

BOWLIN TRAVEL CENTERS, INC.

Financial Statements

January 31, 2017 and 2016

150 Louisiana NE, Albuquerque, NM 87108 (505) 266-5985

Independent Auditors' Report

To the Board of Directors and
Stockholders of Bowlin Travel Centers, Inc.

We have audited the accompanying balance sheets of Bowlin Travel Centers, Inc. (the Company) as of January 31, 2017 and 2016, and the related statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended January 31, 2017. Bowlin Travel Center, Inc.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bowlin Travel Centers, Inc. as of January 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended January 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

RPC CPAs + Consultants LLP

RPC CPAs + Consultants, LLP
Albuquerque, New Mexico
April 7, 2017

BOWLIN TRAVEL CENTERS, INC.
Balance Sheets
January 31, 2017 and 2016

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 3,523,226	\$ 3,680,712
Marketable securities	953,030	953,832
Accounts receivable	17,735	24,597
Inventories	3,687,382	3,270,663
Interest receivable	1,397	1,227
Prepaid income taxes	49,715	—
Prepaid expenses	231,529	223,853
Deferred income taxes	70,788	52,369
Total current assets	<u>8,534,802</u>	<u>8,207,253</u>
Property and equipment, net	9,333,124	9,491,441
Capital lease, net	221,463	1
Long-term deferred tax assets	13,999	81,577
Assets held for sale	486,807	486,807
Intangible assets, net	31,195	39,662
Investment in real estate	334,389	419,389
Total assets	<u>\$ 18,955,779</u>	<u>\$ 18,726,130</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	\$ 313,795	\$ 303,141
Current maturity of capital lease obligation	40,324	1
Accounts payable	636,421	557,669
Accrued salaries and benefits	612,450	704,612
Accrued liabilities	338,515	317,642
Deferred revenue, current	53,208	21,410
Total current liabilities	<u>1,994,713</u>	<u>1,904,475</u>
Deferred income taxes	764,808	703,264
Capital lease obligation, less current maturities	181,139	—
Long-term debt, less current maturities	4,118,928	4,429,960
Total liabilities	<u>7,059,588</u>	<u>7,037,699</u>
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, \$0.001 par value; 1,000,000 shares authorized, none issued or outstanding at January 31, 2017 and 2016	—	—
Common stock, \$0.001 par value; 10,000,000 shares authorized, 4,040,672 issued and outstanding at January 31, 2017 and 4,078,690 issued and outstanding at January 31, 2016	4,583	4,583
Less: treasury stock, \$0.001 par value; 542,676 shares at January 31, 2017 and 504,658 at January 31, 2016	542	504
Common stock outstanding	<u>4,041</u>	<u>4,079</u>
Additional paid-in capital, net	9,130,513	9,193,383
Retained earnings	2,761,637	2,490,969
Total stockholders' equity	<u>11,896,191</u>	<u>11,688,431</u>
Total liabilities and stockholders' equity	<u>\$ 18,955,779</u>	<u>\$ 18,726,130</u>

See accompanying notes to financial statements.

BOWLIN TRAVEL CENTERS, INC.
Statements of Income

	Years ended January 31,		
	2017	2016	2015
Gross sales	\$ 25,883,486	\$ 25,853,086	\$ 29,003,367
Less discounts on sales	(378,659)	(320,667)	(257,963)
Net sales	25,504,827	25,532,419	28,745,404
Cost of goods sold	13,870,390	14,315,809	18,889,404
Gross profit	11,634,437	11,216,610	9,856,000
General and administrative expense	(10,013,349)	(9,572,874)	(8,772,472)
Depreciation and amortization	(985,353)	(953,935)	(936,450)
Operating income	635,735	689,801	147,078
Other non-operating (expense) income:			
Interest income	8,301	6,926	5,969
Gain on sale of property and equipment	—	7,994	16,879
Impairment on investment in real estate	(85,000)	—	—
Rental income	100,451	154,607	157,536
Interest expense	(179,119)	(185,876)	(199,730)
Total other non-operating (expense) income	(155,367)	(16,349)	(19,346)
Income before income tax expense	480,368	673,452	127,732
Income tax expense	(209,700)	(281,900)	(66,000)
Net income	<u>\$ 270,668</u>	<u>\$ 391,552</u>	<u>\$ 61,732</u>
Income per share:			
Basic and diluted, net income	<u>\$ 0.07</u>	<u>\$ 0.10</u>	<u>\$ 0.02</u>
Common shares outstanding	<u>4,040,672</u>	<u>4,078,690</u>	<u>4,099,676</u>

See accompanying notes to financial statements.

