

American Energy Partners, Inc. and Subsidiaries

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of
American Energy Partners, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of **American Energy Partners, Inc. and Subsidiaries**. (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of operations, changes in stockholders' deficit and cash flows for each of the years in the two-year period ended December 31, 2019, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America.

Explanatory Paragraph - Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses. For the year ended December 31, 2019, the Company had a net loss of \$6,370,414 and net cash used in operating activities of \$40,638, and as of December 31, 2019 had accumulated deficits of \$38,389,698. These factors raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, 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.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

We have served as the Company's auditor since 2020.
Margate, Florida
January 29, 2021

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American Energy Partners, Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31, 2019	December 31, 2018
<u>Assets</u>		
Current Assets		
Cash	\$ 26,976	\$ 11,801
Accounts receivable - oil and natural gas	7,455	15,237
Accounts receivable - geotechnical consulting services	26,901	-
Total Current Assets	61,332	27,038
Oil and natural gas properties - full cost method of accounting	103,250	112,018
Total Assets	\$ 164,582	\$ 139,056
<u>Liabilities and Stockholders' Deficit</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 148,936	\$ 68,755
Convertible note payable - net	100,000	100,000
Derivative liability	235,521	254,937
Asset retirement obligations	297,938	270,000
Total Current Liabilities	782,395	693,692
Asset retirement obligations	49,293	69,398
Total Liabilities	831,688	763,090
Commitments and Contingencies (Note 5)		
Series A, Redeemable Preferred Stock - Related Parties - \$0.001 par value		
1,000,000,000 shares authorized, 790,500,000 and 750,000,000		
shares issued and outstanding, respectively		
	790,500	750,000
Stockholders' Deficit		
Common stock, Class A, \$0.001 par value, 1,500,000,000 shares authorized 194,643,990 and 97,143,990 shares issued and outstanding, respectively	194,644	97,144
Common stock, Class B, \$0.001 par value, 2,000,000,000 shares authorized 12,500,000 and 12,500,000 shares issued and outstanding, respectively	12,500	12,500
Additional paid-in capital	36,724,948	30,535,606
Accumulated deficit	(38,389,698)	(32,019,284)
Total Stockholders' Deficit	(1,457,606)	(1,374,034)
Total Liabilities and Stockholders' Deficit	\$ 164,582	\$ 139,056

The accompanying notes are an integral part of these consolidated financial statements

American Energy Partners, Inc. and Subsidiaries
Consolidated Statements of Operations

	For the Years Ended December 31,	
	2019	2018
Revenues		
Oil and natural gas	\$ 44,731	\$ 68,999
Geotechnical consulting services	243,641	-
Other	-	27,113
Total revenues	288,372	96,112
Costs and expenses		
General and administrative expenses	6,633,051	1,169,756
Lease operating expenses	15,641	20,552
Royalties	4,909	7,116
Depreciation, depletion, amortization and accretion	16,601	14,905
Total costs and expenses	6,670,202	1,212,329
Loss from operations	(6,381,830)	(1,116,217)
Other income (expense)		
Amortization of debt discount	-	(39,178)
Change in fair value of derivative liability	19,416	149,254
Interest expense	(8,000)	(8,000)
Total other income (expense) - net	11,416	102,076
Net loss	\$ (6,370,414)	\$ (1,014,141)
Loss per share - basic and diluted	\$ (0.04)	\$ (0.01)
Weighted average number of shares - basic and diluted	142,057,689	68,322,894

The accompanying notes are an integral part of these consolidated financial statements

American Energy Partners, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Deficit
For the Years Ended December 31, 2019 and 2018

	Common Stock - Class A		Common Stock - Class B		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
December 31, 2017	25,843,990	\$ 25,844	12,500,000	\$12,500	\$29,570,357	\$(31,005,143)	\$ (1,396,442)
Stock issued for cash	13,300,000	13,300	-	-	219,200	-	232,500
Stock issued for services	6,500,000	6,500	-	-	47,350	-	53,850
Stock issued for services - related parties	51,500,000	51,500	-	-	363,550	-	415,050
Stock options issued for services	-	-	-	-	305,149	-	305,149
Gain on sale of net mineral acres - related party	-	-	-	-	30,000	-	30,000
Net loss - 2018	-	-	-	-	-	(1,014,141)	(1,014,141)
December 31, 2018	97,143,990	\$ 97,144	12,500,000	\$12,500	\$30,535,606	\$(32,019,284)	\$ (1,374,034)
Series A preferred stock issued in asset purchase - HGC	-	-	-	-	5,629,500	-	5,629,500
Stock issued for services	10,000,000	10,000	-	-	40,650	-	50,650
Stock issued for services - related parties	87,500,000	87,500	-	-	287,260	-	374,760
Stock options issued for services	-	-	-	-	231,932	-	231,932
Net loss - 2019	-	-	-	-	-	(6,370,414)	(6,370,414)
December 31, 2019	194,643,990	\$194,644	12,500,000	\$12,500	\$36,724,948	\$(38,389,698)	\$ (1,457,606)

The accompanying notes are an integral part of these consolidated financial statements

American Energy Partners, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	For the Years Ended December 31,	
	2019	2018
Operating activities		
Net loss	\$ (6,370,414)	\$ (1,014,141)
Adjustments to reconcile net loss to net cash used in operations		
Depreciation, depletion, amortization and accretion	16,601	14,905
Series A preferred stock issued for compensation in asset purchase - HGC	5,608,966	-
Common stock issued for services	50,650	53,850
Common stock issued for services - related parties	374,760	415,050
Stock options issued for services	231,932	305,149
Change in fair value of derivative liability	(19,416)	(149,254)
Amortization of debt discount	-	39,178
Changes in operating assets and liabilities		
(Increase) decrease in		
Accounts receivable - oil and natural gas	7,782	(8,637)
Accounts receivable - geotechnical consulting services	(17,734)	-
Increase (decrease) in		
Accounts payable and accrued expenses	76,235	63,890
Net cash used in operating activities	(40,638)	(280,010)
Investing activities		
Cash acquired in acquisition of HGC	55,813	-
Acquisition of natural gas wells	-	(1,000)
Proceeds from sale of net mineral acres - related party	-	30,000
Net cash provided by financing activities	55,813	29,000
Financing investing		
Class A common stock issued for cash	-	232,500
Net cash provided by financing activities	-	232,500
Net increase (decrease) in cash	15,175	(18,510)
Cash - beginning of year	11,801	30,311
Cash - end of year	\$ 26,976	\$ 11,801
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ -	\$ -
Cash paid for income tax	\$ -	\$ -
Supplemental disclosure of non-cash investing and financing activities		
Series A preferred stock issued in asset purchase - HGC	\$ 61,034	\$ -

The accompanying notes are an integral part of these consolidated financial statements

AMERICAN ENERGY PARTNERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 1 - Organization and Nature of Operations

Organization and Nature of Operations

American Energy Partners, Inc. and Subsidiaries (collectively, “we”, “us”, “our” or the “Company”) is a diversified energy company. Through its various subsidiaries, the Company engages in water treatment and distribution, oil and natural gas production, geotechnical consulting services, and energy education.

The parent (American Energy Partners, Inc.) and subsidiaries are organized as follows:

<u>Company Name</u>	<u>Incorporation Date</u>	<u>State of Incorporation</u>
American Energy Partners, Inc.	January 10, 2017	Colorado
Hydration Company of PA, LLC	January 31, 2011	Pennsylvania
American Energy Solutions, LLC	July 1, 2015	Pennsylvania
Gilbert Oil & Gas, LLC	December 15, 2016	Pennsylvania
Hickman Geoloigcal Consulting, LLC	* November 19, 2013	Pennsylvania
Oilfield Basics, LLC	** March 31, 2018	Ohio

* Entity was acquired July 11, 2019.

** Entity was acquired January 27, 2020. See Note 9.

Hydration Company of PA, LLC (“HCPA”)

Hydration is engaged in the businesses of water exploration and water augmentation. Hydration provides a solution to locate, procure, treat, and distribute water. This patented process provides a method of supplying water using a natural water pipeline includes withdrawing impaired water from an impaired water body connected to a waterway and treating the impaired water from the impaired water body to produce treated water. The method also includes discharging the treated water into the waterway and conveying the treated water via the waterway to one or more locations proximate to one or more remote operational facilities that withdraws water from the waterway at the one or more locations.

