

OJAI OIL



COMPANY

2022

ANNUAL REPORT

This page has been intentionally left blank to help with double sided printing

TO OUR SHAREHOLDERS:

I am pleased to present our annual report for the year 2022. During 2022, we have made significant progress towards achieving our goals and continued to focus on innovation and growth within the self storage industry. We are excited to report that our Redpoint Storage facility, named after and close to the Red Rock National Reserve near the Summerland area of Las Vegas, is nearing completion and has already cultivated a lengthy wait list. We are proud to have worked with The Midby Companies who secured the location for this project and will continue with us as partners. Additionally, the new Santa Fe Springs storage facility construction with DAI Construction, as contractors, is due to open in late Q3 2023 with TRO Company as a partner.

The year 2022 was marked by uncertain economic conditions, causing several shifts in consumer behavior. The occupancy uptick from lifestyle changes caused by the pandemic has stabilized. We closely monitored our Buena Vista oil pricing that varied throughout the year, with an annual average at about \$90 per barrel. Many economists blame this volatility on Russia's ongoing invasion of Ukraine, increasing interest rates, and Covid lockdowns in China.

We have made great strides in incorporating new technology and innovative approaches to our business. We started using Prorize, a yield management software that has enabled us to optimize unit pricing through data-driven science-based capabilities on a daily basis to ensure we are achieving the highest revenue capabilities. Previously we had long meetings on a quarterly basis to set our rates. Additionally, we have started using the software Procore for construction management to better monitor construction projects.

As noted in previous years, we constructed a storage facility in Las Vegas that opened in April 2021, that we call Blue Diamond. The first year contained a lot of discounts as the facility started filling up. In 2022, with healthy occupancy, that facility brought in nearly \$600,000 of operating income.

Looking to the future, we are continuing to expand our facilities and have found that it is more profitable to build rather than purchase. In order to finance the projects, we have been actively building syndication groups for development purposes. The Oregon market has been an area of interest.

Referencing the Consolidated Statements of Income, the 2022 Operating Income is up \$1,784,213 over 2021, a 43.5% increase accompanied by an increase in dividends. There remained 286,804 shares of Company stock outstanding throughout the year.

In conclusion, we remain committed to delivering value to our shareholders. We thank you for your continued support and look forward to a successful year ahead.

Sincerely,

A handwritten signature in blue ink, appearing to read 'C. Douglas Off', with a stylized flourish at the end.

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
300 Esplanade Drive, Suite 850
Oxnard, California 93036
(805) 981-8555

Officers

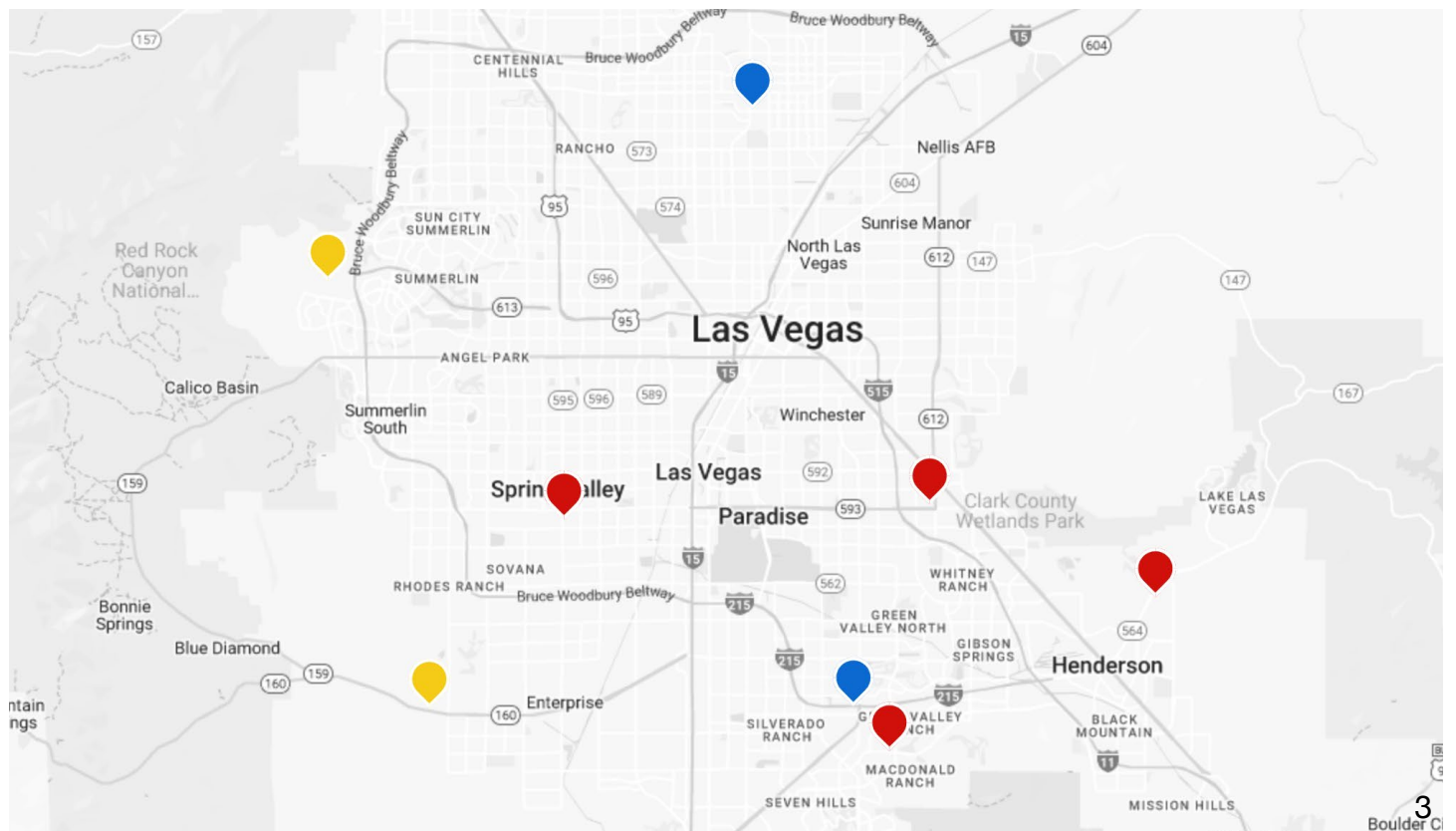
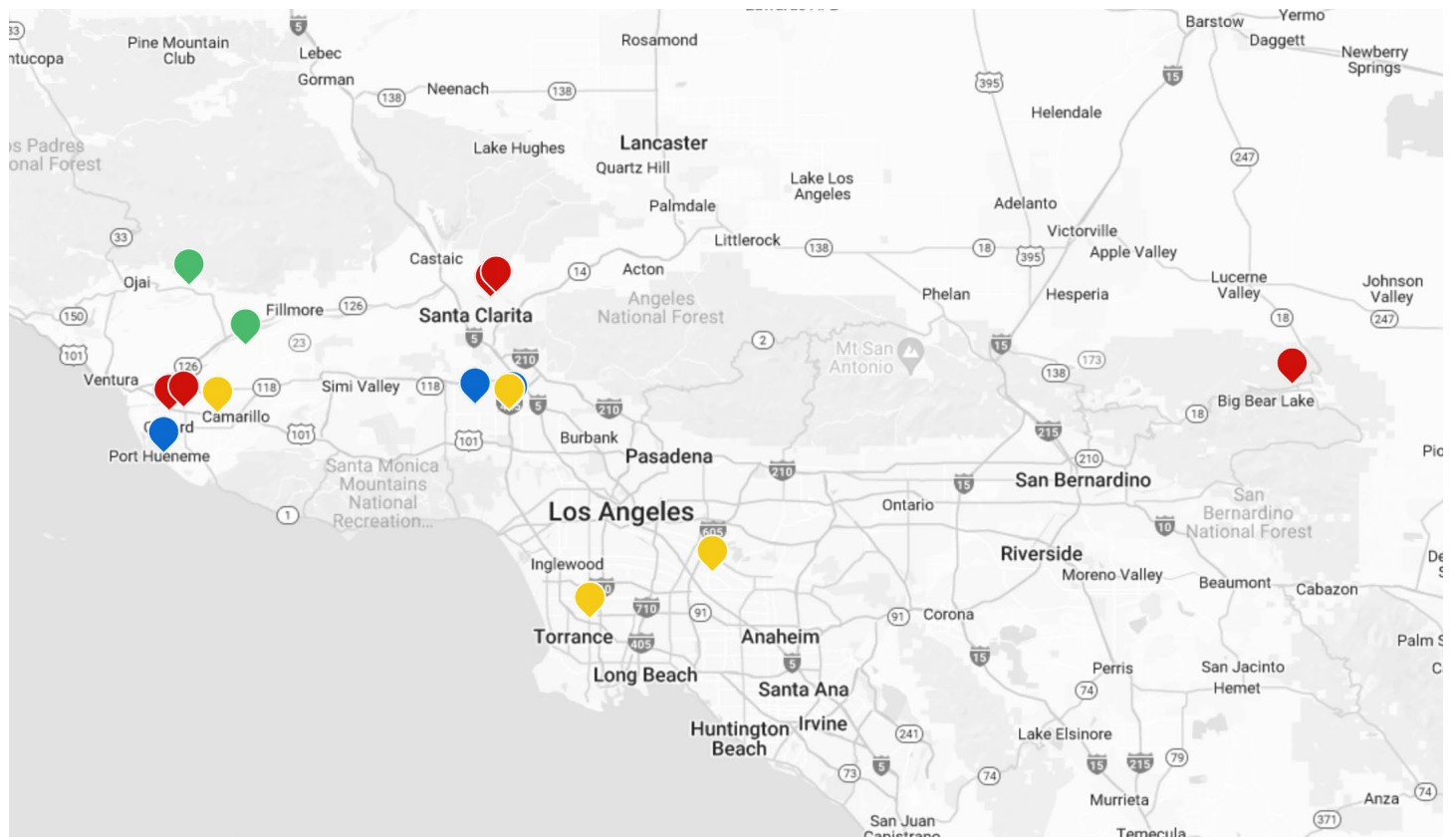
C. Douglas Off - Chairman of the Board, President, and Director
David C. Edward - Senior Vice President, Treasurer, and Director
Ryan D. Off - Vice President, Secretary, and Director
Tracy A. Off - Vice President, Assistant Secretary, and Director
Sarah Monroe-Allen - Assistant Secretary-Treasurer
Shawn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