BOWLIN TRAVEL CENTERS, INC.
Statements of Stockholders' Equity
For the Years Ended January 31, 2017, 2016 and 2015

	<u>Number of shares</u>	<u>Common stock, at par</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at January 31, 2015	4,099,676	\$ 4,100	\$ 9,223,083	\$ 2,099,417	\$ 11,326,600
Net loss	—	—	—	391,552	391,552
Treasury stock	(20,986)	(21)	—	—	(21)
Additional paid-in capital, treasury	—	—	(29,700)	—	(29,700)
Balance at January 31, 2016	4,078,690	4,079	9,193,383	2,490,969	11,688,431
Net income	—	—	—	270,668	270,668
Treasury stock	(38,018)	(38)	—	—	(38)
Additional paid-in capital, treasury	—	—	(62,870)	—	(62,870)
Balance at January 31, 2017	<u>4,040,672</u>	<u>\$ 4,041</u>	<u>\$ 9,130,513</u>	<u>\$ 2,761,637</u>	<u>\$ 11,896,191</u>

See accompanying notes to financial statements.

BOWLIN TRAVEL CENTERS, INC.
Statements of Cash Flows

	Years ended January 31,		
	2017	2016	2015
Cash flows from operating activities:			
Net income	\$ 270,668	391,552	61,732
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	985,353	953,935	936,450
Amortization of loan fee	5,664	5,664	5,885
(Gain) loss on sale of property and equipment	—	(7,994)	(16,879)
Provision for deferred income taxes	110,703	281,900	66,000
Retirement of debt issuance costs	—	—	3,172
Changes in operating assets and liabilities:			
Accounts receivable	6,862	(8,614)	9,356
Inventories	(416,719)	(204,136)	307,493
Prepaid expenses and other	(7,676)	(24,797)	17,580
Prepaid income taxes	(49,715)	—	—
Accounts payable and accrued liabilities	7,463	60,038	262,743
Deferred revenue	31,798	(1)	1
Net cash provided by operating activities	944,401	1,447,547	1,653,533
Cash flows from investing activities:			
Proceeds from sale of assets	—	8,500	25,871
Purchases of property and equipment	(699,614)	(998,292)	(682,168)
Accrued interest receivable	(170)	(59)	(837)
Purchase of marketable securities	(953,030)	(953,832)	(951,167)
Proceeds from sale of marketable securities	953,832	951,167	860,000
Net cash used in investing activities	(698,982)	(992,516)	(748,301)
Cash flows from financing activities:			
Payments on long-term debt	(300,378)	(291,861)	(271,016)
Payments for capital lease obligation	(39,619)	(67,116)	(62,699)
Treasury stock	(38)	(21)	(32)
Retirement of long term debt	—	—	(944,001)
Payments for debt issuance costs	—	—	(21,884)
Proceeds from borrowing	—	—	1,500,000
Additional paid-in capital, treasury stock	(62,870)	(29,700)	(44,798)
Net cash provided by (used in) financing activities	(402,905)	(388,698)	155,570
Net increase (decrease) in cash and cash equivalents	(157,486)	66,333	1,060,802
Cash and cash equivalents at beginning of year	3,680,712	3,614,379	2,553,577
Cash and cash equivalents at end of year	\$ 3,523,226	3,680,712	3,614,379

(Continued)

BOWLIN TRAVEL CENTERS, INC.
Statements of Cash Flows

	<u>Years ended January 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ <u>179,119</u>	\$ <u>185,876</u>	\$ <u>199,730</u>
Noncash investing and financing activities:			
Impairment on investment in real estate	\$ <u>85,000</u>	\$ <u>—</u>	\$ <u>—</u>
Capital lease obligation	\$ <u>261,081</u>	\$ <u>—</u>	\$ <u>—</u>

See accompanying notes to financial statements.