American Energy Solutions, LLC (“AES”)

AES is an industrial waste stream treatment company that intends to engage in the remediation of Superfund sites, coal ash, acid mine drainage, mine influenced water (“MIW”), drill cuttings (horizontal direction drilling or “HDD” and vertical directional drilling or “VDD”), flowback (water and other debris that comes to the surface after a well is fracked), produced waters and other industrial processes.

AMERICAN ENERGY PARTNERS, INC. AND SUBSIDIARIES
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Gilbert Oil and Gas, LLC (“GOG”)

GOG owns 15 oil and gas producing wells in Western Pennsylvania. Included in these assets are over 1,000 acres of shallow rights in the Tier I area of the wet Marcellus and dry Utica Shale.

Gilbert will concentrate its initial capital inside the Marcellus & Utica formations where we can monetize existing water assets and treatment technologies in West Virginia, Pennsylvania, and Ohio.

Hickman Geological Consulting, LLC (“HGC”)

HGC is a full-service valuation and geotechnical consulting services company that focuses on the decision space between earth materials and financial matters. HGC provides valuation services for oil and natural gas minerals connected with estate planning, expert witness, lease negotiations, and mineral sales. HGC also performs geotechnical consulting services related to landslide identification, mitigation, and design as well as geotechnical residential building services, such as ground stability and infiltration testing. HGC is typically engaged by small to mid-sized engineering and environmental firms.

HGC (a related party whose sole owner is the Company’s Chief Operating Officer) was acquired by American Energy Partners, Inc. on July 10, 2019 in exchange for 40,500,000 shares of Class A Preferred stock, having a fair value of \$5,670,000. (See Notes 6 and 7)

Oilfield Basics, LLC (“OB”)

OB provides educational tools to companies including engineering and law firms, as well as services related to construction, drilling, flowback and completions. OB specializes in the educational marketing platforms of podcasts and videography to not only inform the public about their customer’s solutions, but also as a platform to discuss issues faced and opportunities present within the industry.

OB was acquired by American Energy Partners, Inc. on January 27, 2020 in exchange for 1,000,000 shares of Class A common stock, having a fair value of \$4,000. (See Note 10)

The acquisition of OB is not reflected in the accompanying consolidated financial statements at December 31, 2019 and 2018, respectively.

AMERICAN ENERGY PARTNERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The ongoing COVID-19 global and national health emergency has caused significant disruption in the international and United States economies and financial markets. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. The spread of COVID-19 has caused illness, quarantines, cancellation of events and travel, business and school shutdowns, reduction in business activity and financial transactions, labor shortages, supply chain interruptions and overall economic and financial market instability. The COVID-19 pandemic has the potential to significantly impact the Company's supply chain, distribution centers, or logistics and other service providers.

To date, the Company has not experienced any significant economic impact due to Covid-19. In addition, a severe prolonged economic downturn could result in a variety of risks to the business, including weakened demand for products and services and a decreased ability to raise additional capital when needed on acceptable terms, if at all. As the situation continues to evolve, the Company will continue to closely monitor market conditions and respond accordingly.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

Liquidity, Going Concern and Management's Plans

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business.

As reflected in the accompanying consolidated financial statements, for the year ended December 31, 2019, the Company had:

- Net loss from operations of \$6,370,414; and
- Net cash used in operations was \$40,638

Additionally, at December 31, 2019, the Company had:

- Accumulated deficit of \$38,389,698
- Stockholders' deficit of \$1,457,606; and
- Working capital deficit of \$721,063

AMERICAN ENERGY PARTNERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

The Company has cash on hand of \$26,976 at December 31, 2019. Although the Company intends to raise additional debt or equity capital, the Company expects to continue to incur significant losses from operations and have negative cash flows from operating activities for the near-term. These losses could be significant as product and service sales ramp up along with continuing expenses related to compensation, professional fees, development and regulatory are incurred.

The Company has incurred significant losses since its inception and has not demonstrated an ability to generate sufficient revenues from the sales of its products and services to achieve profitable operations. There can be no assurance that profitable operations will ever be achieved, or if achieved, could be sustained on a continuing basis. In making this assessment we performed a comprehensive analysis of our current circumstances including: our financial position, our cash flows and cash usage forecasts for the year ending December 31, 2019, and our current capital structure including equity-based instruments and our obligations and debts.

The Company has satisfied its obligations from operating cash flows as well as the sale of its Class A common stock of \$342,500 (during 2020 – see Note 10); however, there is no assurance that such successful efforts will continue during the twelve months subsequent to the date these consolidated financial statements are issued.

If the Company does not obtain additional capital, the Company will be required to reduce the scope of its business development activities or cease operations. The Company continues to explore obtaining additional capital financing and the Company is closely monitoring its cash balances, cash needs, and expense levels.

These factors create substantial doubt about the Company's ability to continue as a going concern within the twelve month period subsequent to the date that these consolidated financial statements are issued. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. Accordingly, the consolidated financial statements have been prepared on a basis that assumes the Company will continue as a going concern and which contemplates the realization of assets and satisfaction of liabilities and commitments in the ordinary course of business.

Management's strategic plans include the following:

- Pursuing additional capital raising opportunities,
- Continuing to explore and execute prospective partnering or distribution opportunities; and
- Identifying unique market opportunities that represent potential positive short-term cash flow.

AMERICAN ENERGY PARTNERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation

These consolidated financial statements have been prepared in accordance with U.S. GAAP and include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated.

Business Combinations

The Company accounts for business acquisitions using the acquisition method of accounting, in accordance with which assets acquired and liabilities assumed are recorded at their respective fair values at the acquisition date. The fair value of the consideration paid, including contingent consideration, is assigned to the assets acquired and liabilities assumed based on their respective fair values. Goodwill represents excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed.

Significant judgments are used in determining fair values of assets acquired and liabilities assumed, as well as intangibles. Fair value and useful life determinations are based on, among other factors, estimates of future expected cash flows, and appropriate discount rates used in computing present values. These judgments may materially impact the estimates used in allocating acquisition date fair values to assets acquired and liabilities assumed, as well as the Company's current and future operating results. Actual results may vary from these estimates which may result in adjustments to goodwill and acquisition date fair values of assets and liabilities during a measurement period or upon a final determination of asset and liability fair values, whichever occurs first. Adjustments to fair values of assets and liabilities made after the end of the measurement period are recorded within the Company's operating results.

Business Segments and Concentrations

The Company uses the "management approach" to identify its reportable segments. The management approach requires companies to report segment financial information consistent with information used by management for making operating decisions and assessing performance as the basis for identifying the Company's reportable segments.

The Company manages its business as two reportable segments and the consolidated financial statements are presented as two operating business segments, consisting of oil and natural gas sales from its wells through GOG, as well as geotechnical consulting services provided by HGC.

AMERICAN ENERGY PARTNERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Use of Estimates

Preparing financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates, and those estimates may be material.

Significant estimates during the years ended December 31, 2019 and 2018 include proved developed reserves of oil and natural gas*, depletion of oil and natural gas wells, asset impairments related to oil and natural gas wells, acquisition purchase price asset and liability allocations, valuation of derivative liabilities, valuation of stock-based compensation, uncertain tax positions, and the valuation allowance on deferred tax assets.

*Oil and natural gas reserves are based on available geologic and seismic data, reservoir pressure data, core analysis reports, well logs, analogous reservoir performance history, production data and other available sources of engineering, geological and geophysical information.

Oil and natural gas prices are volatile and largely affected by worldwide production and consumption and are outside the control of management. Projected future crude oil and natural gas pricing assumptions are used by management to prepare estimates of crude oil and natural gas reserves used in formulating management's overall operating decisions. The Company's Chief Operating Officer is a registered Professional Geologist in the State of Pennsylvania, who as a member of management assists with the valuation of these reserves.

The Company does not operate its oil and natural gas properties and, therefore, receives actual oil, and natural gas sales volumes and prices (in the normal course of business) more than a month later than the information is available to the operators of the wells. This being the case, on wells with greater significance to the Company, the most current available production data is gathered from the appropriate operators, and oil, and natural gas index prices local to each well are used to estimate the accrual of revenue on these wells. Timely obtaining production data on all other wells from the operators is not feasible; therefore, the Company utilizes past production receipts and estimated sales price information to estimate its accrual of revenue on all other wells each quarter. The oil, and natural gas sales revenue accrual can be impacted by many variables including rapid production decline rates, production curtailments by operators, the shut-in of wells with mechanical problems and rapidly changing market prices for oil, and natural gas. These variables could lead to an over or under accrual of oil, and natural gas sales at the end of any particular reporting period. Based on past history, the Company's estimated accrual has been materially accurate.