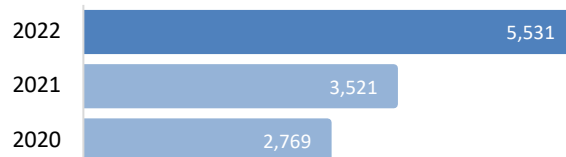
For the years ended

December 31	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
RESULTS OF OPERATIONS					
Revenues	\$14,262	\$12,468	\$10,845	\$10,726	\$9,935
Expenses	8,380	8,370	7,692	8,166	7,033
Operating Income	5,882	4,098	3,153	2,560	2,902
Net Income	3,182	2,300	1,864	1,053	3,580
Earnings per common share	11.09	8.02	6.50	3.66	12.31
FINANCIAL POSITION					
Total assets	71,540	61,068	54,421	52,411	45,197
Long-term debt	36,807	26,881	27,133	27,852	13,333
Stockholders' equity	29,078	27,851	24,372	21,434	21,182
DIVIDENDS PER SHARE					
	3.17	2.15	1.65	1.65	1.35
SHARES OUTSTANDING					
	286,804	286,804	286,804	286,804	290,702

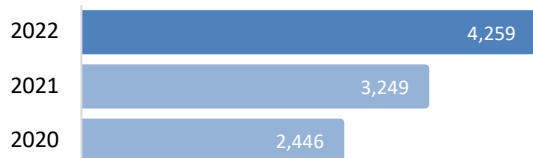
Gross Revenues
\$ in thousands



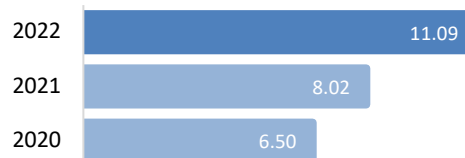
Net Cash Flow from Operations
\$ in thousands



Pre-tax Profit
\$ in thousands

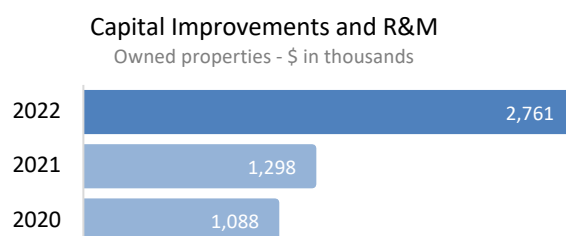
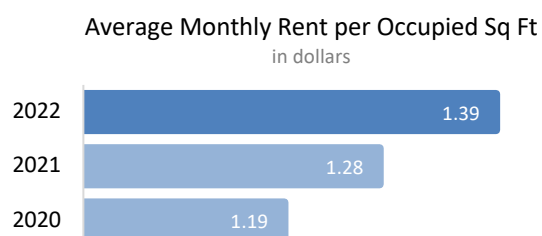
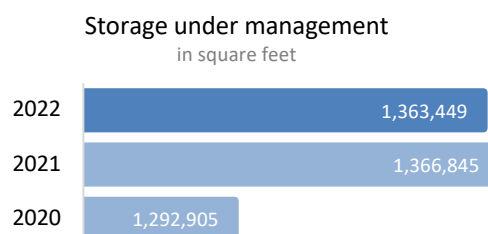
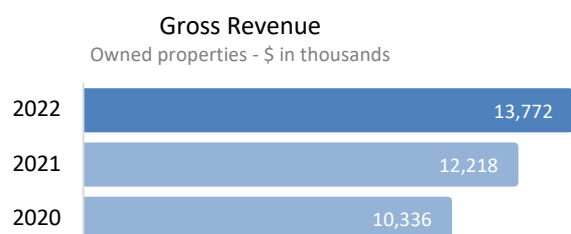