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
January 31, 2017

(1) Summary of Significant Accounting Policies

(a) *Description of Business*

Bowlin Travel Centers, Inc. (BTC or the Company) is located in Albuquerque, New Mexico. The Company's tradition of serving the public dates back to 1912, when the founder, Claude M. Bowlin, started trading goods and services with Native Americans in New Mexico. The Company's principal business activities include the operation of ten travel centers and six restaurants strategically located along well-traveled interstate highways in New Mexico and Arizona where there are generally few gas stations, convenience stores or restaurants. Eight of the Company's travel centers offer fuel and the Company operates six full-service restaurants under the Dairy Queen/Brazier, Dairy Queen or Subway trade names. All of the Company's travel centers offer a unique variety of Southwestern merchandise to the traveling public in the Southwestern United States, primarily New Mexico. They also sell convenience store food such as chips, nuts, cookies and prepackaged sandwiches along with a variety of bottled and canned drinks.

(b) *Cash and Cash Equivalents*

The Company considers all liquid investments with an original maturity of three months or less to be cash equivalents. The Company places its temporary cash investments with a local financial institution. Funds in excess of the \$250,000 insured by the Federal Deposit Insurance Corporation (FDIC) are invested in overnight US Treasuries.

The Company also considers receivables from credit card transactions that are typically reimbursed within three business days as cash and cash equivalents. Receivables from credit card transactions included in cash and cash equivalents at January 31, 2017 and 2016 were \$110,235 and \$136,001 respectively.

(c) *Marketable Securities*

Marketable securities consist of certificates of deposits with maturity dates greater than three months and less than one year. All are fully insured by the Federal Deposit Insurance Corporation (FDIC), as they do not exceed their \$250,000 limit. Certificates of deposit are measured at cost plus accrued interest. The balance of marketable securities at January 31, 2017 and January 31, 2016 were \$953,030 and \$953,832 respectively.

(d) *Inventories*

Inventories consist primarily of merchandise and gasoline for resale and are stated at the lower of cost or market value, with cost being determined using the first-in, first-out (FIFO) method. The Company capitalized \$171,074 and \$137,499 of direct and indirect costs incurred during fiscal years ending January 31, 2017 and January 31, 2016 respectively.

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
January 31, 2017

(e) *Property and Equipment*

Property and equipment are carried at cost. Maintenance and repairs, including the replacement of minor items, are expensed as incurred, and major additions to property and equipment are capitalized. Depreciation is calculated by the Company using primarily straight-line.

(f) *Intangible Assets*

Debt issuance costs are deferred and amortized over the terms of the respective borrowings on a straight-line basis which is not materially different from the effective interest method. Franchise fees are amortized on a straight-line basis over the shorter of the life of the related franchise agreements or the periods estimated to be benefited, ranging from ten to twenty-five years.

(g) *Sales and Cost Recognition*

Sales of merchandise are recognized at the time of sale and the associated costs of the merchandise are included in cost of sales.

(h) *Income Taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(i) *Taxes Imposed on Revenue Transactions*

The Company collects and remits various federal and state excise taxes on petroleum products. Gasoline sales and cost of goods sold included excise taxes of \$1,614,457, \$1,456,603 and \$1,270,245 for fiscal years ended January 31, 2017, 2016 and 2015, respectively.

The Company also collects and remits transaction privilege taxes on sales. New Mexico and Arizona gross receipts taxes of approximately \$950,818, \$905,245 and \$795,937 were collected and remitted for fiscal years ended January 31, 2017, 2016 and 2015, respectively. Sales and cost of sales are presented net of gross receipts taxes.

(j) *Impairment On Investment in Real Estate and Assets Held for Sale*

The Company reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
January 31, 2017

cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(k) *Financial Instruments*

The Company's financial instruments are cash and cash equivalents, marketable securities, accounts receivable, notes receivable, accounts payable, accrued liabilities and long-term debt. The carrying amounts of cash and cash equivalents, marketable securities, accounts receivable, notes receivable, accounts payable, accrued liabilities and long-term debt approximate fair value.

(l) *Use of Estimates*

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with generally accepted accounting principles in the United States of America. The Company has identified the estimated useful lives of its fixed assets and the valuation of deferred taxes as its significant estimates. Actual results could differ from those estimates.