AMERICAN ENERGY PARTNERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Full Cost Method of Accounting

The Company uses the full cost method of accounting for its oil and gas exploration and development activities. Under the full cost method of accounting, all costs associated with successful and unsuccessful exploration and development activities are capitalized into a single cost center (“full cost pool”). Such costs include property acquisition costs, geological and geophysical (“G&G”) costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells. Overhead costs, which includes employee compensation and benefits including stock-based compensation, incurred that are directly related to acquisition, exploration and development activities are capitalized. Interest expense is capitalized related to unevaluated properties and wells in process during the period in which the Company is incurring costs and expending resources to get the properties ready for their intended purpose. For significant investments in unproved properties and major development projects that are not being currently depreciated, depleted, or amortized and on which exploration or development activities are in progress, interest costs are capitalized. Proceeds from property sales will generally be credited to the full cost pool, with no gain or loss recognized, unless such a sale would significantly alter the relationship between capitalized costs and the proved reserves attributable to these costs. A significant alteration would typically involve a sale of 25% or more of the proved reserves related to a single full cost pool.

Proved properties are amortized using the units of production method (“UOP”), whereby capitalized costs are amortized over total proved reserves. The amortization base in the UOP calculation includes the sum of proved property, net of accumulated depreciation, depletion, and amortization (“DD&A”), estimated future development costs (future costs to access and develop proved reserves), and asset retirement costs, less related salvage value.

The costs of unproved properties and related capitalized costs (such as G&G costs) are withheld from the amortization calculation until such time as they are either developed or abandoned. Unproved properties and properties under development are reviewed for impairment at least quarterly and are determined through an evaluation by management and third party consultants considering, among other factors, seismic data, requirements to relinquish acreage, drilling results, remaining time in the commitment period, remaining capital plan, and political, economic, and market conditions. In countries where proved reserves exist, exploratory drilling costs associated with dry holes are transferred to proved properties immediately upon determination that a well is dry and amortized accordingly. In countries where a reserve base has not yet been established, impairments are charged to earnings.

AMERICAN ENERGY PARTNERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Companies that use the full cost method of accounting for oil and natural gas exploration and development activities are required to perform a ceiling test calculation each quarter. The full cost ceiling test is an impairment test prescribed by SEC Regulation S-X Rule 4-10. The ceiling test is performed quarterly, utilizing the average of prices in effect on the first day of the month for the preceding twelve month period. The cost center ceiling is defined as the sum of (a) estimated future net revenues, discounted at 10% per annum, from proved reserves, (b) the cost of properties not being amortized, if any, and (c) the lower of cost or market value of unproved properties included in the cost being amortized. If such capitalized costs exceed the ceiling, the Company will record a write-down to the extent of such excess as a non-cash charge to earnings. Any such write-down will reduce earnings in the period of occurrence and results in a lower depreciation, depletion, and amortization rate in future periods. A write-down may not be reversed in future periods even though higher oil and natural gas prices may subsequently increase the ceiling.

The Company capitalizes exploratory well costs into oil and gas properties until a determination is made that the well has either found proved reserves or is impaired. If proved reserves are found, the capitalized exploratory well costs are reclassified to proved properties. The well costs are charged to expense if the exploratory well is determined to be impaired.

We did not record a ceiling test write-down during the years ended December 31, 2019 and 2018. If average crude oil and natural gas prices decrease significantly, it is possible that ceiling test write-downs could be recorded during 2020 or in future periods.

Asset Retirement Obligations

The Company owns interests in oil and natural gas properties, which may require expenditures to plug and abandon the wells upon the end of their economic lives.

The fair value of legal obligations to retire and remove long-lived assets is recorded in the period in which the obligation is incurred (typically when the asset is installed at the production location). We are required to record a separate liability for the present value of our ARO, with an offsetting increase to the related oil and natural gas properties on our balance sheets.

When the liability is initially recorded, this cost is capitalized by increasing the carrying amount of the related properties and equipment. Over time the liability is increased for the change in its present value. The Company does not have any assets restricted for the purpose of settling the asset retirement obligations.

Estimating such costs requires us to make judgments on both the costs and the timing of ARO. Asset removal technologies and costs are constantly changing, as are regulatory, political, environmental, safety and public relations considerations, which can substantially affect our estimates of these future costs from period to period.

AMERICAN ENERGY PARTNERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

At December 31, 2019 and 2018, respectively, the Company had the following ARO liabilities:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Current	\$ 297,938	\$ 270,000
Long-Term	49,293	69,398
Total ARO	<u>\$ 347,231</u>	<u>\$ 339,398</u>

During the years ended December 31, 2019 and 2018, the Company recorded accretion expense of \$7,833 and \$7,833, respectively. These amounts are included as a component of depreciation, depletion, and amortization.

Oil and Natural Gas Reserve Information

We use the unweighted average of first-day-of-the-month commodity prices over the preceding 12-month period when estimating quantities of proved reserves. Similarly, the prices used to calculate the standardized measure of discounted future cash flows and prices used in the ceiling test for impairment are the 12-month average commodity prices. Proved undeveloped reserves may only be classified as such if a development plan has been adopted indicating that they are scheduled to be drilled within five years, with some limited exceptions allowed.

Environmental Costs

As the Company is directly involved in the extraction and use of natural resources, it is subject to various federal, state, and local provisions regarding environmental and ecological matters. Compliance with these laws may necessitate significant capital outlays. The Company does not believe the existence of current environmental laws or interpretations thereof will materially hinder or adversely affect the Company's business operations; however, there can be no assurances of future effects on the Company of new laws or interpretations thereof. Since the Company does not operate any wells where it owns an interest, actual compliance with environmental laws is controlled by the well operators, with the Company being responsible for its proportionate share of the costs involved.

The Company does not carry liability and pollution control insurance. However, all risks would not be insured due to the availability and cost of insurance.

Environmental liabilities (including plugging and abandonment costs), which historically have not been material, are recognized when it is probable that a loss has been incurred and the amount of that loss is reasonably estimable. Environmental liabilities, when accrued, are based upon estimates of expected future costs.

At December 31, 2019 and 2018, respectively, there were no such costs accrued.

AMERICAN ENERGY PARTNERS, INC. AND SUBSIDIARIES
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Capitalization of Leasehold Acquisition Costs

Leasehold acquisition costs are initially capitalized. Costs to drill exploratory wells are initially capitalized until a determination as to whether proved reserves have been discovered. If an exploratory well is deemed to not have found proved reserves, the associated costs are charged to exploration expense at that time. Exploration costs, other than the cost of drilling exploratory wells, which can include geological and geophysical expenses applicable to undeveloped leasehold, leasehold expiration costs and delay rentals are charged to exploration expense as incurred. All development costs, including developmental dry hole costs, are capitalized.

Fair Value of Financial Instruments

The Company accounts for financial instruments under Financial Accounting Standards Board (“FASB”) ASC 820, *Fair Value Measurements*. ASC 820 provides a framework for measuring fair value and requires disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, based on the Company’s principal or, in absence of a principal, most advantageous market for the specific asset or liability.

The Company uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. The hierarchy requires the Company to use observable inputs when available, and to minimize the use of unobservable inputs, when determining fair value.

The three tiers are defined as follows:

- Level 1—Observable inputs that reflect quoted market prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2—Observable inputs other than quoted prices in active markets that are observable either directly or indirectly in the marketplace for identical or similar assets and liabilities; and
- Level 3—Unobservable inputs that are supported by little or no market data, which require the Company to develop its own assumptions.

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The determination of fair value and the assessment of a measurement's placement within the hierarchy requires judgment. Level 3 valuations often involve a higher degree of judgment and complexity. Level 3 valuations may require the use of various cost, market, or income valuation methodologies applied to unobservable management estimates and assumptions. Management's assumptions could vary depending on the asset or liability valued and the valuation method used. Such assumptions could include estimates of prices, earnings, costs, actions of market participants, market factors, or the weighting of various valuation methods. The Company may also engage external advisors to assist us in determining fair value, as appropriate.

Although the Company believes that the recorded fair value of our financial instruments is appropriate, these fair values may not be indicative of net realizable value or reflective of future fair values. See Note 4 for level 3 reconciliation of derivative liabilities.