Earnings per Share
in dollars



Self Storage Operations

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Revenues	\$13,772	\$12,218	\$10,336
Operating expenses	<u>5,387</u>	<u>5,217</u>	<u>4,184</u>
Income from self-storage operations	<u>\$8,385</u>	<u>\$7,001</u>	<u>\$6,152</u>



This business unit reflects the performance of the 14 facilities which are wholly owned or partially owned by Ojai Oil Company, one of which is in construction (Santa Fe Springs, CA) and another which is in the final stages of rent up (Blue Diamond, NV). Please note that Storage under management reflects both owned facilities and those managed for others. Total square footage dropped slightly as parking spaces at one location, renting for 32 cents psf, were pulled from rentable square footage in 2022 and replaced with storage renting for \$1.28 psf in 2023. This accounts for the bulk of the increase in capital improvements and repair and maintenance. We are doing a similar project in Las Vegas.

Generally, rents continued to rise as vacancy continued to be low – especially in the first two quarters. Gross rents rose by almost 13%. Seasonality returned, somewhat, in Q3 and Q4. In December 2022 our vacancy for the entire portfolio was 6.6% compared to 3.4% in December 2021. Our operating expenses did not increase significantly in 2022. The staffing volatility we experienced during the pandemic, continued. We also tend to operate with lower levels of staffing than we did in previous years.

The Blue Diamond storage facility in Nevada is an interesting example of making a business decision which paid off. The facility is very large with 110,000 rentable square feet. When we first purchased the land, the initial concept was to put RV parking in place of the second two story building until the first rented up. Our Las Vegas based contractors suggested that not only would constructing a second phase later create a lot of dust and inconvenience for our customers and neighbors but also that our facility would rent up quickly. So we decided to build both buildings at once. By the end of December 2022 we had almost 77,000 square feet rented, making a considerable contribution to gross revenues.

Finally, it should be noted the State of California continually tries to overturn Prop 13 property tax amendment and local jurisdictions push hard for new business taxes and parcel taxes. The California Self Storage Association fights these assiduously and this Company has contributed to the CSSA legal fund. The CSSA is well supported by this Company with two active participants coming from this Company. We also have an officer on the Nevada Self Storage Association board.

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.

Gross Revenues

\$ in thousands



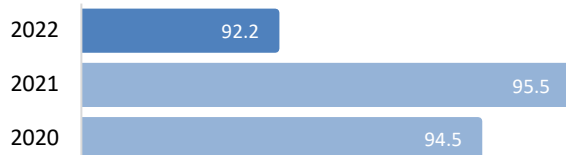
Net Operating Income

\$ in thousands



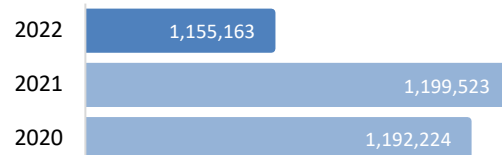
Occupancy

in percentage of square feet



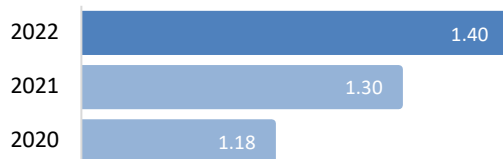
Occupancy

in square feet



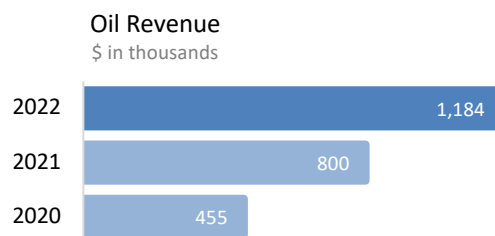
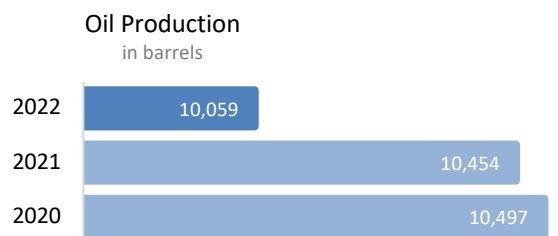
Average Monthly Rent per Occupied Sq Ft

in dollars



Oil Operations

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Revenues	\$1,184	\$800	\$455
Operating expenses	435	295	460
Income from oil operations	<u>\$749</u>	<u>\$ 505</u>	<u>\$ -5</u>



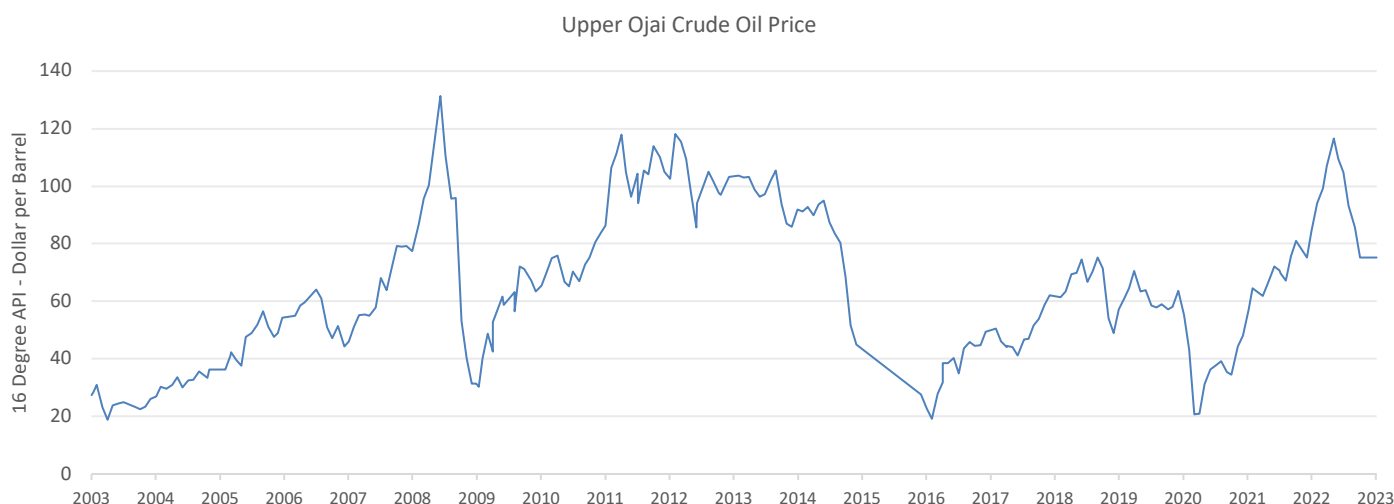
The financial data for the Company's oil and gas operations include those on South Mountain and Upper Ojai California. Royalty income, as included in the above Revenue data, is paid to Ojai Oil Company from CalNRG (California Natural Resource Group) and SM&O operations on South Mountain, plus other mineral right holdings in California and out of state (primarily Texas). Net Income from Oil and Gas operations increased 48% for the year 2022 over 2021 due to the price increase of crude and natural gas.