(m) *Earnings Per Share*

Earnings per share of common stock, both basic and diluted, are computed by dividing net (loss) income by the weighted average common shares outstanding, assuming the shares distributed on January 30, 2001 were outstanding for all periods presented. Diluted earnings per share is calculated in the same manner as basic earnings per share as there were no potential dilutive securities outstanding for all periods presented.

On September 29, 2008, the Company issued a press release announcing plans to begin a stock repurchase program whereby up to 1,000,000 shares of its common stock outstanding may be repurchased in the open market or in privately negotiated purchases from time to time, depending on market conditions and other factors. The purchases will be funded from available working capital and will be made in accordance with applicable securities laws and regulations. On September 23, 2016, the Board of Directors resolved to continue the repurchase program for another year, subject to earlier termination or extension as provided by the Board.

The Company repurchased 38,018 of its outstanding common shares, as treasury stock, for fiscal year ended January 31, 2017 at an average price per share of approximately \$1.6547, for a total repurchase of \$62,908. The common stock issued and outstanding was reduced by 38,018 shares or \$38 (38,018 shares times the par value of \$0.001), and additional paid in capital was reduced by \$62,870. The reduction in shares issued and outstanding and additional paid in capital is reflected in the accompanying balance sheet.

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
January 31, 2017

The Company repurchased 20,986 of its outstanding common shares for fiscal year ended January 31, 2016 at an average price per share of approximately \$1.4162, for a total repurchase of \$29,721. The common stock issued and outstanding was reduced by 20,986 shares or \$21 (20,986 shares times the par value of \$0.001), and additional paid in capital was reduced by \$29,700. The reduction in shares issued and outstanding and additional paid in capital is reflected in the accompanying balance sheet.

There was no issuance of the Company's outstanding common shares for fiscal years ended January 31, 2017, 2016 and 2015, respectively.

(n) *Reclassifications*

Certain 2016 and 2015 amounts have been reclassified to conform to 2017 presentation. Such reclassifications had no effect on net income. Property held for sale is reclassified as a component separate from assets in the balance sheet in accordance with FASB ASC 205-20-45 – Accounting for Impairment or Disposal of Long-lived Assets. Management's intent is to sell the Company's property located in Edgewood, New Mexico, in the ensuing fiscal year. This location was closed in October 2007.

(o) *Accounts Receivable*

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

(p) *Deferred Revenue*

The current portion of deferred revenue consists of advertising revenue received in advance for billboards that the Company rents as well as a \$33,000 payment for a three year option with Excelsior Mining Company, Inc. to lease a portion of the property and for a non-exclusive access and utilities easement. This revenue is recognized in income as services are provided over the terms of the billboard contracts and the option.

(q) *Advertising Costs*

Advertising costs are expensed as incurred. Advertising expense was approximately \$167,522, \$159,400 and \$108,322 for fiscal years ended January 31, 2017, 2016 and 2015, respectively.

(r) *Freight Costs*

General and administrative expense includes inbound freight costs incurred to acquire inventory for sale. Inbound freight costs are expensed as incurred. Freight

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
January 31, 2017

expense was approximately \$170,898, \$153,385 and \$119,063 for fiscal years ended January 31, 2017, 2016 and 2015, respectively.

(s) Concentration in Suppliers

The Company is an authorized ExxonMobil retailer. On April 1, 2015, the Company entered into a Marketer PMPA (Petroleum Marketing Practices Act) agreement with Western Refining Wholesale, LLC (“Western”). Western will provide ExxonMobil branded motor fuels to the Company for resale at five of the Company’s ExxonMobil branded locations. The agreement has a ten-year term expiring March 31, 2025, and requires the Company to purchase 1,370,520 gallons of fuel annually at a distributor’s markup price of \$0.015 per gallon. In addition, Western will award the Company \$225,000 for approved Exxon image upgrades.

Termination of the Company’s ExxonMobil distributorship eliminated the dealers the Company was doing business with. Annually this will eliminate approximately \$3,625,000 in fuel sales as well as approximately \$3,620,000 in cost of fuel purchased. The net effect on gross profit of \$5,000 is immaterial to the overall financial statements. The Company will also forfeit a one percent discount on gallons purchased or approximately \$78,500 each year.