The Company's financial instruments, including cash, accounts receivable – oil and natural gas, accounts receivable – geotechnical consulting services, accounts payable and accrued expenses, are carried at historical cost. At December 31, 2019 and 2018, respectively, the carrying amounts of these instruments approximated their fair values because of the short-term nature of these instruments.

ASC 825-10 "*Financial Instruments*" allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value ("fair value option"). The fair value option may be elected on an instrument-by-instrument basis and is irrevocable unless a new election date occurs. If the fair value option is elected for an instrument, unrealized gains and losses for that instrument should be reported in earnings at each subsequent reporting date. The Company did not elect to apply the fair value option to any outstanding financial instruments.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid instruments with a maturity of three months or less at the purchase date and money market accounts to be cash equivalents.

At December 31, 2019 and 2018, respectively, the Company did not have any cash equivalents.

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Accounts Receivable

Oil and Natural Gas from GOG

Accounts receivable are due from purchasers of oil, and natural gas or operators of the oil and natural gas properties. Oil, and natural gas sales receivables are generally unsecured. This industry concentration has the potential to impact our overall exposure to credit risk, in that the purchasers of our oil, and natural gas and the operators of the properties we have an interest in may be similarly affected by changes in economic, industry or other conditions.

The allowance for doubtful accounts is determined based on the Company's previous loss history. The Company has not experienced any significant credit losses. Allowance for doubtful accounts was \$0 at December 31, 2019 and 2018, respectively.

Geotechnical Consulting Services from HGC

Credit is extended to customers based on an evaluation of their financial condition and other factors. Interest is not accrued on overdue accounts receivable. Management periodically assesses the Company's accounts receivable and, if necessary, establishes an allowance for estimated uncollectible amounts. Accounts determined to be uncollectible are charged to operations when that determination is made. The Company does not require collateral.

The allowance for doubtful accounts is determined based on the Company's previous loss history. The Company has not experienced any significant credit losses. Allowance for doubtful accounts was \$0 at December 31, 2019 and 2018, respectively.

The following represents the Company's concentrations of its oil and natural gas receivables at December 31, 2019 and 2018:

<u>Oil and Natural Gas Receivables</u>	<u>Year Ended December 31,</u>	
<u>Customer</u>	<u>2019</u>	<u>2018</u>
A	55%	25%
B	45%	58%
C	-	10%
Total	100%	93%

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Impairment of Long-lived Assets

Management evaluates the recoverability of the Company's identifiable intangible assets and other long-lived assets when events or circumstances indicate a potential impairment exists, in accordance with the provisions of ASC 360-10-35-15 "*Impairment or Disposal of Long-Lived Assets*." Events and circumstances considered by the Company in determining whether the carrying value of identifiable intangible assets and other long-lived assets may not be recoverable include but are not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; and changes in the Company's business strategy. In determining if impairment exists, the Company estimates the undiscounted cash flows to be generated from the use and ultimate disposition of these assets.

If impairment is indicated based on a comparison of the assets' carrying values and the undiscounted cash flows, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets.

Expenditures for repair and maintenance which do not materially extend the useful lives of property and equipment are charged to operations. When property or equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts with the resulting gain or loss reflected in operations.

Management reviews the carrying value of its property and equipment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

There were no impairment losses for the years ended December 31, 2019 and 2018, respectively.

Derivative Liabilities

The Company analyzes all financial instruments with features of both liabilities and equity under FASB ASC Topic No. 480, ("ASC 480"), "*Distinguishing Liabilities from Equity*" and FASB ASC Topic No. 815, ("ASC 815") "*Derivatives and Hedging*". Derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as adjustments to fair value of derivatives. The Company uses a binomial model to determine fair value.

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Upon conversion, exercise or repayment, the respective derivative liability is marked to fair value at the conversion, repayment, or exercise date and then the related fair value amount is reclassified to other income or expense as part of gain or loss on debt extinguishment recognized in the Company's Consolidated Statements of Operations.

The Company has adopted ASU 2017-11, "*Earnings per share (Topic 260)*", provided that when determining whether certain financial instruments should be classified as liability or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. If a down round feature on the conversion option embedded in the note is triggered, the Company will evaluate whether a beneficial conversion feature exists, the Company will record the amount as a debt discount and will amortize it over the remaining term of the debt.

If the down round feature in the warrants that are classified as equity is triggered, the Company will recognize the effect of the down round as a deemed dividend, which will reduce the income available to common stockholders.

Debt Issue Cost

Debt issuance cost paid to lenders, or third parties are recorded as debt discounts and amortized to interest expense in the consolidated statements of operations, over the life of the underlying debt instrument.

Revenue Recognition

Pursuant to ASC 606, we recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration or payment the Company expects to be entitled to receive in exchange for those goods or services. Our revenue is recognized by applying the following five steps: 1) identify the contracts with a customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations; and 5) recognize revenue when (or as) we satisfy a performance obligation.

We apply judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the case of a new customer, published credit or financial information pertaining to the customer. If a contract includes multiple promised goods or services, we apply judgment to determine whether the promised goods or services are capable of being distinct and are distinct within the context of the contract. If these criteria are not met, the promised goods or services are accounted for as a combined performance obligation. We determine the transaction price based on the consideration which we will be entitled to receive in exchange for transferring goods or services to our customer.

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We recognize revenue at the time that the related performance obligation is satisfied by transferring the promised goods or services to our customer.

Oil and Natural Gas

Sales of oil and natural gas are recognized when production is sold to a purchaser and control has transferred. Oil is priced on the delivery date based upon prevailing prices published by purchasers with certain adjustments related to oil quality and physical location. The price the Company receives for natural gas is tied to a market index, with certain adjustments based on, among other factors, whether a well delivers to a gathering or transmission line, quality and heat content of natural gas, and prevailing supply and demand conditions, so that the price of natural gas fluctuates to remain competitive with other available natural gas supplies. These market indices are determined on a monthly basis. Each unit of commodity is considered a separate performance obligation; however, as consideration is variable, the Company utilizes the variable consideration allocation exception permitted under the standard to allocate the variable consideration to the specific units of commodity to which they relate.

Geotechnical Consulting Services

Geotechnical consulting service revenue is generally recognized ratably over the period of performance, provided all other revenue recognition criteria have been met. Payments due or received from the customers prior to rendering the associated services are recorded as deferred revenue.

Other

During the year ended December 31, 2018, the Company recognized revenues from a one-time project in connection with the development of the Mocananqua Tunnel Project. Revenue was directly related to the drilling of boreholes at the project site totaling \$27,113.

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The following represents the Company's disaggregation of revenues for the years ended December 31, 2019 and 2018:

	Year Ended December 31,			
	2019		2018	
Revenue	Revenue	% of Revenues	Revenue	% of Revenues
Oil sales	\$ 3,241	1%	\$ 9,245	10%
Natural gas sales	41,490	14%	59,754	62%
Geotechnical consulting services	243,641	85%	-	-
Other	-	-	27,113	28%
Total Revenues	\$288,372	100%	\$ 96,112	72%

The following represents the Company's concentration of its oil and natural gas sales for the years ended December 31, 2019 and 2018:

Oil and Natural Gas Sales	Year Ended December 31,	
	2019	2018
Customer		
A	63%	14%
B	28%	27%
C	7%	10%
D	-	12%
E	-	28%
Total	98%	91%

Income Taxes

The Company accounts for income tax using the asset and liability method prescribed by ASC 740, "Income Taxes". Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the year in which the differences are expected to reverse. The Company records a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized as income or loss in the period that includes the enactment date.

The Company follows the accounting guidance for uncertainty in income taxes using the provisions of ASC 740 "Income Taxes". Using that guidance, tax positions initially need to be

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recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. As of December 31, 2019 and 2018, the Company had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

The Company recognizes interest and penalties related to uncertain income tax positions in other expense. No interest and penalties related to uncertain income tax positions were recorded for the years ended December 31, 2019 and 2018.

As of December 31, 2019, tax years 2016-2019 remain open for IRS audit.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs are included as a component of general and administrative expense in the consolidated statements of operations.

The Company recognized \$128 and \$61,429 in marketing and advertising costs during the years ended December 31, 2019 and 2018, respectively.

Stock-Based Compensation

We account for our stock-based compensation under ASC 718 "*Compensation – Stock Compensation*" using the fair value-based method. Under this method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. This guidance establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments.

We use the fair value method for equity instruments granted to non-employees and use the Black-Scholes model for measuring the fair value of options. The stock based fair value compensation is determined as of the date of the grant or the date at which the performance of the services is completed (measurement date) and is recognized over the vesting periods.