Communication towers located on the South Mountain property in Ventura County increased 7% in revenue over 2021 to \$143,759. This is from American Tower Corporation leases on top of the mountain.

Rental homes and other land lease items on the Upper Ojai property contributed \$44,300 in revenue and approximately \$52,000 in expense, showing a net loss for the year.

The State of California's government has developed a stringent low carbon environment. This has led to a mandatory reduction in oil and gas production, affecting most industries in this area. Ventura County has likewise imposed restrictions on production, and for the most part, bans new oil well drilling, workovers, or refinery improvements for all products.

Our Board of Directors has discussed this impending issue and recommended that your Company reduce its carbon footprint and environmental liability. As a result, the Company is entering negotiations to sell its interests in Ventura County oil and gas production over the coming year.



Managed Properties Fee Income

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Revenues	<u>\$545</u>	<u>\$537</u>	<u>\$456</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. While the smaller Mineral trust income and management fee grew by over 7% the much larger trust declined by 2%. In aggregate mineral trust income grew by 2% and any future growth is likely to be muted as decarbonization to the economy continues.

The 1.5% growth in managed properties income appears to be extremely muted given the almost 13% increase in storage rents in the owned portfolio. It should be noted, however, that 2021 included an extraordinary development fee item of \$63,000. If this is backed out, the increase in managed fee income was just under 15%, which reflects a very strong performance in the market and by both the onsite managers and the home office team.

As the portfolio of managed facilities is so diverse, it is very much a microcosm of self-storage in the Western United States. As such, almost everything which was written about the Ojai Oil owned portfolio applies to this portfolio. Two of these facilities are in the process of converting parking to storage while the third is undertaking a major expansion which should be completed in 2023, or early in 2024 if it experiences supply change shortages for key components. We are fortunate that our longevity in the industry and our close relationships with key vendors and contractors gives us some leverage when it comes to ironing out supply chain issues.

General and Administrative Expenses

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Expenses	<u>\$2,008</u>	<u>\$1,965</u>	<u>\$1,724</u>

General and Administrative Expenses (not including depreciation or a provision for income taxes) for 2022 rose modestly from the previous year mostly due to incremental cost increases and salaries. 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

As mentioned in last year's annual report, in April 2022, after demolishing our old facility in Santa Fe Springs, California, we broke ground on constructing our new storage facility. We originally hoped to complete construction and open the facility in Q2 2023, but due to supply chain delays in obtaining materials we now expect to open in late Q3 2023.

Our other construction project in Summerlin, Las Vegas, Nevada called Redpoint Storage, has been progressing well. While also having some supply chain delays, particularly in obtaining electrical switch equipment, this facility is scheduled to open on time in the summer of 2023. With this facility, we decided to syndicate out part of ownership to outside investors. As of writing, we are in the middle of raising funds for this syndication. We hope many of these investors will be interested in investing in future new developments with us.

Looking forward, we have recently been in discussions with a local developer in central Oregon. We have identified 2-3 pieces of land in central Oregon and we are hoping to construct and syndicate 2-3 smaller storage facilities starting in late 2023.

Throughout 2022, we also pursued the acquisition of a few other storage facilities and development opportunities, although none of these other deals made it to fruition.

Besides these properties in central Oregon, we continue to look for self storage 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.

Redpoint Storage - Facility architectural rendering



Redpoint Storage - Construction - Installing windows and siding on March 17, 2023



Santa Fe Springs Redevelopment - Facility architectural rendering



Santa Fe Springs Redevelopment - Installing siding on the new 3 story building on March 24, 2023



This page has been intentionally left blank to help with double sided printing



OJAI OIL COMPANY AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2022 and 2021





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, 2022 and 2021, 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 subsidiaries 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.

Mayer Hoffman McCann P.C.
An Independent CPA Firm
300 E. Esplanade Drive, Suite 250
Oxnard, CA 93036

Phone: 805.988.3222
Fax: 805.988.3220
mhmcpa.com

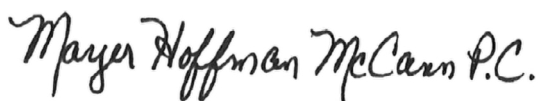
A member of Kreston Global – a global network of accounting firms

Emphasis of Matter with Respect to Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for leases as a result of the adoption of Accounting Standards Codification Topic 842, *Leases*, effective January 1, 2022, under the modified retrospective transition method. Our conclusion is not modified with respect to this matter.

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, 2023

Mayer Hoffman McCann P.C.
An Independent CPA Firm
300 E. Esplanade Drive, Suite 250
Oxnard, CA 93036

Phone: 805.988.3222
Fax: 805.988.3220
mhmcpa.com

A member of Kreston Global – a global network of accounting firms

OJAI OIL COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2022 and 2021

	2022	2021
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,124,315	\$ 3,778,202
Marketable securities, available-for-sale	8,995,769	5,067,738
Rent and other receivables, net	179,387	141,577
Prepaid expenses and refundable income taxes	993,895	1,094,819
TOTAL CURRENT ASSETS	<u>14,293,366</u>	<u>10,082,336</u>
INVESTMENTS		
General partnerships, equity method investments	1,720,026	1,681,943
Other investments, at cost	596,631	621,839
TOTAL INVESTMENTS	<u>2,316,657</u>	<u>2,303,782</u>
LAND, BUILDING AND EQUIPMENT, net	<u>54,569,710</u>	<u>48,648,301</u>
RIGHT OF USE ASSETS - operating leases	<u>326,763</u>	<u>-</u>
OTHER ASSETS	<u>33,556</u>	<u>33,556</u>
TOTAL ASSETS	<u>\$ 71,540,052</u>	<u>\$ 61,067,975</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,513,039	\$ 553,782
Deferred revenue	208,154	146,834
Line of credit	-	2,220,000
Current portion of long-term debt, net	907,525	762,100
Current portion of long-term lease liability	89,807	-
TOTAL CURRENT LIABILITIES	<u>2,718,525</u>	<u>3,682,716</u>
LONG TERM LIABILITIES		
Long-term debt, net, less current portion above	36,806,784	26,881,031
Long-term lease liability, less current portion above	244,133	-
Abandonment retirement obligation	1,720,778	1,516,551
Deferred income tax liabilities	971,559	1,136,291
TOTAL LONG TERM LIABILITIES	<u>39,743,254</u>	<u>29,533,873</u>
TOTAL LIABILITIES	<u>42,461,779</u>	<u>33,216,589</u>
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	26,481,656	24,209,230
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	<u>(7,411)</u>	<u>2,119</u>
TOTAL OJAI OIL COMPANY STOCKHOLDERS' EQUITY	<u>26,670,099</u>	<u>24,407,203</u>
NON-CONTROLLING INTEREST	<u>2,408,174</u>	<u>3,444,183</u>
TOTAL EQUITY	<u>29,078,273</u>	<u>27,851,386</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 71,540,052</u>	<u>\$ 61,067,975</u>