All of the Company’s Arizona locations are Shell brand as a result of the Company entering into a retail supply agreement with Arizona Fuel Distributors, L.L.C. during fiscal year ended 2008. The agreement allows the Company to purchase fuel paying a distributor’s markup price of \$0.015 cents per gallon. There are no minimum or maximum gallon purchase requirements for the Company under the retail supply agreement with Arizona Fuel Distributors, L.L.C. The agreements for two locations expire in August 2017 and will continue on a month-to-month basis until the parties execute a new agreement.

(2) Property and Equipment

Property and equipment consist of the following at January 31:

	<u>Estimated life (years)</u>	<u>2017</u>	<u>2016</u>
Land		\$ 1,999,591	\$ 1,999,591
Buildings and improvements	10 - 40	10,909,793	10,666,957
Machinery and equipment	3 - 10	11,163,886	10,770,730
Autos, trucks and mobile homes	3 - 10	2,224,139	2,103,238
Billboards	15 - 20	2,867,972	2,799,057
Construction in progress		17,281	18,857
		<u>29,182,662</u>	<u>28,358,430</u>
Less accumulated depreciation		<u>(19,849,538)</u>	<u>(18,866,989)</u>
Property and equipment, net		<u>\$ 9,333,124</u>	<u>\$ 9,491,441</u>
Assets held for sale		\$ 1,085,469	\$ 1,085,469
Less accumulated depreciation		<u>(598,662)</u>	<u>(598,662)</u>
Assets held for sale, net		<u>\$ 486,807</u>	<u>\$ 486,807</u>

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
January 31, 2017

Construction in progress consists of inventory in the amount of \$17,281 that the Company has on hand to repair and maintain its billboards as well as for the occasional building of billboards.

	2017	2016	2015
Depreciation expense:	\$ <u>985,353</u>	\$ <u>953,935</u>	\$ <u>936,450</u>

Depreciation expense, including assets under capital lease, was \$985,353, \$953,935 and \$936,450 for fiscal years ending January 31, 2017, 2016 and 2015, respectively, and was charged to operations.

Gains and losses on sale of property and equipment:

	2017	2016	2015
Machinery and equipment	\$ —	\$ —	\$ 1,200
Autos, trucks and mobile homes	—	7,994	15,679
	\$ —	\$ 7,994	\$ 16,879

The Company's Edgewood, New Mexico location was closed October 31, 2007 and the property remains for sale and therefore has been identified as a component as defined in FASB ASC 205-20-45 – Accounting for Impairment or Disposal of Long-Lived Assets. The carrying value of the property of approximately \$487,000 has been reclassified as assets held for sale in the January 31, 2017 and January 31, 2016 balance sheets. The Company continues to list the property for sale. There was no operational activity during fiscal years 2017, 2016 and 2015 and therefore no results of operations.

(3) Intangible Assets

Intangible assets, at cost, consist of the following at January 31:

	2017	2016
Franchise fees	\$ 150,500	\$ 150,500
Debt issuance costs	<u>56,639</u>	<u>56,639</u>
	207,139	207,139
Less accumulated amortization franchise fees	(138,431)	(135,628)
Less accumulated amortization debt issuance costs	<u>(37,513)</u>	<u>(31,849)</u>
	\$ 31,195	\$ 39,662

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
January 31, 2017

The following schedule discloses the estimated amortization expense at January 31:

2018	\$	7,888	
2019		4,992	
2020		3,336	
2021		2,563	
2022		2,563	
Thereafter		9,853	
Total	\$	31,195	

(4) Investment in Real Estate

Approximately twelve acres of previously undeveloped land in Alamogordo, New Mexico was sub-divided into thirty-five approximately quarter-acre residential lots. The carrying value of this investment in real estate was \$334,389. The subdivision includes paved roads, fencing, water, sewer and electricity. Two manufactured homes were purchased and installed. One lot and manufactured home was sold in December 2003. In December 2005, two lots were sold. The other manufactured home was moved for the Company's use at the facility in Picacho, Arizona. The thirty-two lots that remain are for sale. In accordance with FASB ASC 205-20-45 – Accounting for Impairment or Disposal of Long-Lived Assets, the Company reviewed the carrying value of the property to determine whether it was impaired. As a result the carrying value was reduced by \$85,000 to reflect fair market value. The amount of the carrying value was determined by using the county assessor's full value of the land times the lots that remain for sale.

