$ (720,906)	\$ (853,879)
Equity and cost method investments	(429,539)	-
Asset retirement obligations	285,834	184,951
Marketable securities, available for sale	(279,843)	(181,901)
Cash basis adjustments	8,163	106,767
	<hr/>	<hr/>
Total deferred income taxes	<u>\$ (1,136,291)</u>	<u>\$ (744,062)</u>

(11) Profit sharing/401(k) plan

The Company participates in profit sharing and qualified 401(k) plans with TRO Company (see Note 14). The total contribution each year is determined by the companies and is allocated among all eligible employees as a percentage of their annual wages or salary. Contributions to the plans for employees engaged at self-storage facilities are included in self-storage operating expenses on the income statement. The Company contributed \$121,487 and \$105,283 during the years ended December 31, 2021 and 2020, respectively.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(12) Commitments and contingencies

Operating leases – The Company leased an office facility under a non-cancelable operating lease which expired December 2020. This lease called for monthly payments of \$7,594. Total rent expense for the year ended December 31, 2020 was \$91,178.

The Company leases an office facility under a non-cancelable operating lease. This lease currently calls for monthly payments of \$7,644 with yearly increases of 3%, expiring May 2026. Total rent expense for the year ended December 31, 2021 was \$72,618.

The future minimum rental payments required under these operating leases are as follows:

<u>Years Ending December 31,</u>	
2022	\$ 90,500
2023	93,300
2024	100,200
2025	103,200
2026	44,300
	<u>\$ 431,500</u>

Coronavirus – On March 11, 2020 the World Health Organization declared the outbreak of the coronavirus (COVID-19) a pandemic. Significant uncertainties may arise with respect to potential shutdowns of operations or government orders to cease activities due to emergency declarations, loss of customers, inability to operate, project delays or cancelations, employee shortages, claims for business interruption insurance, etc. Each of these matters may have a significant impact on the expected financial results of the entity. The Company continues to operate, having implemented additional safety protocols. The operations of the Company may be significantly impacted by the pandemic and could result in material changes in a majority of the Company's accounts. The Company is unable to quantify the potential effects of this pandemic on its future financial statements, however, such impact may be significant, impacting assumptions used to develop estimates as of December 31, 2021 and its ability to maintain compliance with debt agreements and obtain financing.

Litigation – The Company is subject to legal proceedings in the ordinary course of business. While the Company cannot estimate the ultimate settlements or awards with respect to these legal proceedings, if any, it does not believe they will have a material effect on the Company, its liquidity, financial position, or results of operations.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(13) Rental income to be received

During the year ended December 31, 2021, the Company leased retail space to tenants under non-cancelable leases with terms in excess of one year and up to five years. The future rental payments on non-cancelable operating leases related to the leases are receivable as follows:

Years Ending December 31,

2022	\$	94,000
2023		85,000
2024		84,000
2025		86,000
2026		57,000
		<hr/>
	\$	406,000
		<hr/>

(14) Related party transactions

TRO Company, a California Limited Liability Company, is related through ownership by officer-stockholders. It is a general partner in the self-storage facility partnerships described in Note 4. The Company received \$248,653 and \$233,384 in 2021 and 2020, respectively, in management fees from the self-storage facility partnerships.

The Company also received \$136,393 and \$119,659 from TRO Company in 2021 and 2020, respectively, in self-storage management fees and administration fees.

In 1978, the Company in a joint venture with TRO Company, established a medical reimbursement plan for eligible personnel and their dependents. The Plan is integrated with a Blue Shield PPO and administered by a third party administrator. Reimbursements by the other member of the joint venture are based on participation. Additional costs, if any, will be assessed in the same manner. There were approximately 60 participants in the Plan as of December 31, 2021, of which 35 were employees. The Company contributed \$525,979 and \$515,604 during the years ended December 31, 2021 and 2020, respectively.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(15) Fair value measurements

The Company has determined the fair value of certain assets and liabilities in accordance with FASB ASC 820-10. The following tables present the Company's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis as of December 31, 2021 and 2020:

Description	Fair Value Measurements at Reporting Date Using			
	December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring Basis:				
Assets:				
Marketable securities	\$ 5,067,738	\$ 2,217,884	\$ 2,849,854	\$ -
Non-recurring Basis:				
Liabilities:				
Oil well abandonment	\$ 1,516,551	\$ -	\$ -	\$ 1,516,551
Description	Fair Value Measurements at Reporting Date Using			
	December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring Basis:				
Assets:				
Marketable securities	\$ 5,581,629	\$ 1,721,072	\$ 3,860,557	\$ -
Non-recurring Basis:				
Liabilities:				
Oil well abandonment	\$ 1,011,501	\$ -	\$ -	\$ 1,011,501

The oil wells asset retirement obligation fair value as of December 31, 2021 and 2020 was \$1,516,551 and \$1,011,501, respectively, due to revisions in the discounted cash flow on changes to the timing or amount of the original estimate. See Note 9 for details of the changes to the asset retirement obligation.

(16) Subsequent events

The Company has evaluated subsequent events through March 29, 2022, which is the date the consolidated financial statements were available to be issued.

Subsequent to year end, the Company obtained a \$2.6 million loan on the property owned by GSS Blue.

Subsequent to year end, Golden State Storage, an equity investment, entered into a construction contract to rebuild its Santa Fe Springs location for approximately \$9.8 million.



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