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

OJAI OIL COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Years Ended December 31, 2022 and 2021

	2022	2021
REVENUES		
Rental income from self storage facilities	\$ 11,359,367	\$ 10,262,470
Oil and gas sales and royalties	1,184,314	800,580
Equity income from self storage partnerships	1,002,701	652,600
Management fee income	545,495	536,975
Other income - houses and cell tower leases	170,687	215,261
TOTAL REVENUES	14,262,564	12,467,886
OPERATING EXPENSES		
Self storage operating expenses	3,976,589	3,914,052
Depreciation, depletion, amortization and accretion expense	1,864,870	2,105,020
General and administrative expenses	2,007,584	1,965,430
Oil and gas operating expenses	434,949	295,297
Other operating expenses	96,334	90,062
TOTAL OPERATING EXPENSES	8,380,326	8,369,861
OPERATING INCOME	5,882,238	4,098,025
OTHER INCOME (EXPENSE)		
Interest expense	(1,408,627)	(1,370,445)
Unrealized holding gain (loss) on marketable securities	(369,105)	337,616
Interest and dividend income	88,350	131,311
Realized gain on sale of marketable securities	66,332	52,979
TOTAL OTHER EXPENSE	(1,623,050)	(848,539)
INCOME BEFORE INCOME TAXES	4,259,188	3,249,486
INCOME TAX EXPENSE	1,004,129	1,047,011
NET INCOME	3,255,059	2,202,475
NET INCOME (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	73,464	(97,288)
NET INCOME ATTRIBUTABLE TO OJAI OIL COMPANY	3,181,595	2,299,763
OTHER COMPREHENSIVE INCOME		
Unrealized holding loss on marketable securities arising during the year (net of deferred taxes of \$0)	(9,530)	(6,812)
COMPREHENSIVE INCOME	\$ 3,172,065	\$ 2,292,951
BASIC EARNINGS PER SHARE ON NET INCOME ATTRIBUTABLE TO OJAI OIL COMPANY	\$ 11.09	\$ 8.02

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

OJAI OIL COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended December 31, 2022 and 2021

	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, 2020	286,804	\$ 195,854	\$ 22,526,096	\$ 8,931	\$ 22,730,881	\$ 1,641,471	\$ 24,372,352
Net income (loss)	-	-	2,299,763	-	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/Distributions	-	-	(616,629)	-	(616,629)	-	(616,629)
Contributions	-	-	-	-	-	1,900,000	1,900,000
Balance, December 31, 2021	286,804	195,854	24,209,230	2,119	24,407,203	3,444,183	27,851,386
Net income (loss)	-	-	3,181,595	-	3,181,595	73,464	3,255,059
Unrealized holding loss on marketable securities, net of deferred income taxes of \$0	-	-	-	(9,530)	(9,530)	-	(9,530)
Dividends/Distributions	-	-	(909,169)	-	(909,169)	(1,109,473)	(2,018,642)
Balance, December 31, 2022	286,804	\$ 195,854	\$ 26,481,656	\$ (7,411)	\$ 26,670,099	\$ 2,408,174	\$ 29,078,273

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, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 3,255,059	\$ 2,202,475
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation, depletion, amortization, and accretion expense	1,864,870	2,105,020
Amortization of debt issuance costs	41,757	38,801
Amortization expense/non-cash lease expense	93,648	-
Deferred income tax expense (benefit)	(164,732)	392,229
Change in allowance for doubtful accounts	(26,596)	38,920
Income from equity method investments	(859,602)	(319,755)
Gain loss on sale of marketable securities	(66,332)	(52,979)
Unrealized holding (gain) loss on marketable securities	369,105	(337,616)
Decrease (increase) in operating assets:		
Rent and other receivables	(11,214)	(62,880)
Prepaid expenses and refundable income taxes	100,924	(734,267)
Other assets	-	(11,802)
Increase (decrease) in operating liabilities		
Accounts payable and accrued liabilities	959,257	291,268
Operating lease liabilities	(86,471)	-
Deferred revenue	61,320	(28,490)
NET CASH FLOWS FROM OPERATING ACTIVITIES	5,530,993	3,520,924
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of marketable securities	(7,760,772)	(3,491,066)
Proceeds from sale of marketable securities	3,520,438	4,388,740
Distributions received from general partnerships	842,690	745,500
Collections received from other investments	4,036	204,200
Purchase of other investments	-	(150,000)
Purchase of land, building, and equipment	(2,206,652)	(7,716,087)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(5,600,260)	(6,018,713)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	(2,220,000)	2,220,000
Proceeds received from borrowings on long term debt	5,964,527	537,830
Principal payments on long-term debt	(1,310,505)	(788,801)
Dividends on common stock	(909,169)	(616,629)
Distributions to non-controlling interests	(1,109,473)	-
Contributions from non-controlling interest	-	700,000
Collection on subscription receivable	-	1,200,000
NET CASH FLOWS FROM FINANCING ACTIVITIES	415,380	3,252,400
NET CHANGE IN CASH AND CASH EQUIVALENTS	346,113	754,611
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,778,202	3,023,591
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 4,124,315	\$ 3,778,202

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, 2022 and 2021

Supplemental Cash Flow Information:

	Years Ended December 31, 2022	2021
Cash paid:		
Interest	\$ 1,363,914	\$ 1,331,644
Income taxes	\$ 1,055,229	\$ 1,098,614

Noncash investing and financing activities:

2022:

Land, buildings, and equipment increased by \$44,358 due to revisions made in the asset retirement obligation.

Land, buildings, and equipment increased by \$5,375,400 due to borrowings on long-term debt.

2021:

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

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

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 Redpoint Storage, LLC (Redpoint). 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%. Redpoint 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 Redpoint 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 2022 or 2021.