(5) Long-term Debt

Long-term debt consists of the following at January 31:

	2017	2016
Due to a bank, maturity November 2017, interest at 3.14%, monthly installments of \$28,186, secured by certain properties	\$ 3,095,660	\$ 3,331,047
Due to a bank, maturity June 2024, interest at 4.75%, monthly installments of \$10,940, secured by two properties	1,337,063	1,402,054
	4,432,723	4,733,101
Less current maturities	(313,795)	(303,141)
Long-term debt, less current maturities	\$ 4,118,928	\$ 4,429,960

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
January 31, 2017

Future maturities of long-term debt for the years ending January 31 are as follows:

2018	\$	313,795
2019		324,947
2020		336,511
2021		348,502
2022		360,937
Thereafter		<u>2,748,031</u>
Total	\$	<u><u>4,432,723</u></u>

The Company's real estate debt with its primary lender Bank of the West will mature November 30, 2017. The Company is currently in negotiations to refinance the debt. The current portion of debt and future maturities were estimated as if the loan renewed with no changes.

On June 30, 2014, the Company entered into a commercial loan agreement with WestStar Bank in the amount of \$1,500,000 with an interest rate of 4.75% for the first five years, then subject to adjustment June 30, 2019. The Company's real property in Bernalillo County, New Mexico and one property in Dona Ana County, New Mexico serve as security for the loan. The commercial loan agreement matures June 30, 2024. A portion of the proceeds were used to pay off an existing loan with Bank of the West which released the Company's real property in Cochise County, Arizona that was serving as collateral for the debt.

On November 30, 2007, the Company exchanged its real estate debt, in the amount of \$4,723,832, with its primary lender Bank of the West. Previously, all of the Company's assets were held as collateral for the debt. The exchange released all of the Company's assets except several specific properties. The interest rate was set at 5.92% for five years then subject to adjustment every five years. On December 1, 2012, the Company's interest rate changed from 5.92% to 3.14%.

At January 31, 2017 and 2016, respectively, the Company was in compliance with the minimum financial ratios or annual debt covenants.

(6) Capital Lease Obligation

Capital lease obligation consists of the following at January 31:

	<u>2017</u>	<u>2016</u>
Due YESCO LLC, maturity February 2016, interest at 6.8275%, monthly installments of \$5,802.	\$ —	\$ 1
Due YESCO LLC, maturity October 31 2022, interest at 7.50%, monthly installments of \$4,630.	<u>221,462</u>	<u>—</u>
Less current maturities	<u>(40,324)</u>	<u>(1)</u>
Capital lease obligation, less current maturities	<u>\$ 181,138</u>	<u>\$ —</u>

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
January 31, 2017

On August 25, 2016, the Company entered into a capital lease agreement with YESCO LLC for a new double sided LED sign to be installed in Bluewater, New Mexico. The term of the lease consists of sixty consecutive months commencing on the first day of the month immediately following the completion of installation of the sign. Installation of the sign was completed in October 2016. The Company will pay YESCO LLC \$686 as the maintenance component and \$4,630 as the base lease component. The Company will pay YESCO LLC \$1.00 with the final monthly payment at which time YESCO LLC will transfer ownership of the signs to the Company. As part security for its performance, the Company deposited with YESCO LLC the sum of \$30,000. The security deposit has been applied as a capital reduction of the base lease component. The Company will account for the lease in accordance with FASB ASC 840-30.

On June 21, 2010, the Company entered into a capital lease agreement with YESCO LLC for two used 14' x 48' single face LED signs with individual web cams to be installed in Picacho, Arizona. The term of the lease consists of sixty consecutive months commencing on the first day of the month immediately following the installation of the signs. Installation of the signs was completed in February 2011. The Company will pay YESCO LLC \$1,065 as the maintenance component and \$5,802 as the base lease component. The Company will pay YESCO LLC \$1.00 with the final monthly payment at which time YESCO LLC will transfer ownership of the signs to the Company. As part security for its performance, the Company deposited with YESCO LLC the sum of \$38,500. The security deposit has been applied as a capital reduction of the base lease component. The Company will account for the lease in accordance with FASB ASC 840-30.