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When determining fair value, the Company considers the following assumptions in the Black-Scholes model:

- Exercise price,
- Expected dividends,
- Expected volatility,
- Risk-free interest rate,
- Expected life of option; and
- Expected forfeiture rate (0%)

In June 2018, the FASB issued ASU No. 2018-07, "*Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting.*" ASU No 2018-07 expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The guidance also specifies that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. This guidance is applicable to the Company's fiscal year beginning January 1, 2017. The implementation did not have a material effect on its consolidated financial statements.

Common Stock Awards

The Company may grant common stock awards to non-employees in exchange for services provided. The Company measures the fair value of these awards using the fair value of the services provided or the fair value of the awards granted, whichever is more reliably measurable. The fair value measurement date of these awards is generally the date the performance of services is complete. The fair value of the awards is recognized on a straight-line basis as services are rendered. The share-based payments related to common stock awards for the settlement of services provided by non-employees is recorded in accordance with ASU 2018-07 (June 2018) on the consolidated statement of operations in the same manner and charged to the same account as if such settlements had been made in cash.

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Stock Warrants

In connection with certain financing, consulting and collaboration arrangements, the Company may issue warrants to purchase shares of its common stock. The outstanding warrants are standalone instruments that are not puttable or mandatorily redeemable by the holder and are classified as equity awards. The Company measures the fair value of the awards using the Black-Scholes option pricing model as of the measurement date. Warrants issued in conjunction with the issuance of common stock are initially recorded at fair value as a reduction in additional paid-in capital of the common stock issued. All other warrants are recorded at fair value as expense over the requisite service period or at the date of issuance if there is not a service period.

There were no warrants grants during the years ended December 31, 2019 and 2018, respectively. Additionally, there were no warrants issued, outstanding or exercisable as of December 31, 2019 and 2018, respectively.

Basic and Diluted Earnings (Loss) per Share

Pursuant to ASC 260-10-45, basic loss per common share is computed by dividing net loss by the weighted average number of shares of common stock outstanding for the periods presented. Diluted loss per share is computed by dividing net loss by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during the period. Potentially dilutive common shares may consist of common stock issuable for stock options and warrants (using the treasury stock method), convertible notes and common stock issuable. These common stock equivalents may be dilutive in the future.

The following potentially dilutive equity securities outstanding as of December 31, 2019 and 2018 were not included in the computation of diluted loss per common share because the effect would have been anti-dilutive:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Convertible note payable (exercise price \$0.0007 and - \$0.0018/share)	67,147,222	171,007,576
Stock options (exercisable - \$0.074 - \$0.075/share)	9,250,000	-
Series A, preferred stock (20:1 into Class A, common stock)	15,810,000,000	15,000,000,000
Total common stock equivalents	<u>15,886,397,222</u>	<u>15,171,007,576</u>

The convertible note contains an exercise price that has a discount to market equal to 60% of the lowest trading market price in the preceding 40 days (See Note 4). As a result, the amount computed for common stock equivalents could change given the quoted closing trading price at each reporting period.

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Based on the common stock equivalents noted above, the Company does not have sufficient authorized shares of Class A, common stock (1,500,000,000). Pursuant to the terms of the Series A, preferred stock, these shares are only convertible if there are sufficient amount of unissued authorized Class A, common stock. All Series A, preferred stock has been classified as temporary equity on the consolidated balance sheets (See Notes 6 and 7).

Related Parties

Parties are considered to be related to the Company if the parties, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal with if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

Recent Accounting Standards

Changes to accounting principles are established by the FASB in the form of ASU's to the FASB's Codification. We consider the applicability and impact of all ASU's on our consolidated financial position, results of operations, stockholders' deficit, cash flows, or presentation thereof.

Management has considered all recent accounting pronouncements and believes that these recent pronouncements will not have a material effect on the company's financial statements.

Note 3 – Oil and Natural Gas Properties

Oil and Natural Gas Properties consisted of the following:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Producing oil and natural gas wells (including ARO)	\$ 117,564	\$ 117,564
Mineral rights	2,000	2,000
	<hr/> 119,564	<hr/> 119,564
Accumulated depletion	16,314	7,546
Total oil and natural gas properties - net	<u>\$ 103,250</u>	<u>\$ 112,018</u>

Depletion expense for the years ended December 31, 2019 and 2018 was \$8,768 and \$7,071, respectively. These amounts are included as a component of depreciation, depletion, and amortization.

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During the year ended December 31, 2018, the Company sold 127 net mineral acres to an affiliate (HGC) of its Chief Operating Officer for \$30,000, having a carrying amount of \$0. The Company recorded an increase to additional paid-in capital of \$30,000, accordingly, since the transaction occurred with a related party, no gain or loss is recorded upon sale.

Note 4 – Convertible Note Payable and Derivative Liability

The Company has one outstanding convertible note. The following represents a summary of the Company’s convertible debt, key terms, and outstanding balances at December 31, 2019 and 2018, respectively:

<u>Terms</u>	<u>Convertible Note (Derivative Liability)</u>	
Issuance date of convertible note	May 23, 2017	
Term	1 year	
Maturity date	May 23, 2018	
Interest rate	8%	
Collateral	Unsecured	
Conversion price	60% of the lowest trading price in 40 preceeding days	
Note Date	<u>May 23, 2017</u>	<u>In-Default</u>
Principal	<u>\$ 100,000</u>	
Balance - December 31, 2017	\$ 60,822	<u>\$ -</u>
Amortization of debt discount	<u>39,178</u>	
Balance - December 31, 2018	100,000	100,000
No activity in 2019	<u>-</u>	
Balance - December 31, 2019	<u>\$ 100,000</u>	<u>\$ 100,000</u>

See Note 10 for Class A, common stock that was issued subsequent to December 31, 2019 to repay principal and related accrued interest on this convertible note payable.

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Derivative Liability

The above convertible note contained an embedded conversion option with a conversion price that could result in issuing an undeterminable amount of future Class A common stock to settle the host contract. Accordingly, the embedded conversion option is required to be bifurcated from the host instrument (convertible note) and treated as a liability, which is calculated at fair value, and marked to market at each reporting period.

The Company used the binomial pricing model to estimate the fair value of its embedded conversion option liability with the following inputs:

	<u>Commitment Date</u>	<u>Remeasurement Date</u>	<u>Remeasurement Date</u>	<u>Remeasurement Date</u>
Convertible Note Date	May 23, 2017	December 31, 2017	December 31, 2018	December 31, 2019
Maturity date	May 23, 2018	May 23, 2018	In-Default	In-Default
Expected term (years)	1.00	0.39	1.00	1.00
Expected volatility	595%	535%	478%	457%
Expected dividends	0%	0%	0%	0%
Risk free interest rate	1.14%	1.76%	2.63%	1.59%
Fair value	<u>\$ 166,291</u>	<u>\$ 404,191</u>	<u>\$ 254,937</u>	<u>\$ 235,521</u>

The following is a summary of the Company's derivative liabilities for the years ended December 31, 2019 and 2018:

<u>Convertible Note Date</u>	<u>May 23, 2017</u>
Derivative liability - December 31, 2017	\$ 404,191
Fair value mark to market adjustment	<u>(149,254)</u>
Derivative liability - December 31, 2018	254,937
Fair value mark to market adjustment	<u>(19,416)</u>
Derivative liability - December 31, 2019	<u>\$ 235,521</u>

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The Company evaluates its financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level in which to classify them for each reporting period. This determination requires significant judgments to be made. Liabilities measured at fair value on a recurring basis consisted of the following at December 31, 2019 and 2018:

	<u>December 31, 2019</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Derivative liabilities	\$ 235,521	\$ -	\$ -	\$ 235,521

	<u>December 31, 2018</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Derivative liabilities	\$ 254,937	\$ -	\$ -	\$ 254,937

A reconciliation of the beginning and ending balances for the derivative liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is noted above for the years ended December 31, 2019 and 2018.

Changes in fair value of derivative liabilities are included in other income (expense) in the accompanying consolidated statements of operations.

Note 5 - Commitments and Contingencies

In connection with its natural gas operations, and under certain royalty agreements, the Company pays royalties to landowners where natural gas is extracted, equal to 12.5% of product sold. For the years ended December 31, 2019 and 2018, the Company paid \$4,909 and \$7,116, respectively.