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.

The primary source of revenue for the Company is the lease of its self-storage, commercial and residential properties with the occupants, which range from month-to-month to multiple years. The Company has determined that its operating lease agreements qualify as a "lease" as defined under ASC 842. The agreement is deemed a lease because the right to substantially all of the economic benefits and the direct use of the facility is transferred to the tenant over a defined period of time for consideration. Upon entering into the operating lease agreement, the Company considers, among other items, asset specification, purchase options if applicable, and operating rights and control over the facility during the lease period, including extensions. Revenue is recognized on a straight-line basis over the term of the lease. The straight-line rental revenue commences when the tenant assumes control of the facility.

The Company's lease agreements include termination and extension clauses. Termination options allow either party to terminate the lease prior to the end of the agreed upon terms under specific circumstances. The Company's extension options generally do not require a re-negotiation with the tenant but may occur at times as agreed upon by the Company and tenant.

Rent is due on the anniversary date of every month and considered delinquent ten days after the due date.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Revenue recognition (continued) – 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.

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, remaining reserves of oil and gas, collectability of rent receivable, lease option extensions, 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 Union Bank, Chase Bank, Pacific Western Bank, and Wells Fargo. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. Periodically throughout the years ended December 31, 2022 and 2021, 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, 2022 and 2021, the allowance for doubtful accounts was \$23,790 and \$50,386, 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.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Marketable securities (continued) – 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.

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, 2022. Periodically throughout the years ended December 31, 2022 and 2021, 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.

Leases – The Company leases office space in Camarillo, CA. The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities on the consolidated balance sheet.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Leases (continued) – As most of the Company's leases do not provide an implicit rate, the Company uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In evaluating contracts to determine if they qualify as a lease, the Company considers factors such as if the Company has obtained substantially all of the rights to the underlying asset through exclusivity, if the Company can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

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.

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

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Fair value measurements (continued) – 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, limited liability companies, and corporate stock – The Company's investments in general partnerships, limited liability companies, and corporate stock are accounted for using the equity method for which the Company owns an interest greater than 20% but not more than 50%, and cost method for all others. These investments 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.

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.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Income taxes (continued) – 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, 2022, 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 2019 and the state of California income tax examinations by tax authorities for years before 2018.

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.

Recently adopted accounting pronouncements – In February 2016, the FASB issued guidance ASC 842, *Leases* to increase transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Company adopted the standard effective January 1, 2022 and recognized and measured leases existing at, or entered into after, January 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

The Company elected the available practical expedients to account for its existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Recently adopted accounting pronouncements (continued) – As a result of the adoption of the new lease accounting guidance, the Company recognized on January 1, 2022 a lease liability of \$420,410 which represents the present value of the remaining operating lease payments of \$431,582, discounted using risk-free rates, and a right-of-use asset of \$420,410.

Additionally, the new guidance did not have a material impact on the accounting treatment of the Company's leases with tenants, which is the Company's primary source of revenue. However, there were certain changes to the guidance under ASC 842, which may have an impact on future operating results, including initial direct costs associated with the execution of future lease agreements such as legal fees and certain transaction costs, if applicable, which will no longer be capitalizable, but instead will be expensed in the period incurred.

The standard had a material impact on the Company's consolidated balance sheets but did not have an impact on the Company's consolidated income statements, nor consolidated statements of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

(2) Marketable securities

Cost and fair value of marketable securities as of December 31, 2022 and 2021 are as follows:

	December 31, 2022			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Equity and other securities				
Certificates of deposits	\$ 4,500,000	\$ -	\$ (11,368)	\$ 4,488,632
Common stock	1,060,142	581,838	(104,958)	1,537,022
Exchange traded funds	225,719	139,029	(15,737)	349,011
Mutual funds	72,238	-	(8,590)	63,648
Total equities securities	<u>5,858,099</u>	<u>720,867</u>	<u>(140,653)</u>	<u>6,438,313</u>
Debt securities				
US Treasury bonds	<u>2,569,327</u>	<u>8,891</u>	<u>(20,762)</u>	<u>2,557,456</u>
Total debt securities	<u>2,569,327</u>	<u>8,891</u>	<u>(20,762)</u>	<u>2,557,456</u>
Totals	<u>\$ 8,427,426</u>	<u>\$ 729,758</u>	<u>\$ (161,415)</u>	<u>\$ 8,995,769</u>

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Marketable securities (continued)

		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>

Available-for-sale securities are carried in the consolidated financial statements at fair value. For the year ended December 31, 2022, net unrealized holding loss on available-for-sale equity securities in the amount of \$369,105 has been included in net income and net unrealized holding loss on available-for-sale debt securities in the amount of \$9,530 has been included in accumulated other comprehensive income.

For the year ended December 31, 2021, net unrealized holding gain on available-for-sale 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.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Marketable securities (continued)

The realized gains and losses on the sale of marketable securities during the year ended December 31, 2022 and 2021 were as follows:

		December 31, 2022		
		Realized gains	Realized losses	Net realized gain
Proceeds from sale	\$	3,462,523	\$ 57,915	\$ 3,520,438
Cost		<u>3,384,036</u>	<u>70,070</u>	<u>3,454,106</u>
	\$	<u>78,487</u>	<u>\$ (12,155)</u>	<u>\$ 66,332</u>
		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>

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

US Treasury bonds mature from December 2022 and November 2023.

Certificates of deposit mature from January 2023 to June 2023.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) Land, buildings, and equipment

Land, buildings, and equipment consist of the following as of December 31, 2022 and 2021:

	December 31,	
	2022	2021
Oil and gas property, plant and equipment		
Royalty interests, surface fees and leases	\$ 193,652	\$ 193,652
Wells and abandonment costs	1,467,315	1,422,957
Buildings, well and supporting equipment	1,370,641	1,370,641
Total, at cost	3,031,608	2,987,250
Less accumulated depreciation, depletion, and amortization	(2,262,259)	(2,193,122)
Total oil and gas property, plant and equipment, net	769,349	794,128
Commercial property and equipment		
Land improvements, buildings and equipment	50,413,343	49,553,268
Less accumulated depreciation	(18,461,831)	(16,825,964)
Total land improvements, buildings and equipment, net	31,951,512	32,727,304
Land	14,790,945	14,790,945
Construction in progress	7,057,904	335,924
Total commercial property and equipment, net	53,800,361	47,854,173
Net land, buildings, and equipment	\$ 54,569,710	\$ 48,648,301

The aggregate depreciation, depletion, and amortization on the above property and equipment charged to operations was \$1,705,001 and \$1,766,941 for the years ended December 31, 2022 and 2021, 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 Storage (Gardena, North Hills 1). Condensed unaudited financial statements of assets and liabilities and income statements for the partnership are as follows:

	December 31,	
	2022	2021
ASSETS		
Current assets	\$ 94,351	\$ 249,614
Note receivable - related party	4,988,437	-
Land, building and equipment (net of depreciation) and other non-current assets	522,458	2,202,405
	<u>\$ 5,605,246</u>	<u>\$ 2,452,019</u>
LIABILITIES AND CAPITAL		
Current liabilities	\$ 55,369	\$ 228,606
Line of credit	4,988,437	1,098,438
Partners' capital	561,440	1,124,975
	<u>\$ 5,605,246</u>	<u>\$ 2,452,019</u>
INCOME STATEMENT		
Revenue	\$ 1,714,068	\$ 1,840,893
Loss on disposal of equipment	(33,977)	-
Depreciation and amortization	(16,617)	(26,905)
Interest expense	(7,094)	(11,360)
Other operating expenses	(867,530)	(1,579,396)
NET INCOME	<u>\$ 788,850</u>	<u>\$ 223,232</u>

Golden State Storage may borrow up to \$4,600,000 under a revolving line of credit agreement with Pacific Western Bank expiring June 2027. The line is secured by a deed of trust on a self-storage facility in North Hills, CA owned by Golden State Storage partnership. The line is also secured with an assignment of rents of the partnership.

Golden State Storage may borrow up to \$5,200,000 under a revolving line of credit agreement with Pacific Western Bank expiring June 2027. The line is secured by a deed of trust on a self-storage facility in Gardena, CA owned by Golden State Storage partnership.

For both lines, interest is payable monthly at 3.25% per annum above the Secured Overnight Financing Rate (SOFR) as published by the Federal Reserve Bank of New York. The agreements also contain various financial and non-financial covenants. The SOFR in effect at December 31, 2022 3.8%. Prior to its renewal, interest was calculated at 0.5% per annum above the Wall Street Journal Prime Rate which was 3.25% as of December 31, 2021. As of December 31, 2022 and 2021 Golden State Storage has an outstanding balance under this line of credit of \$4,988,437 and \$1,098,438 , respectively.

The Company is a guarantor to these lines of credit equally with its partners.

See Independent Accountants' Review Report.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) General partnerships, equity investment method (continued)

The Company owns 50% interest in GSS Santa Fe Springs, LLC. The real estate held within GSS Santa Fe Springs, LLC was previously held by Golden State Storage and was distributed out to its partners in April 2022. Condensed unaudited financial statements of assets and liabilities and income statements for the partnership are as follows:

	December 31,	
	2022	2021
ASSETS		
Current assets	\$ 5,071	\$ -
Land, building and equipment (net of depreciation) and other non-current assets	5,566,517	-
	<u>\$ 5,571,588</u>	<u>\$ -</u>
LIABILITIES AND CAPITAL		
Current liabilities	\$ 62,973	\$ -
Note payable - related party	4,988,437	-
Partners' capital	520,178	-
	<u>\$ 5,571,588</u>	<u>\$ -</u>
INCOME STATEMENT		
Depreciation and amortization	\$ (7,945)	\$ -
Other operating expenses	(29,261)	-
NET LOSS	<u>\$ (37,206)</u>	<u>\$ -</u>

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) General partnerships, equity investment method(continued)

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,	
	2022	2021
ASSETS		
Current assets	\$ 222,661	\$ 197,496
Land, building and equipment (net of depreciation) and other non-current assets	4,248,779	4,419,349
	<u>\$ 4,471,440</u>	<u>\$ 4,616,845</u>
LIABILITIES AND CAPITAL		
Current liabilities	\$ 41,509	\$ 54,875
Long-term debt, net	1,091,719	1,403,044
Partners' capital	3,338,212	3,158,926
	<u>\$ 4,471,440</u>	<u>\$ 4,616,845</u>
INCOME STATEMENT		
Revenue	\$ 2,405,062	\$ 2,274,027
Depreciation and amortization	(170,570)	(170,751)
Interest expense	(68,007)	(83,885)
Other operating expenses	(646,198)	(719,970)
NET INCOME	<u>\$ 1,520,287</u>	<u>\$ 1,299,421</u>

(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 \$596,631 and \$621,839 as of December 31, 2022 and 2021.

(6) Line of credit

The Company may borrow up to \$5,300,000 under a revolving line of credit agreement with Pacific Western Bank expiring June 2027. The line is secured by a deed of trust on a self-storage facility in Santa Clarita, CA. Interest is payable monthly at 3.25% per annum above the Secured Overnight Financing Rate (SOFR) as published by the Federal Reserve Bank of New York. The agreements also contain various financial and non-financial covenants. The SOFR in effect at December 31, 2022 3.8%. Prior to its renewal, interest was calculated at 0.5% per annum above the Wall Street Journal Prime Rate which was 3.25% as of December 31, 2021.

As of December 31, 2022 and 2021 the Company has an outstanding balance under this line of credit of \$0 and \$2,220,000 , respectively.

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) Long-term debt

	December 31,	
	2022	2021
<p>Note payable secured by 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>	\$ 10,900,852	\$ 11,223,811
<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>	10,062,917	10,339,464
<p>Note payable secured by deed of trust on the self-storage facility on Grand Canyon Drive in Las Vegas, NV. The note is payable in interest only installments until April 2023 and then monthly installments of principal plus interest \$31,626 including interest at 3.75%. The final payment is due February 2032, representing a balloon payment of approximately \$4,366,908. Under the terms of the loan, a prepayment premium is payable by the Company should there be a prepayment of the loan.</p>	6,000,000	-

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) Long term debt (continued)

	December 31,	
	2022	2021
Construction note payable secured by deed of trust on the self-storage facility on Redpoint Drive in Las Vegas, NV. The Company may borrow up to \$12,000,000 advanced periodically throughout the construction period. The note is payable in monthly interest only installments through June 1, 2025. Beginning July 1, 2025 the Company must make payments of principal and interest in equal monthly installments in the amounts necessary to fully repay the outstanding balance hereof in equal monthly installments of principal and interest based on a 25-year amortization. The note contains provisions for the Company, certain to certain conditions, to have a Twelve Month Extension in which the due date would be June 2025, a second Twelve Month Extension in which the due date would be June 2026, or a Sixty Month Extension in which the due date would be June 2030. Interest is payable at the Secured Overnight Financing Rate (SOFR) as published by the Federal Reserve Bank of New York. Throughout the construction period interest is payable at the greater of the 30-Day Average SOFR rate plus 2.75% or 3.00%. If either of the Twelve Month Extensions are elected, interest is payable at the greater of the 30-Day Average SOFR rate plus 3.00% or 3.25%. If the Sixty Month Extension is elected, interest is payable a fixed rate equal to the Five Year Treasury Yield plus 2.50%. The 30-Day SOFR Average in effect at December 31, 2022 was 4.05%.	5,375,400	-
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.	5,178,219	5,286,732