(7) Income Taxes

Income taxes consist of the following for the years ended January 31:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
2017:			
U.S. Federal	\$ 139,700	\$ 35,000	\$ 174,700
State	<u>28,000</u>	<u>7,000</u>	<u>35,000</u>
	<u>\$ 167,700</u>	<u>\$ 42,000</u>	<u>\$ 209,700</u>
2016:			
U.S. Federal	\$ 243,300	\$ (8,500)	\$ 234,800
State	<u>48,800</u>	<u>(1,700)</u>	<u>47,100</u>
	<u>\$ 292,100</u>	<u>\$ (10,200)</u>	<u>\$ 281,900</u>
2015:			
U.S. Federal	\$ 114,000	\$ (59,000)	\$ 55,000
State	<u>22,800</u>	<u>(11,800)</u>	<u>11,000</u>
	<u>\$ 136,800</u>	<u>\$ (70,800)</u>	<u>\$ 66,000</u>

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
January 31, 2017

Income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 34 percent to pre-tax income as a result of the following for the years ended January 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Computed "expected" tax expense (benefit)	\$ 163,325	\$ 242,974	\$ 43,429
State income tax expense (benefit), net of federal tax benefit	23,093	29,508	7,269
Other non-deductible expenses,	<u>23,282</u>	<u>9,418</u>	<u>15,302</u>
Total	<u>\$ 209,700</u>	<u>\$ 281,900</u>	<u>\$ 66,000</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows at January 31:

	<u>2017</u>	<u>2016</u>
Deferred tax assets –		
At January 31, 2017 deferred revenue principally due to accrual for financial reporting purposes	\$ 20,329	\$ 8,350
At January 31, 2017, compensated absences, principally due to accrual for financial reporting purposes	50,459	44,019
At January 31, 2017, contributions, principally due to limitation as a result of net operating losses	13,999	27,408
At January 31, 2017, net operating loss, principally due to limitation as a result of net operating losses	—	44,521
Other	<u>—</u>	<u>9,648</u>
Total gross deferred tax assets	<u>84,787</u>	<u>133,946</u>
Deferred tax liabilities:		
Property and equipment, principally due to differences in depreciation	<u>764,808</u>	<u>703,264</u>
Total gross deferred liabilities	<u>764,808</u>	<u>703,264</u>
Net deferred tax liability	<u>\$ 680,021</u>	<u>\$ 569,318</u>

Total gross deferred liabilities increased as a result of more eligible assets for fiscal year end 2017 for the Company's election to take the 168 allowance of 50% for assets placed in service February 1, 2016 through December 31, 2016 as allowed by the 2010 Tax Relief Act compared to eligible assets for fiscal year end 2016.

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
January 31, 2017

Estimated taxable income is approximately \$325,000. When applied to the net operating loss carryforward, the amount of unused tax benefit is zero at January 31, 2017.

The Company adopted the provisions of FASB ASC 740-10-15 "Accounting for Uncertainty in Income Taxes" on February 1, 2009. Upon adoption, the Company recognized no change to opening retained earnings.

In the normal course of business, the Company's tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessment by these taxing authorities. Accordingly, the Company believes it is more likely than not that it will realize the benefits of tax positions it has taken in its tax returns or for the amount of any tax benefit that exceeds the cumulative probability threshold in accordance with FASB ASC 740-10-15. Differences between the estimated and actual amounts determined upon ultimate resolution, individually or in the aggregate, are not expected to have a material adverse effect on the Company's financial position. There are no uncertain tax positions as of January 31, 2017 and 2016, respectively.

The Company is not under examination for open tax years January 31, 2016, January 31, 2015 and January 31, 2014, respectively.