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Note 6 – Stockholders’ Deficit

The Company has three (3) classes of stock:

Class A Preferred Stock

- 1,000,000,000 shares authorized
- Par value - \$0.001
- Voting at 20 votes per share
- Ranks senior to Class A and B common stock
- Eligible for dividends if declared by the Board of Directors
- Liquidation preference - \$1/share
- Conversion into 20 shares of Class A, common stock for each share held, this option is held by the majority of the Series A, Preferred Stockholders, provided there are a sufficient amount of unissued authorized Class A, common stock.
- These shares are classified as temporary equity on the consolidated balance sheets.

Class A Common Stock

- 1,500,000,000 shares authorized
- Par value - \$0.001
- Voting at 1 vote per share

Class B Common Stock

- 2,000,000,000 shares authorized
- Par value - \$0.001
- Voting at 20 votes per share

Equity Transactions for the Year Ended December 31, 2019

Stock Issued for Acquisition of HGC – Related Party

On July 10, 2019, the Company issued 40,500,000 shares of Class A preferred stock, having a fair value of \$5,670,000 (\$0.007/share), based upon the quoted closing trading price on the acquisition date, to purchase 100% of HGC, in a transaction considered both an asset purchase and a compensation arrangement (See Note 7).

The Company’s Chief Operating Officer was the sole owner of HGC at the time of acquisition.

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The Company's Class A, Preferred Stock is not traded in an observable public market and there were no other third party cash offerings to establish a fair value for these preferred shares. However, in accordance with ASC 470 "Debt", under its parity value (as-converted value), this represented the best evidence of fair value on the acquisition date as these preferred shares convert on a 20 for 1 basis (see above) into Class A common stock (See Note 7).

The Company determined the valuation of this transaction as follows:

Quantity of Series A, preferred stock issued to HGC	40,500,000
Conversion ratio of Series A, preferred stock into Series A, common stock	20
Equivalent Series A, common shares	810,000,000
Quoted closing trading price on date of acquisition	\$ 0.007
Value of Series A, preferred stock issued	5,670,000
Less: amount allocated to net assets acquired	<u>(61,034)</u>
Compensation paid to acquiree (related party)	<u>\$ 5,608,966</u>

The payment for compensation specifically relates to HGC's sole owner (our COO) and the technical know-how and branded reputation of HGC that is expected to be used in expanding the Company's business operations. The compensation was earned on the acquisition date for services rendered and is included as a component of general and administrative expenses in the consolidated statements of operations.

Stock Issued for Services

The Company issued 10,000,000 shares of Class A common stock for services rendered, having a fair value of \$50,650 (\$0.0046 - \$0.0055/share), based upon the quoted closing trading price of the Company's common stock, which was expensed during the year ended December 31, 2019.

Stock Issued for Services - Related Parties

The Company issued 87,500,000 shares of Class A common stock for services rendered to various officers and directors, having a fair value of \$374,760 (\$0.0036 - \$0.0046/share), based upon the quoted closing trading price of the Company's common stock, which was expensed during the year ended December 31, 2019.

Stock Options Issued for Services

During 2017, the Company adopted the Company's 2017 Incentive Plan (the "Plan"). The Plan provides stock based compensation to employees, directors, and consultants. The Company has reserved 20,000,000 shares under the Plan.

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On January 5, 2018, the Company issued 750,000 options for services rendered. The options cliff-vest after two (2) years of service. The options have a grant date fair value of \$60,000 based upon the use of a Black-Scholes option pricing model.

On October 3, 2018, the Company issued 9,750,000 options for services rendered. The options cliff-vest after two (2) years of service. The options have a grant date fair value of \$38,998 based upon the use of a Black-Scholes option pricing model.

The following key assumptions were used in the Black-Scholes option pricing model to value stock option grants for the year ended December 31, 2018:

Expected volatility	457.26% - 532.14%
Expected dividends	0.00%
Expected life in years	3.25
Risk-free interest rate	2.06% - 2.94%

Stock option transactions under the Company's Plan for the years ended December 31, 2019 and 2018 are summarized as follows:

Stock Options	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value	Weighted Average Grant Date Fair Value
Outstanding - December 31, 2017	9,250,000	\$ 0.07	4.70	\$ 44,900	\$ 0.06
Granted	10,500,000	\$ 0.01	-	-	\$ 0.01
Exercised	-	-	-	-	-
Forfeited	-	-	-	-	-
Outstanding - December 31, 2018	19,750,000	\$ 0.04	4.23	\$ -	\$ -
Vested and exercisable - December 31, 2018	-	\$ -	-	\$ -	\$ -
Unvested and non-exercisable - December 31, 2018	19,750,000	\$ 0.04	4.23	\$ -	\$ -
Outstanding - December 31, 2018	19,750,000	\$ 0.04	4.23	\$ -	\$ -
Granted	-	-	-	-	\$ -
Exercised	-	-	-	-	-
Forfeited	-	-	-	-	-
Outstanding - December 31, 2019	19,750,000	\$ 0.04	3.23	\$ -	\$ -
Vested and exercisable - December 31, 2019	9,250,000	\$ 0.07	2.70	\$ -	\$ -
Unvested and non-exercisable - December 31, 2019	10,500,000	\$ 0.01	3.70	\$ -	\$ -

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Compensation expense recorded for stock-based compensation is as follows for the years ended December 31, 2019 and 2018:

<u>2019</u>	<u>2018</u>
<u>\$ 231,932</u>	<u>\$ 305,149</u>

As of December 31, 2019, compensation cost related to the unvested options not yet recognized was as follows:

<u>\$ 14,625</u>

Weighted average period in which compensation will vest (years) (expected to be recognized through September 2020)

<u>0.08</u>

Equity Transactions for the Year Ended December 31, 2018

Stock Issued for Cash

The Company issued 13,300,000 shares of Class A common stock for \$232,500 (\$0.005 - \$0.05/share).

Stock Issued for Services

The Company issued 6,500,000 shares of Class A common stock for services rendered, having a fair value of \$53,850 (\$0.005 - \$0.0093/share), based upon the quoted closing trading price of the Company's common stock, which was expensed during the year ended December 31, 2018.

Stock Issued for Services - Related Parties

The Company issued 51,500,000 shares of Class A common stock for services rendered, having a fair value of \$415,050 (\$0.004 - \$0.0268/share), based upon the quoted closing trading price of the Company's common stock, which was expensed during the year ended December 31, 2018.

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Note 7 – Acquisition of HGC – Related Party

On July 10, 2019, the Company acquired 100% of the outstanding member units of HGC and paid compensation to its sole owner in exchange for 40,500,000 shares of Class A Preferred Stock, having a fair value of \$5,670,000 (\$0.007/share), based upon the quoted closing trading price (See Note 6). With the acquisition, the Company gained the ability to provide a wide variety of geotechnical consulting services (See Note 1).

For 2019, the Company has included the results of operations of HGC from the acquisition date through the end of the year. There were no acquisition related costs.

The sole owner of HGC was the Chief Operating Officer of the Company on the date of acquisition, resulting in a transaction with a related party.

Pursuant to ASU 2017-01, Business Combinations (Topic 805): “Clarifying the Definition of a Business”, this acquisition was determined to be that of an asset and not a business, therefore, there was not a business combination requiring acquisition accounting or related financial reporting. The Company has elected to provide additional optional information regarding the acquisition of HGC.

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The following table summarizes the consideration paid to HGC and the amounts of the assets acquired, and liabilities assumed recognized at the acquisition date. See Note 6 for additional discussion regarding a compensation arrangement executed with HGC as a component of this transaction. Since this was deemed to be an asset purchase, this did not result in the recognition of goodwill or other identifiable intangible assets.

Consideration	
Class A Preferred Stock (810,000,000 equivalent Class A, common shares)	<u>\$ 5,670,000</u>
Fair value of consideration transferred	<u>\$ 5,670,000</u>
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash	55,813
Accounts receivable	<u>9,167</u>
Total assets acquired	<u>64,980</u>
Accrued expenses	
Total liabilities assumed	<u>3,946</u>
Total identifiable net assets	<u>61,034</u>
Compensation paid to HGC	<u>\$ 5,608,966</u>

Post-acquisition, accounts receivable was collected, and accrued expenses were paid.

Unaudited Pro Forma Financial Information

The following table presents supplemental unaudited pro forma information for the years ended December 31, 2019 and 2018, as if the acquisition had occurred on January 1, 2018.

This unaudited pro forma information has been prepared based on estimates and assumptions, which management believes are reasonable. These unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the acquisitions been made as of that date or results which may occur in the future.