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) Long term debt (continued)

	December 31,	
	2022	2021
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.	495,957	582,018
Note payable secured by deed of trust on land on Redpoint Drive in Las Vegas, NV. The note is payable in semi-annual installment of \$16,539 including interest at 4.67%. The outstanding balance on this loan was refinanced with the construction loan referred to above.	-	516,425
Total long-term debt	38,013,345	27,948,450
Less unamortized debt issuance costs	(299,036)	(305,319)
Long-term debt less unamortized issuance costs	37,714,309	27,643,131
Less current portion, net of unamortized debt issuance costs	(907,525)	(762,100)
Noncurrent portion, net of unamortized debt issuance costs	\$ 36,806,784	\$ 26,881,031

Debt issuance costs, related to notes payable, included in interest expense was \$41,757 and \$38,801 for the years ended December 31, 2022 and 2021, 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>
2023	\$ 956,647	(49,122)	907,525
2024	1,040,162	(49,122)	991,040
2025	1,150,168	(49,122)	1,101,046
2026	1,266,214	(49,122)	1,217,092
2027	1,073,912	(34,115)	1,039,797
Thereafter	32,526,242	(68,433)	32,457,809
	<u>\$ 38,013,345</u>	<u>\$ (299,036)</u>	<u>\$ 37,714,309</u>

OJAI OIL COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) Leases

The Company has the following operating lease.

Prior to the adoption of ASC 842 (see Note 1) the Company leases an office facility under a non-cancelable operating lease. This lease currently called 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 lease payments required under ASC 840, prior to the adoption of ASC 842 were as follows:

Years Ending December 31,

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

After the adoption of ASC 842 (see Note 1) the Company leases an office facility under a non-cancelable operating lease. This lease currently calls for monthly payments of \$7,873 with yearly increases of 3%, expiring May 2026. Total rent expense for the year ended December 31, 2022 was \$97,717.

The components of lease expense were as follows for the year ended December 31, 2022:

Operating lease cost	<u>\$ 97,717</u>
Total lease cost	<u>\$ 97,717</u>

Other information related to leases was as follows as of December 31, 2022:

Supplemental Cash Flows Information

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$ 90,539
--	-----------

Weighted Average Remaining Lease Term

Operating leases	3.41 years
------------------	------------

Weighted Average Discount Rate

Operating leases	1.18%
------------------	-------

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) Leases (continued)

Future minimum lease payments under non-cancellable leases as of December 31, 2022 were as follows:

<u>Years Ending December 31,</u>	<u>Total</u>
2023	\$ 93,265
2024	100,236
2025	103,236
2026	44,305
Total future minimum lease payments	341,042
Less imputed interest	(7,102)
	<u>\$ 333,940</u>

Amounts related to the lease were reported on the balance sheet as of December 31, 2022:

Operating leases	
Operating lease right of use assets	<u>\$ 326,763</u>
Current portion lease liability-operating leases	\$ 89,807
Long-term portion lease liability-operating leases	244,133
Total operating lease liabilities	<u>\$ 333,940</u>

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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, 2022 and 2021 were as follows:

	December 31,	
	2022	2021
Asset retirement obligation, beginning of year	\$ 1,516,551	\$ 1,011,501
Increase in obligation	44,358	166,971
Accretion expense	159,869	338,079
Asset retirement obligation end of year	<u>\$ 1,720,778</u>	<u>1,516,551</u>

The aggregate accretion on the above obligation charged to operations was \$159,869 and \$338,079 for the years ended December 31, 2022 and 2021, respectively.

(10) Income taxes

Income tax expense for the years ended December 31, 2022 and 2021, consists of the following:

	December 31,	
	2022	2021
Current provision		
Federal income tax	\$ 878,702	\$ 371,167
State income tax	290,159	283,615
Total current provision for income taxes	1,168,861	654,782
Deferred income tax expense (benefit)		
Temporary differences	(164,732)	392,229
Total income tax expense	<u>\$ 1,004,129</u>	<u>\$ 1,047,011</u>

OJAI OIL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(10) Income taxes (continued)

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

	December 31,	
	2022	2021
Depreciable assets	\$ (794,431)	\$ (720,906)
Equity and cost method investments	(461,732)	(429,539)
Asset retirement obligations	333,539	285,834
Marketable securities, available for sale	(169,594)	(279,843)
Cash basis adjustments	120,659	8,163
	<u>\$ (971,559)</u>	<u>\$ (1,136,291)</u>
Total deferred income taxes	<u>\$ (971,559)</u>	<u>\$ (1,136,291)</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 \$152,468 and \$121,487 during the years ended December 31, 2022 and 2021, respectively.

(12) Commitments and contingencies

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, 2022 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, 2022, the Company leased retail space to tenants under non-cancelable leases with terms in excess of one year and up to ten years. The future rental payments on non-cancelable operating leases related to the leases are receivable as follows:

Years Ending December 31,

2023	\$	85,000
2024		84,000
2025		86,000
2026		57,000
2027		59,000
Thereafter		363,000
		<hr/>
	\$	734,000
		<hr/>

(14) Related party transactions

TRO Company, a California Limited Liability Company (TRO Company), is related through common ownership by certain officer-stockholders. It is a general partner in the self-storage facility partnerships described in Note 4. The Company received \$244,804 and \$248,653 in 2022 and 2021, respectively, in management fees from the self-storage facility partnerships.

The Company also received \$142,511 and \$136,393 from TRO Company in 2022 and 2021, 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, 2022, of which 35 were employees. The Company contributed \$504,172 and \$525,979 during the years ended December 31, 2022 and 2021, 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, 2022 and 2021:

Fair Value Measurements at Reporting Date Using				
Description	December 31, 2022	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	\$ 8,995,769	\$ 1,949,681	\$ 7,046,088	\$ -
Non-recurring Basis:				
Liabilities:				
Oil well abandonment	\$ 1,720,778	\$ -	\$ -	\$ 1,720,778
Fair Value Measurements at Reporting Date Using				
Description	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

The oil wells asset retirement obligation fair value as of December 31, 2022 and 2021 was \$1,720,778 and \$1,516,551, 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, 2023, which is the date the consolidated financial statements were available to be issue.

In March 2023, Golden State Self Storage distributed its properties to two new limited liability companies. The North Hills property was transferred to GSS Roscoe which is 100% owned by Ojai Oil Company. The Gardena property was transferred to GSS Gardena, LLC which is 100% owned by TRO Company, LLC.

In March 2023, the Company began syndicating ownership interests in Redpoint Storage LLC. Ojai Oil Company's ownership in this limited liability company is expected to decrease.



OJAIOIL.COM

4081 MISSION OAKS BLVD, SUITE A
CAMARILLO, CA 93012