(8) Profit-Sharing Plan

The Company maintains a qualified defined contribution profit-sharing plan that covers substantially all employees. The plan year end is December 31. The elected salary reduction is subject to limits as defined by the Internal Revenue Code. The Company provides a matching contribution and additional discretionary contributions as determined by resolution of the board of directors. Legal and accounting expenses related to the plan are absorbed by the Company. The Company's contributions to the profit-sharing plan were \$75,192, \$65,555 and \$60,891 for the years ended January 31, 2017, 2016 and 2015, respectively.

(9) Commitment and Contingencies

The Company leases land at several of its retail operating locations. Included in general and administrative expenses in the accompanying statements of income is rental expense for these land leases of \$163,460, \$160,135 and \$154,840 for the years ended January 31, 2017, 2016 and 2015, respectively. The Company also leases land where several of its retail billboards are located and rent expense for these leases was \$229,990, \$218,588 and \$223,635 for the years ended January 31, 2017, 2016 and 2015, respectively.

The leasing agreements for the various locations include 5 to 35 year leases with remaining lives on those leases ranging from approximately 5 to 21 years at January 31, 2017. One of the contingent rentals has a fixed payment amount of \$10,800 plus 3% of merchandise sold plus \$0.02 of gasoline gallons sold. One of the contingent leases has a fixed annual payment of \$26,237 adjusted every five years according to the consumer price index (CPI) plus 2.5% of merchandise sales and \$0.0025 of gasoline gallons sold. One of the contingent rentals is \$33,000 adjusted every year by \$500 plus 2.5% of merchandise sales and \$0.0025 of gasoline gallons sold. In most cases, the Company is responsible for certain repairs and maintenance, insurance, property taxes or property tax increases, and utilities.

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
January 31, 2017

Future minimum rental payments under these leases are as follows:

Year ending January 31:	
2018	\$ 267,722
2019	255,977
2020	252,813
2021	222,098
2022	154,815
Thereafter	<u>1,080,641</u>
Total	\$ <u>2,234,066</u>

Future expenditures include approximately \$2,500,000 to complete a major remodel at The Thing DQ Travel Center in Benson, Arizona.

The Company is periodically subject to claims and lawsuits that arise in the ordinary course of business. It is in the opinion of management that the disposition or ultimate resolution of any such claims and lawsuits will not have a material adverse effect on the financial position of the Company.

(10) Subsequent Pronouncements

Leases: In February 2016, the Financial Accounting Standards Board (FASB), issued Accounting Standards Update No. 2016-02, Leases (Topic 842). The amendments in this update were issued to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. The main difference between previous GAAP and Topic 842 is the recognition of lease assets and lease liabilities for those leases classified as operating leases under previous GAAP. The amendments in this update are effective for fiscal years beginning after December 15, 2019. Early application is permitted, however, the Company has not yet adopted.

Revenue Recognition: The Financial Accounting Standards Board (FASB), issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). The amendments in this update were issued to provide a more robust framework for addressing revenue issues, improve the comparability of revenue recognition across entities and industries, and to simplify the revenue recognition requirements. Topic 606 modifies contract revenue recognition to focus on allocating the transaction price to the performance obligations in the contract and recognize revenue when the obligation is satisfied. The amendments in this update are effective for fiscal years beginning after December 15, 2018. Early application is permitted, however, the Company has not yet adopted.

Deferred Taxes: In November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2015-17 Balance Sheet Classification of Deferred Taxes (Topic 740). The amendment is part of the FASB's simplification initiative aimed at reducing complexity in accounting standards. To simplify presentation, the new guidance requires that all deferred tax assets and liabilities, along with any related valuation

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
January 31, 2017

allowance, be classified as noncurrent on the balance sheets. As a result, each jurisdiction will now only have one net noncurrent deferred tax asset or liability. The amendment in this update is effective for fiscal years beginning after December 15, 2017. Early application is permitted, however, the Company has not yet adopted.

(11) Subsequent Events

The Company has evaluated events subsequent to January 31, 2017, the balance sheet date, for events that would possibly require adjustment or disclosures in these financial statements, through April 7, 2017, the date that these statements were available to be issued.

In March 2017, the Company sold three cell tower leases and easements located in Luna County, New Mexico to Global Signal Acquisitions IV LLC for \$300,479 cash.

On March 22, 2017, the Company entered into a purchase agreement to sell the property in Edgewood, New Mexico. The asset has a carrying value of approximately \$487,000.