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	Year Ended December 31,	
	2019	2018
Revenues	<u>\$ 527,859</u>	<u>\$ 327,576</u>
Net loss	<u>\$ (588,697)</u>	<u>\$ (844,580)</u>
Loss per share - basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>
Weighted average number of shares - basic and diluted	<u>142,057,689</u>	<u>68,322,894</u>

Note 8 - Income Taxes

The Company's tax expense differs from the "expected" tax expense for the period (computed by applying the blended corporate tax rate of 28.89% to loss before taxes), are approximately as follows:

	December 31, 2019	December 31, 2018
Federal income tax benefit net of state benefit - 18.90%	\$ (1,204,000)	\$ (192,000)
State income tax - net of federal tax effect - 9.99%	(636,000)	\$ (101,000)
Tax effect of timing differences for income tax purposes	1,804,000	192,000
Non-deductible items	-	-
Subtotal	<u>(36,000)</u>	<u>(101,000)</u>
Valuation allowance	36,000	101,000
	<u>\$ -</u>	<u>\$ -</u>

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The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31, 2019 and 2018 are approximately as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Deferred Tax Assets</u>		
Stock issued for services (common and preferred)	\$ (1,951,000)	\$ (208,000)
Stock options issued for services	(155,000)	(88,000)
Amortization of debt discount	(29,000)	(29,000)
Change in value of derivative liability	(20,000)	(26,000)
Net operating loss carryforwards	(36,000)	(101,000)
Total deferred tax assets	(2,191,000)	(452,000)
Less: valuation allowance	2,191,000	452,000
Net deferred tax asset recorded	\$ -	\$ -

Deferred tax assets and liabilities are computed by applying the federal and state income tax rates in effect to the gross amounts of temporary differences and other tax attributes, such as net operating loss carryforwards. In assessing if the deferred tax assets will be realized, the Company considers whether it is more likely than not that some or all of these deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which these deductible temporary differences reverse.

During the years ended December 31, 2019 and 2018, the valuation allowance increased by approximately \$1,739,000 and \$128,000, respectively. The total valuation allowance results from the Company's estimate of its inability to recover its net deferred tax assets.

At December 31, 2019, the Company has federal and state net operating loss carryforwards, which are available to offset future taxable income, of approximately \$1,041,000. The Company is in the process of analyzing their NOL and has not determined if the company has had any change of control issues that could limit the future use of these NOL's. NOL carryforwards that were generated after 2017 of approximately \$473,000 may only be used to offset 80% of taxable income and are carried forward indefinitely. NOL's totaling approximately \$568,000 expire through December 31, 2037.

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These carryforwards may be subject to an annual limitation under Section 382 and 383 of the Internal Revenue Code of 1986, and similar state provisions if the Company experienced one or more ownership changes which would limit the amount of NOL and tax credit carryforwards that can be utilized to offset future taxable income and tax, respectively. In general, an ownership change, as defined by Section 382 and 383, results from transactions increasing ownership of certain stockholders or public groups in the stock of the corporation by more than 50 percentage points over a three-year period. The Company has not completed an IRC Section 382/383 analysis. If a change in ownership were to have occurred, NOL and tax credit carryforwards could be eliminated or restricted.

If eliminated, the related asset would be removed from the deferred tax asset schedule with a corresponding reduction in the valuation allowance. Due to the existence of the valuation allowance, limitations created by future ownership changes, if any, will not impact the Company's effective tax rate.

The Company files corporate income tax returns in the United States and the State of Pennsylvania jurisdictions. Due to the Company's net operating loss posture, all tax years are open and subject to income tax examination by tax authorities. The Company's policy is to recognize interest expense and penalties related to income tax matters as tax expense. At December 31, 2019 and 2018, there are no unrecognized tax benefits, and there are no significant accruals for interest related to unrecognized tax benefits or tax penalties.

Note 9 - Subsequent Events

Convertible Notes Payable – Related Party and Derivative Liability

On July 1, 2020, the Company executed a convertible note payable with an affiliate of the Company's Chief Operating Officer for up to \$75,000. The Company can draw down on the note through July 1, 2021, however, all principal and accrued interest must be repaid by the maturity date. The convertible bears interest at 8% and is unsecured. The note is convertible at a rate equal to 70% of the lowest trading price in the thirty (30) preceding trading days.

During July 2020 and November 2020, the Company borrowed \$25,000 and \$25,000, respectively, under the terms of the convertible note payable. The Company has determined that the embedded conversion feature requires bifurcation and will be measured at its fair value on a recurring basis at each reporting period.

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Equity Transactions During 2020

Class A Preferred Stock

Stock Issued for Services – 3rd Parties – Class A Preferred Stock

On September 21, 2020, the Company issued 10,000,000 shares of preferred stock for services rendered, having a fair value of \$10,000 (\$0.001/share). Since the Company's preferred stock is not traded in an observable public market, fair value was based upon the services rendered as that represented the best evidence of fair value.

Stock Issued for Services – Related Parties – Class A Preferred Stock

On September 21, 2020, the Company issued 199,500,000 shares of preferred stock for services rendered, having a fair value of \$199,500 (\$0.001/share). Since the Company's preferred stock is not traded in an observable public market, fair value was based upon the services rendered as that represented the best evidence of fair value.

Class A Common Stock

Stock Issued for Cash – 3rd Parties

During 2020, the Company issued 114,166,668 shares of Class A common stock for \$342,500 (\$0.003/share).

Stock Issued for Services – 3rd Parties

On May 7, 2020, the Company issued 10,000,000 shares of Class A common stock for services rendered, having a fair value of \$27,000 (\$0.0027/share), based upon the quoted closing trading price of the Company's common stock, which was expensed during 2020.

Stock Issued for Accrued Interest

On June 23, 2020, the Company issued 25,000,000 shares of Class A common stock to repay \$24,700 of accrued interest on its convertible note payable (See Note 4). These shares had a fair value of \$97,500 (\$0.0039/share), based upon the quoted closing trading price of the Company's common stock. The remaining \$72,800 was charged to loss on extinguishment of debt.

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On July 13, 2020, the Company issued 30,000,000 shares of Class A common stock to repay \$30,000 of principal and accrued interest of \$438 on its convertible note payable (See Note 4). These shares had a fair value of \$97,500 (\$0.0033/share), based upon the quoted closing trading price of the Company's common stock. The remaining \$67,062 was charged to loss on extinguishment of debt.

Stock Issued for Acquisition of OB

On January 27, 2020, the Company issued 1,000,000 shares of Class A common stock, having a fair value of \$4,000 (\$0.004/share), based upon the quoted closing trading price of the Company's common stock to purchase 100% of OB.

This acquisition was determined to be that of an asset and not a business, therefore, there was not a business combination requiring acquisition accounting or related financial reporting.

Class B Common Stock

Stock Issued for Services – 3rd Parties – Class B Common Stock

On September 21, 2020, the Company issued 30,000,000 shares of Class B common stock for services rendered, having a fair value of \$30,000 (\$0.001/share). Since the Company's Class B common stock is not traded in an observable public market, fair value was based upon the services rendered as that represented the best evidence of fair value.

Stock Issued for Services – Related Parties – Class B Common Stock

On September 21, 2020, the Company issued 170,000,000 shares of Class B common stock for services rendered, having a fair value of \$170,000 (\$0.001/share). Since the Company's Class B common stock is not traded in an observable public market, fair value was based upon the services rendered as that represented the best evidence of fair value.

Note 10 – Supplementary Information for Oil and Gas Producing Activities (Unaudited, except for Capitalized Costs Relating to Oil and Gas Producing Activities)

The Company follows authoritative guidance related to oil and gas exploration and production activities that aligns the reserve estimation and disclosure requirements with the requirements of the SEC Modernization of Oil and Gas Reporting rule, which the Company also follows. The SEC rules require companies to value their year-end reserves using an unweighted arithmetic average of the first day of the month oil and gas prices for each month within the twelve month period prior to the end of the reporting period.

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The following supplementary information is presented in accordance with the authoritative guidance regarding disclosures about oil and gas producing activities and related SEC accounting rules. All monetary amounts are expressed in U.S. dollars.

<u>Production</u>	<u>Year Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Revenue from external customers (1)	\$ 44,731	\$ 68,999
Depreciation, depletion and amortization	\$ 8,768	\$ 7,071
Segment profit (loss): net income (loss)	\$ (6,249)	\$ (18,027)
Expenditures for additions to long-lived assets	\$ -	\$ (1,000)

(1) All revenue from external customers originated in the United States.

Segment assets (oil and gas) - net	<u>\$ 112,857</u>	<u>\$ 129,316</u>
Long- Lived Assets:		
United States	<u>\$ 103,250</u>	<u>\$ 112,018</u>

<u>Capitalized Costs Relating to Oil and Gas Producing Activities</u>	<u>Year Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Proved properties	\$119,564	\$119,564
Unproved properties	-	-
	119,564	119,564
Less: accumulated depletion	<u>(16,314)</u>	<u>(7,546)</u>
	<u>\$103,250</u>	<u>\$112,018</u>

Costs related to unproved properties are excluded from amortization until proved reserves are found or it is determined that the unproved properties are impaired. All costs related to unproved properties are reviewed quarterly to determine if impairment has occurred. The amount of any impairment is transferred to the pool of capitalized costs being amortized. The timing of the ultimate evaluation or disposition of the unproved properties cannot be determined. Following is a summary of costs excluded from amortization at December 31, 2019 and 2018:

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<u>Year Costs Incurred</u>	<u>Year Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Acquisition costs	\$ -	\$ 2,000
Development costs	-	-
Exploration costs	-	-
Capitalized interest	-	-
	<u>\$ -</u>	<u>\$ 2,000</u>

Costs Incurred in Oil and Gas Property Acquisition, Exploration and Development Activities

<u>United States</u>	<u>Year Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Property Acquisition Costs:		
Proved	\$ -	\$ -
Unproved	-	2,000
Exploration costs	-	-
Development costs	-	-
Asset retirement costs	-	-
	<u>\$ -</u>	<u>\$ 2,000</u>

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Results of Operations for Producing Activities

United States	Year Ended December 31,	
	2019	2018
Operating Revenues:		
Gas (1)	\$ 41,490	\$ 59,754
Oil, condensate and other liquids	3,241	9,245
Total operating revenues	44,731	68,999
Production/lifting costs	15,641	20,552
Franchise/Ad Valorem taxes	-	-
Accretion expense	-	-
Depreciation, depletion and amortization	8,768	7,071
Impairment of oil and gas producing properties	-	-
Income tax (expense) benefit (2)	-	-
Results of operations for producing activities (excluding corporate overheads and interest charges)	\$ 20,322	\$ 41,376

(1) There were no revenues from sales to affiliates for all periods presented.

(2) The Company has generated historical net operating losses that will be utilized.

The Company's proved oil and gas reserve estimates are prepared by the Company's reservoir engineering consultants who meet the qualifications of Reserve Estimator per the "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserve Information" promulgated by the Society of Petroleum Engineers as of February 19, 2007. The Company maintains comprehensive internal reserve guidelines and a continuing education program designed to keep its staff up to date with current SEC regulations and guidance.

The Company's Chief Operating Officer is a Professional Geologist and is the primary technical person responsible for overseeing the Company's reserve estimation process and engaging and overseeing the third party reserve report. His qualifications include a Bachelor of Science Degree and Master of Science in Geology and over 20 years of Professional Geologist experience with both midsized and independent oil and gas companies. He has maintained oversight of the Company's reserve estimation process since 2018. He is a Registered Professional Geologist in the Commonwealth of Pennsylvania.

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The Company maintains a system of internal controls over the reserve estimation process. Management reviews the price, heat content, lease operating cost and future investment assumptions used in the economic model to determine the reserves. The Chief Operating Officer reviews and approves all new reserve assignments and significant reserve revisions. Access to the reserve database is restricted. Significant changes to the reserve report are reviewed by senior management on a quarterly basis. Periodically, the Company's internal audit department assesses the design of these controls and performs testing to determine the effectiveness of such controls.

All of the Company's reserve estimates are prepared annually by Ayers Petroleum Consulting, LLC ("Ayers"). Since 2017, Ayers has evaluated gas and oil properties and independently certified petroleum reserve quantities in the United States. The primary technical persons (employed by Ayers) that are responsible for leading the report include the owner, an experienced reserve engineer who has worked for midsized and independent oil and gas companies and has over 20 years of prior industry experience in petroleum engineering and reserves estimation. Ayers also employs a professional geoscientist registered in the Commonwealth of Pennsylvania (consulting at Ayers since 2017 and with over 20 years of prior industry experience in petroleum geosciences). Ayers was satisfied with the methods and procedures used by the Company to prepare its reserve estimates at December 31, 2019 and 2018 and did not identify any problems which would cause it to take exception to those estimates.

The reliable technologies that were utilized in estimating the reserves include wire line open-hole log data, production performance data, log cross sections, and statistical analysis. The statistical method utilized production performance from both the Company's and competitors' wells. Geophysical data includes data from the Company's wells, third-party wells, published documents and state data-sites. These were used to confirm the validity of the inhouse production data.

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Proved Developed and Undeveloped Reserves:

<u>United States</u>	<u>Gas MMcf</u> <u>Appalachian Region</u>
December 31, 2017	195
Extensions and discoveries	-
Revisions of previous estimates	-
Production	(13)
Sale of minerals in place	-
December 31, 2018	<u>182</u>
Extensions and discoveries	-
Revisions of previous estimates	-
Production	(18)
Sale of minerals in place	-
December 31, 2019	<u>164</u>

	<u>Year Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Proved Developed Reserves:	<u>164</u>	<u>182</u>
Proved Undeveloped Reserves:	<u>-</u>	<u>-</u>

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Proved Developed and Undeveloped Reserves:

United States	Oil Mbbbl	
	Appalachian Region	
December 31, 2017	-	
Extensions and discoveries	-	
Revisions of previous estimates	0.08	
Production	(0.08)	
Sale of minerals in place	-	
December 31, 2018	-	
Extensions and discoveries	-	
Revisions of previous estimates	0.16	
Production	(0.16)	
Sale of minerals in place	-	
December 31, 2019	-	
	Year Ended December 31,	
	2019	2018
Proved Developed Reserves:	-	-
Proved Undeveloped Reserves:	-	-

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Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves

The Company cautions that the following presentation of the standardized measure of discounted future net cash flows is intended to be neither a measure of the fair market value of the Company's oil and gas properties, nor an estimate of the present value of actual future cash flows to be obtained as a result of their development and production. It is based upon subjective estimates of proved reserves only and attributes no value to categories of reserves other than proved reserves, such as probable or possible reserves, or to unproved acreage. Furthermore, in accordance with the SEC's final rule on Modernization of Oil and Gas Reporting, it is based on the unweighted arithmetic average of the first day of the month oil and gas prices for each month within the twelve-month period prior to the end of the reporting period and costs adjusted only for existing contractual changes. It assumes an arbitrary discount rate of 10%. Thus, it gives no effect to future price and cost changes certain to occur under widely fluctuating political and economic conditions.

The standardized measure is intended instead to provide a means for comparing the value of the Company's proved reserves at a given time with those of other oil- and gas-producing companies than is provided by a simple comparison of raw proved reserve quantities.

Standardized Measure of Discounted Future Net Cash Flows

United States	Year Ended December 31,	
	2019	2018
Future revenues	\$440,000	\$587,000
Less:		
Future production costs	143,000	166,000
Future development costs	-	-
Future income tax expense at applicable statutory rate (1)	-	-
Future net cash flows	297,000	421,000
Less:		
10% annual discount of estimated timing of cash flows	(169,000)	(239,000)
Standardized measure of discounted future net cash flows	\$128,000	\$182,000

(1) The Company is unable to project future taxable income at December 31, 2019. In the event of future net income, the Company has historical net operating losses that could be used to reduce taxable income.

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United States	Year Ended December 31,	
	2019	2018
Standardized Measure of Discounted Future Net Cash Flows		
Net cash flows - beginning of year	\$181,760	\$ (535)
Sales - net of production costs	29,090	48,447
Net changes in prices - net of production costs	(82,474)	163,848
Extensions and discoveries	-	-
Changes in estimated future development costs	-	-
Purchases of minerals in place	-	-
Sales of minerals in place	-	(30,000)
Previously estimated development costs incurred	-	-
Net change in income taxes at applicable statutory rate (1)	-	-
Revisions of previous quantity estimates	-	-
Accretion of discount and other	-	-
Standardized measure of discounted future net cash flows - end of year	\$128,376	\$181,760

(1) The Company is unable to project future taxable income at December 31, 2019. In the event of future net income, the Company has historical net operating losses that could be used to reduce taxable income.